

## **Malaysia's regime of labour control and the attempted transition to a knowledge based economy: the problematic role of migrant labour**

**Donna Turner**

The presence of a sizeable foreign labour force has created a number of socio-cultural, political and economic tensions for the Malaysian government, resulting in intermittent and widely publicised crackdowns on migrant workers, at times leading to their detention and forced repatriation. Despite this, the migrant labour force has been effectively incorporated within a *regime of labour control* that has allowed the state to exercise considerable and varied means of control over local and foreign workers. The regime of labour control, however, is now coming under pressure due to changing social structures in Malaysia, demands by particular employer groups for labour market reforms, and as a result of Malaysia's worsening position in international trading arrangements. Wages in Malaysia are now the second highest in the ASEAN region, placing in jeopardy the traditional reliance on plantation agriculture and labour intensive manufacturing for export.

In an attempt to regain competitiveness, the government has, since the mid 1990s, embarked upon a transition towards a knowledge based economy (KBE), the goals of which conflict with the continued use of semi-skilled low cost migrant labour, bringing current state-labour-capital relations into a state of flux. It is argued here that an effective regime of labour control has been central in determining political stability and economic growth in Malaysia. This paper therefore suggests that the failure by the Malaysian government to reconcile the issues surrounding migrant labour is due to a conflict between the political and economic goals for controlling labour. Previous attempts to resolve this conflict have produced

'institutionalised compromises' that are now difficult to overturn despite that they no longer function adequately in the current political and economic context. This paper focuses particularly on the embedded nature of the regime of labour control, the political and economic importance of the migrant labour force to this regime, and the conflict now emerging in the context of the attempted shift towards a KBE.

The control of labour is traditionally examined in the context of the politics of organised labour, or from a workplace perspective. In contrast, the first part of this paper outlines a macro-level approach, influenced by *régulation* theory. *Régulation* theory provides a theoretical framework that seeks to uncover the particular economic, political and social arrangements that provide stability and deliver economic growth despite the inherently unstable social relations engendered by capitalism. The 'needed but not wanted' nature of Malaysia's foreign labour force is then explored by describing the key features of the politically and culturally embedded regime of labour control that has emerged since the colonial era. It becomes apparent that the ongoing presence of a large foreign labour force has played, and indeed continues to play, a pivotal role in Malaysian political economy. The transition to a KBE, including the planned reduction in access to migrant labour, threatens the current state-labour-capital arrangements. Specific examples of the conflict facing the state in the maintenance of Malaysia's regime of labour control are therefore examined in the context of the attempted transition towards a KBE, known locally as the 'k-economy'.

### ***Régulation* theory**

The search for the balancing features that stabilise capitalist societies is a goal of *régulation* theorists (Boyer and Saillard 2002). *Régulation* theory, as the name suggests, searches for a mode of regulation, the mixture of institutions, legislation, social values and economic conditions that, at the macro level, effectively balance a society such that conflict does not impede economic growth. Far from being a functionalist approach, *régulation* theory argues that capitalism engenders societal tensions that cannot always be effectively contained, leading at times

to devastating instances of economic, political and social collapse, but at other times leading to periods of transition and the establishment of a new set of regulating features that support capital accumulation. Given this, regulationists seek to uncover the specific mix of factors that, in particular periods, have allowed capitalist societies to achieve economic growth (Hirsch 2000:103).

The mode of *régulation* is underpinned by government institutions that develop over time as a result of ongoing conflict and mediations. Institutions are considered then, both a site and an outcome of conflict resolution, and so will display evidence of compromise, to the extent that inconsistencies may be apparent in the goals and practices of different government ministries. Further, as societal or economic pressures shift, further modifications or compromises are demanded, for example, by sectors of industry, society or government. In the case of a significant shift in economic direction, the practices of some institutions become inconsistent with the demands of the new economy but continue to receive state or societal support because they fulfil important functions politically, culturally or socially. These institutions are then out of sync with those government ministries where industry groups have successfully lobbied for change. As André (2002:95) notes, 'these types of arrangements prove to be particularly resistant to change and exert a decisive influence over public interventions'. This institutional mismatch may be effectively sustained for some time, as has been evident in the Prime Ministership of Dr Mahathir (Khoo 1995) and in the frequently shifting responses of the Malaysian state to the migrant labour force (Pillai 1999). Clashes, however, between and within government ministries may also be indicative of an impending failure of the mediating mechanisms that previously delivered stability. Specific instances of mismatch are discussed further below to illustrate the conflict generated by the 'needed but not wanted' nature of the migrant labour force in Malaysia.

#### **A regime of labour control**

The concept of a regime of labour control goes some way to explaining political stability and economic growth despite the inherent

conflict that marks capitalist societies. A regime of labour control is understood as a complex mixture of deliberate and opportunistic practices and institutions, embedded within cultural and historical specificities, through which the state attempts to stabilise conflicting societal and economic demands associated with labour's contribution to, and participation in society. This is a macro-level concept that focuses on the means by which actions at the state level support or challenge the local level and workplace based means of labour control desired by capital (Burawoy 1979, 1985; Coe and Kelly 2002; Deyo 2001; Harrod 1987, 1988; Jonas 1996; Kelly 2001). While employers will directly impose control in the workplace, the particular means adopted will be supported, challenged or undermined by various state arrangements, including policies relating to industrial relations, education and training, employment, the labour market and immigration.

Importantly, the nature of the regime of labour control is also determined by state welfare policies. For example, the provision of unemployment benefits acts as a buffer, reducing labour's reliance on wages, therefore restricting the extent to which capital can rely on coercive means of labour control (Burawoy 1985:125). In contrast, where insurance schemes predominate as the means of welfare, and where services such as health and education are privatised, with the costs borne by the individual, labour's dependence on wage income is increased, a situation which extends power to employers. Operating to reinforce these structural features of labour control are ideologies promulgated by the state about work ethic, political participation, citizenship, modernisation and nation. These ideologies develop within particular cultural, temporal, geographical and political spaces, undergoing adaptation as a result of ongoing societal conflict (Coe and Kelly 2002). In this approach, a transition in the regime of labour control is not determined by economic or technological factors alone, but is mediated through complex processes of social change (Suarez 2001).

A regime of labour control is successful when it delivers economic growth. This does not assume balanced or sustainable development, nor an independent civil society. Success in this case implies merely that the distribution of surplus, reinforced by

concessions, coercion or hegemony, is sufficient to quell potentially destabilising societal demands. For example, stability may be achieved through a commitment to growth with equity and a regime of labour control built on tripartism, industrial democracy and social welfare, which were the goals, if not necessarily the reality, of Fordism (Aglietta 1987, 1998). Conversely, the means of labour control may be more dependent on coercion and repression, socially, industrially and politically, the most extreme version of which would be slavery (Lloyd 2002). The point to be stressed here is that the characteristics of a regime of labour control arise over time and are embedded within social, political and economic institutions.

### **Features of Malaysia's regime of labour control**

Malaysia's regime of labour control has been shaped by its origins in the colonial era when Chinese and Indian workers were imported to develop the tin mines and rubber plantations. The British administration extended considerable power to employers in the management of the labour force, and the working class received little by way of welfare assistance during periods of economic fluctuations (Hua 1983; Parmer 1960). Workers experienced high levels of income insecurity as wages fluctuated according to commodity prices. The regime of labour control relied heavily on physical coercion and repression and on the vulnerability of the labour force to repatriation. Only when the supply of labour was threatened, for example by a concerned Indian government in the 1920s, was some attempt made to provide basic protections. These provisions went largely unenforced with only the more blatant breaches prosecuted by the authorities (Jomo and Todd 1994:4-5; Ramasamy 1994:46).

The state took an active role against organised labour in the late 1930s when communist inspired trade unionism became increasingly influential in the build up to World War II. On their return to Malaya after the period of Japanese occupation, the British Military Authority amended the *Trade Unions Ordinance*, which effectively ruled the existing union movement illegal (Morgan 1977:185). A decision was made to allow a moderate trade union movement to form, leading to the creation of the Malayan Trade Union Congress (MTUC) in

1950. Meanwhile in 1948 the British declared an Emergency in order to destroy the Malayan Communist Party. These historical links between communism and the trade union movement have been used to justify the political repression of organised labour to the current period. By the time of political Independence in 1957, the labour force was occupationally divided along the lines of ethnicity with the *bumiputera* (Malays and indigenous people) population largely excluded from waged labour (Rasiah 1997:124).

Economic and labour policy in the early Independence era strongly favoured British capital and domestic Chinese capital. While employment related legislation was formalised in this period with the passing of the *Employment Act* in 1955 and the *Trade Unions Act* in 1957, conditions for labour generally did not improve throughout the 1960s. Unemployment was high, particularly in urban areas, and little government expenditure was directed towards job creation or industrial development so that by the late 1960s, disparities in the distribution of wealth worsened (Snodgrass 1980). In an attempt to control the rising tensions, industrial action was restricted with the passing of the Industrial Relations Act 1967. The Societies Act 1966 and the Police Act 1967 added to the repressive powers of the state but failed to prevent rioting in Kuala Lumpur in May 1969 which led to the suspension of the parliament until 1971. The National Economic Policy (NEP) was introduced. The NEP was a 20-year plan to reduce poverty and correct ethnic 'imbalances', particularly the association of ethnicity with particular occupations.

Contained within the NEP were the policies and ideologies that constituted a new regime of labour control. Employment and education quotas were enacted to improve the relatively poor position of Malays and the use of *babasa Melayu* was introduced in the education system and civil service. There were moves towards tripartite labour arrangements and the introduction of wage setting councils in the civil service. Wages, however, for most of the working class remained determined by employers and was strongly linked to the supply of labour (Jesudason 1989:171); the government refused to set a minimum wage level. Welfare services were largely limited to insurance schemes including the Employees Provident Fund and the

Social Security Organisation to which both employers and employees contributed. However, these schemes only covered workers in the formal sector. The main effect of state industrial relations and labour policy during the 1970s was the suppression of organised labour and the student movement, with some attempts made by the government to regulate safety issues in the growing numbers of industrial workplaces.

By the late 1970s, due to the job creation focus of the NEP and the establishment of Free Trade Zones, many former rural dwellers gained employment in the factories of multinational corporations. Mahathir became Prime Minister in 1981 and soon after announced 'Look East', a range of industrial and labour policies that, according to Bhopal (1999:286) represented 'the state's strategy for a Malay-oriented industrial relations policy'. Jomo similarly argued (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'. Here the state was attempting to exert more hegemonic, rather than coercive means of control, promulgating a new set of ideologies that encouraged wider participation in the labour force, and a strong work ethic similar to that said to be responsible for the post-war economic success of the Japanese and South Koreans. By 1980, manufacturing accounted for nearly 16 per cent of the labour force, and government services a further 14 per cent (Government of Malaysia 1981:81), thus reducing the pool of labour available for work in the plantation sector.

The call by employers for the use of foreign labour became more strident in the early 1980s during a period of economic growth and wage inflation. Despite protests from the MTUC (*Star*, 28 February 1981), official approval was granted for the use of Indonesian labour in the plantation sectors, confirmed in the Medan Agreement of 1984, and further approvals were given throughout the early to mid 1980s for the use of workers from the Philippines, Bangladesh and Thailand in the plantation, construction and domestic services sectors. Wad and Jomo (1994) understand this move as a means of undermining local labour organisations, with migrants viewed as a 'reserve army of labour' and therefore acting to dampen

wage demands, a conclusion that receives some support by Zulkifly (1998:2-3). By 1984, the Government estimated that about 500,000 foreign workers were employed in Malaysia, mainly within the plantation and construction sectors (Pillai 1999:180).

Migrant labour continued to be in demand throughout the 1980s despite high rates of unemployment during the 1985-6 recession. This suggests that one motivation for using migrant labour was that they were '*tak banyak kerehal*' (not picky), that is, desperate, and therefore more easily controlled (Hing 2000:230). In support of this conclusion, Rasiah (1995:78-9) also notes that considerable numbers of foreign workers had moved into the manufacturing sector, being favoured over local workers who were more able to 'job hop' for better wages. That is, employers were more able to limit the movements of migrant workers, by, for example, holding their passports (Rudnick 1996). In contrast, Pillai (1999:180) suggests that employers sought migrant workers because local workers were no longer willing to accept employment in low paid, low status and unsafe conditions. It is likely that in particular instances, there is validity in both of these claims, but the position adopted here is that the foreign labour force is often in a vulnerable position, lacking legislative protections, and therefore is preferred by employers in sectors where poor working conditions and harsh treatment are the norm.

By the early 2000s, out of an estimated total labour force of 9.5 million, approximately 750,000 were temporary migrant workers (Government of Malaysia 2001:92), with an additional 750,000 to one million migrants employed illegally, largely in the construction and plantation sectors but increasingly employed in small scale manufacturing. Currently, the foreign labour force is drawn mainly from Indonesia, with significant numbers from Bangladesh, the Philippines, Pakistan, Thailand, India and Burma. However, due to the large number of undocumented workers, a situation that has emerged with the tacit approval of the Malaysian authorities (Wad and Jomo 1994:213), much of the official employment and productivity data must be considered questionable (Edwards 1997:20). Of foreign workers with permits, over 30 per cent are now employed within the manufacturing sector, and a further 20 per cent within agriculture.



Four key features of Malaysia's regime of labour control will be discussed here to highlight the way in which the migrant labour force has been incorporated. Firstly the regime of labour control is repressive; secondly, it exposes certain sectors of workers to the market creating income insecurity; thirdly, it is paternalistic; and, fourthly, it relies on the existing segmentation of the labour market so that differing means of control may be exerted, allowing the state to achieve both economic and political goals in the control of labour. Each aspect is discussed below in more detail.

The repressive aspects of control have been a feature of labour control since the colonial era. In that period, physical repression was common as workers were tied by bond to particular employers or estates. Currently, the repression aims more to control workers politically, and is therefore directed at the labour movement as well as sympathetic NGOs and students, all of whom are restricted by various pieces of legislation from participating in political parties or conducting public rallies unless approved by the authorities. The *Trade Unions* and *Industrial Relations Acts* deliver considerable control over organised labour to the Minister for Human Resources. To varying extents, workers are denied freedom of assembly, speech and association. Although the repression is achieved in the main through legislative and judicial means rather than the overt use of the military or the police (Barraclough 1985), this is not always the case for the most vulnerable sections of the workforce, including the migrant labour force, particularly those without work permits. Changes to the *Immigration Act* in 2002 allow for corporal punishment (caning) of illegal migrant workers. Violence arising from attempts to avoid apprehension, detention and deportation has resulted in the deaths of migrant workers and police (Pillai 1999:187; Rudnick 1996:45). In August 2002 a number of young Burmese migrant workers drowned while trying to escape a police round up. As in the colonial era, repatriation, or the threat of repatriation, is used as a tool of labour control by the Malaysian state against foreign workers.

This is in contrast to the repression of local workers which relies significantly on self-censorship achieved through the state-controlled education system and ongoing ideological campaigns, the

goal being not only to encourage work effort on behalf of capital, but also to manage political and social behaviour so that it contributes to ongoing stability (Coe and Kelly 2002:344). The state's ability to promote its ideological platform has been reinforced through institutional control over the mainstream media. Workers are frequently reminded that the political and economic decisions of the state are consistent with, and arise out of, Malaysian cultural and societal values that must be defended against the moral disintegration of the market driven west and the ethnic tensions of neighbouring states such as Indonesia and the Philippines.

Secondly, in common with many countries but exhibiting unique features, the regime of labour control in Malaysia relies on *income insecurity* (Standing 1999:2002). This is evident in the absence of a universal welfare system, the lack of transparency in determining eligibility for those welfare mechanisms that do exist, the risk of job loss for failure to adhere to government mandated acceptable socio-political behaviour, and the ineffective enforcement of the protective provisions of employment legislation. For example, waiting times for cases to be heard in the Industrial Court can be longer than 2 years. The MTUC has made submissions to the Ministry of Human Resources arguing that understaffing of the Ministry leaves workers without proper recourse to the protective provisions of employment related legislation (interviews MTUC 2001, 2002; [www.mtuc.org.my/industrial\\_relations.htm](http://www.mtuc.org.my/industrial_relations.htm)).

Income insecurity is a common condition suffered by the migrant labour force, particularly undocumented workers. NGOs and researchers have reported that foreign workers frequently face a lack of transparency in remuneration arrangements, including extra deductions from workers' pay to cover costs of recruitment fees, transport, workplace security and other charges (Aliran 2003; Kelly 2002; Rudnick 1996). Refusal to pay wages or to make deductions from wages is a threat frequently used by employers and contractors as a means of settling disputes and extending control over workers (Kelly 2002:406–8). Where language barriers, poor education and illiteracy exist, these insecurities are further exacerbated. Specific examples of extra payments taken from the pay packets of workers recruited

directly from Burma were highlighted in the July 2003 edition of *Aliran* (accessed online at <http://www.aliran.com>). Bangladeshi workers have reported being forced to repay employment and migration agents such large sums that it was impossible to send remittances home, while employers have admitted illegally retaining foreign workers' passports in an effort to keep them on site (Rudnick 1996:46, 57–60). Rudnick further argues that Bangladeshi workers are especially vulnerable to harsh physical abuse given their heavy debt loads and their poor reputation in Malaysia.

Lee and Sivananthiran (1996:78) similarly identified the opportunities for exploitation of workers employed under contract labour arrangements, which is the case for most migrant workers. Their survey of employers found that most were unwilling to take any action to ensure their contract employees were receiving their legal entitlements. Further, the vast majority of contractors fail to provide contract workers with a written contract, enabling them to terminate the arrangement with ease, leaving these workers particularly vulnerable (Lee and Sivananthiran 1996:82–5). While domestic contract workers are also exploited under these arrangements, they generally receive higher wages and are more likely to be paid their invalidity and age pension contributions than are foreign workers. The failure by the state to take action against errant employers, or to ensure that foreign workers receive the same protections as local workers as laid out in the *Employment Act* 1955, contributes to the insecurity experienced by the migrant labour force.

The regime of labour control is, thirdly, *paternalistic* in that repression and insecurity are ameliorated by concessions, albeit limited and delivered selectively, often on the basis of ethnicity. The delivery of these concessions requires extensive state interventions in the economy in order, for example, to impose price restrictions on consumer goods, or to enforce employment quotas for *bumiputera*. However, these concessions do not generally extend to foreign workers and in fact, considerable ideological effort is exerted through particular government ministries and employer groups to depict foreign workers as undeserving of the concessions received by local workers. Where 'concessions' are given to foreign workers, it is often

in the form of company-provided accommodation and company organised social events that effectively extend the employer's ability to exert surveillance beyond the actual workplace and into the personal time and space of their employees. Kelly (2002:402) describes the imposition of curfews on migrant workers staying in company-provided hostels. 'Such hostels may also play a role in controlling the physical movements of workers, preventing job-hopping and monitoring availability for overtime' (Kelly 2002:402).

Fourthly, the ability to implement such varied arrangements of control relies on the *segmented nature of Malaysia's workforce*, which remains divided by ethnicity, gender, and country of citizenship. Workers remain occupationally, hierarchically and to some degree, industrially, divided (Government of Malaysia 2001:69). Apart from the highly skilled and well-paid 'expats', temporary foreign workers are largely employed in the lower paying jobs. This segmentation, encouraged and reinforced by the nature of ethnic politics in Malaysia, allows for the means of labour control to be selectively applied. Harsher, more coercive means of control are exercised over lower status, less skilled foreign labour, particularly those foreign workers who are illegal, with little political or social backlash. The concessions that are extended to local workers as part of the regime of labour control are not required to be extended to migrant labour, reducing their cost to the state and employers. The lack of societal sympathy for the plight of foreign workers thus benefits the state and capital, and so continues to be encouraged. '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).

The segmented nature of the labour force has therefore assisted in delivering a low wage regime. Fold and Wangel (1998) have argued that keeping a check on wages is the 'principal policy 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 acts to constrain wages growth, it is in fact 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).

The poor public image of foreign workers also acts to divide the labour movement, further restricting the ability of labour to make demands of employers or the state. Knowing that there is little sympathy for foreign workers, who are often seen as competitors willing to undersell their labour (Hing 2000:230–2), the MTUC has found it difficult to garner support on their 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 foreign workers and 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 (Rudnick 1996:47-8).

Public comments by MTUC President Zainal Rampak clearly demonstrate the ambivalence displayed by organised labour towards the migrant workforce. In mid 2001 Zainal announced to the International Employment Relations Association Conference that the MTUC planned to recruit foreign workers in order to campaign for them to receive benefits equal to those received by local workers (*Sun*, 9 July 2001). Early the following year he stated that 'although the MTUC did not support the utilization of foreign labour in the country, it could not be silent when foreign workers were being exploited and abused by their employers' (*New Straits Times*, 1 February 2002). He suggested that some of the poor behaviour exhibited by migrant workers was the result of their mistreatment. Later that month, Zainal urged the Government to strictly monitor the numbers of Indonesian workers entering Malaysia arguing that they posed a threat to the country's security. He added that the MTUC was opposed to foreign workers apart from in the agriculture and construction sectors (*Bernama*, 20 February 2002). Days later he was quoted as saying that the MTUC was attempting to recruit foreign workers, not with the goal of strengthening the MTUC but in order to exercise some control

over foreign workers (*Bernama*, 28 February 2002). Later in the year, after the passing of the amendments to the Immigration Act, Zainal objected to the skill assessment of foreign workers to be employed in the manufacturing sector arguing there was a need to train local workers rather than foreign workers who had no long term commitment to Malaysia (*Bernama*, 6 November 2002). As will be demonstrated below, contradictory responses to the existence of a large foreign labour force are also exhibited by a number of government institutions.

### **The stabilising potential of the regime of labour control now exhausted?**

The regime of labour control has been a stabilising feature of Malaysia's particular set of capitalist social relations. The means by which labour has been controlled, socially, politically and economically, has contributed to a low wage regime achieved through a mixture of repressive and responsive measures, with the repressive aspects directed particularly at Malaysia's migrant labour force. However for a number of reasons the existing regime of labour control is now under pressure.

Firstly, while the use of foreign workers has delivered low wages, it has also contributed to an environment where little is invested in training and technological advances, particularly by small to medium sized enterprises (SMEs) despite the provision of incentives (*New Straits Times* 3 October 1999; 9 May 2002). Employers are unwilling to invest in training as workers are often poached or leave for slightly higher wages elsewhere (Rasiah 1995:78–9). Further, the low wage regime has exacerbated the 'brain drain' of Malaysian professionals to higher paying countries. Hing (2000:227–8) cites Pereira (1997:10) who estimated that 40,000 Malaysian professionals left the country between 1983 and 1990, while only 600 returned. Tens of thousands of Malaysians cross the causeway daily from the southern Malaysian city of Johor Bahru to work in Singapore where wages are considerably higher. Approximately half of Singapore's foreign information technology (IT) workforce is from Malaysia (*Far Eastern Economic Review*, 9 November 2000:38–43). This situation creates obvious problems for a government trying to usher in a KBE.

Secondly, the current regime of labour control relies on the continued extension of concessions to local, specifically *bumiputera*, workers as part of the effort to control society for political, as opposed to economic purposes. Until recently, it has been politically too risky for the state to withdraw concessions to *bumiputera* despite ongoing opposition from employer groups. Employers have questioned the use of *bahasa Melayu* as the language of instruction in public universities, and quota systems for *bumiputera* students and workers (*Business Times* 27 October 2001), arguing that these concessions to *bumiputera* reduce the flexibilities required of the labour market. Now that Malaysia's international competitiveness is coming under pressure, the government is forced to weigh its political concerns against economic demands for liberalisation that challenge the state's use of the education system and the budget surplus to exert political and social control. These tensions are evident in the protracted nature of the attempt to introduce labour market reforms, including labour migration arrangements, as part of the transition towards a KBE.

By 2010, the government hopes to have halved the number of foreign workers in Malaysia, reducing the foreign component of the labour force to approximately 3 per cent from 8 per cent (Government of Malaysia 2001:153). In an attempt to modernise its argument against the use of foreign labour, the government has argued that continued access to foreign labour is detrimental to the development of a k-economy in 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).

### **The dilemma posed by the k-economy transition**

Analysis of the KBE models developed by the OECD (1999) and APEC (2000), similar versions of which have been adopted by the Malaysian government (Ministry of Finance 2000), suggests that in

order to develop a k-economy, important structural changes are required. This includes major reform of the labour force, particularly the upgrading of skills so that a much larger percentage of the population is tertiary educated and comfortable in using English (Vijaykumari 2001), and a reduction in the reliance on cheap and less skilled foreign labour. In 2001, Minister for Human Resources, Fong Chan Onn presented the 15th ASEAN Labour Ministers Meeting in Kuala Lumpur with this warning:

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.

Similarly in 2002, Fong told attendees at the National Human Resources Summit 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 attempted transition to a KBE is being driven by concerns that Malaysia has lost the ability to compete with neighbouring ASEAN countries and China on the basis of labour costs. Apart from Singapore, Malaysia has the highest labour costs in the region and the fear of a decline in foreign direct investment has resulted in calls by industry and employer lobby groups, particularly those exposed to the international market, for labour market reform, including the liberalisation of labour migration arrangements. The government has certainly agreed that labour market reform is required. For example, the National Productivity Corporation has backed employer groups arguing for the introduction of productivity linked wages schemes. However, the use of large numbers of foreign workers remains a major source of disagreement between the government and industry groups.



Employers have criticised the 2002 amendments to the *Immigration Act* that tighten controls over access to foreign labour and which impose higher penalties on both workers and employers in breach of the Act. For example, arguing that restrictions on regional labour mobility will 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 are 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 including the Federation of Sabah Manufacturers (*Bernama*, 8 April 2002) and the Malaysian Employers' Federation (*Business Times*, 7 August 2002).

The economic reality is that for many industrial sectors in Malaysia, continued reliance on labour intensive processes and relatively low paid migrant labour will remain the basis of profitability. In recent years the percentage of foreign labour in manufacturing has increased rather than decreased. In 2000, more than 30 per cent of documented foreign workers were employed in the manufacturing sector (Government of Malaysia 2001:90). Many employers, particularly SMEs in the manufacturing, construction and real estate sectors, continue to rely on the existing regime of labour control which gives them access to a relatively cheap and vulnerable labour force. Construction industry lobby groups such as the Master Builders' Association (*New Straits Times*, 24 June 2002) and the Real Estate and Housing Development Association (*Business Times*, 6 August 2002) have successfully extracted concessions from the government that allow for continued access to foreign labour. With the support of the Construction Industry Development Board

(*New Straits Times*, 9 August 2002) and the Minister for Human Resources (*New Straits Times*, 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; *New Straits Times*, 18 August 2002).

The political importance of migrant workers to the existing regime of labour control is another constraint facing the state in attempting to institute its attempted k-economy reforms. For while its own agencies have highlighted the disincentives to training and investment posed by continued use of cheaper labour, nonetheless, the low wages and poor conditions generally experienced by the migrant labour force have delivered high rates of economic growth that in turn funded the concessions delivered to local workers. This dilemma for the state is evidenced in the continuing ambivalence towards the use of foreign labour and the emerging institutional mismatches in the management of the labour force. This suggests the need for a new regime of labour control before the state can once again achieve the dual goals of stemming societal demands for greater political participation whilst also delivering an economic environment in which the more powerful factions of capital are able to achieve desired levels of economic growth that will ensure their continued support of the ruling coalition.

### **Conclusion**

At times, the political and economic concerns of the state have clashed with those of particular fractions of capital, and this is particularly the case now with the attempted restructuring of the economy and labour force in order to attract investment into more value added manufacturing processes, biotechnology and higher-skill services. The move towards a KBE has generated conflict for employers in industry sectors that remain dependent on imported, unskilled and semi-skilled migrant labour. At this point, the government has been unable to ignore the demands of employer groups for continued access to foreign workers, although it has placed some constraints on their import.

At the same time, the government itself risks the existing compromises between the state and labour. In attempting the reforms argued to be necessary to achieve the k-economy, it threatens to overturn employment and educational policies that favour Malay culture and language and which provide concessions to Malay workers and citizens. The difficulty experienced in attempting to institute significant labour reforms since announcing the k-economy transition demonstrates the extent to which the existing means of labour control are embedded within Malaysian political economy.

The change of leadership in Malaysia places yet another pressure on the complex mix of socio-cultural, economic and political compromises that have resulted in relative political stability for the country over the past two decades. Uncertain and shifting international economic pressures also present a destabilising potential, leading to new demands by capital for a change in policy direction with regard to the labour market, including access to as wide a pool of potential workers as possible. In contrast, Malaysian workers, whose job security is now under threat, look more than ever to their government to deliver the sense of security that has underpinned the historically developed compromise between state and society. Failure to deliver economic growth and security may very well trigger another destabilising elite-level conflict within UMNO, generating at least some potential for the transformation of employment conditions for locals. Such a move is, however, unlikely to deliver benefits to Malaysia's migrant labourers who are more likely to remain the easy targets of any domestic socio-cultural and political backlash.

*Donna Turner is a postgraduate student at the Asia Research Centre, Murdoch University. Her email is [donnaturner64@hotmail.com](mailto:donnaturner64@hotmail.com).*

### References

- Aglietta, Michel (1998). 'Capitalism at the turn of the century: Regulation Theory and the challenge of social change', *New Left Review*, issue 223, Nov–Dec, pp. 41–90.
- Aglietta, Michel (1987 [1976]). *A Theory of Capitalist Regulation: The US Experience* (translated from French by David Fernbach) (London: Verso).
- Aliran* (available on line at <http://www.aliran.com>).
- André, Christine (2002). 'The welfare state and institutional compromises: From origins to contemporary crisis', in Boyer and Saillard 2002:94–100.
- APEC (2000). *Towards Knowledge-Based Economies in APEC*, Report by APEC Economic Committee.
- Barracough, Simon (1985). 'The dynamics of coercion in the Malaysian political process', *Modern Asian Studies*, vol. 19, no. 4, pp. 797–822.
- Bernama* (Malaysian Government News Agency, available online at [www.bernama.com.my](http://www.bernama.com.my)).
- Bhopal, Mhinder (1999). 'Ethnicity, state, labour and capital in Malaysia', in Martin Upchurch ed., *The State and 'Globalization': Comparative Studies of Labour and Capital in National Economies* (London: Mansell) pp. 269–97.
- Boyer, Robert and Yves Saillard eds (2002). *Régulation Theory: The State of the Art*, (Routledge, London) (translated from the French by Carolyn Shread).
- Burawoy, Michael (1985). *The Politics of Production: Factory Regimes Under Capitalism and Socialism* (London: Verso).
- Burawoy, Michael (1979). *Manufacturing Consent: Changes in the Labor Process Under Monopoly Capitalism* (Chicago: University of Chicago Press).
- Chin, Christine (2000). 'The state of the "state" in globalization: Social order and economic restructuring in Malaysia', *Third World Quarterly*, vol. 21, no. 6, pp. 1035–57.
- Coe, Neil and Philip F. Kelly (2002). 'Languages of labour: Representational strategies in Singapore's labour control regime', *Political Geography*, vol. 21, no. 3, pp. 341–71.

- Edwards, Chris (1997). 'Foreign labour in Malaysian development: A strategic shift?', *IKMAS Working Papers*, no. 6, UKM, Bangi (Malaysia).
- Far Eastern Economic Review*, 9 November 2000.
- Fold, Niels and Arne Wangel (1998). 'The wage labour nexus in Malaysia's industrial development', in Johannes Dragsbaek Schmidt, Jacques Hersh and Niels Fold eds, *Social Change in Southeast Asia* (Harlow: Addison Wesley Longman Ltd) pp. 133–54.
- Fong Chan Onn (2000). Opening speech delivered to the Conference on 'Education as an engine for growth and innovation in a Knowledge Economy', Kuala Lumpur, 29 February, available online at <http://www.jaring.my/ksm/spm14.htm>, accessed 20 February 2003.
- (2002). 'Engaging people as strategic asset [sic] for enhanced performance', keynote address delivered to the National Human Resources Summit 2002, Nikko Hotel Kuala Lumpur, 19 November, available online at <http://mohr.gov.my.makluman/spm283.htm>, accessed 23 April 2003.
- Government of Malaysia (2001). *Eighth Malaysia Plan 2001–2005* (Kuala Lumpur: Government Printer).
- Hing Ai Yun (2000). 'Migration and the reconfiguration of Malaysia', *Journal of Contemporary Asia*, vol. 30, no. 2, pp. 221–45.
- Hirsch, Joachim (2000). 'The concept of materialist state theory and regulation theory', in Johannes Dragsbaek Schmidt and Jaques Hersh eds, *Globalization and Social Change* (London: Routledge) pp. 101–17.
- Hua Wu Yin (1983). *Class and Communalism in Malaysia: Politics in a Dependent Capitalist State* (London: ZED Books).
- Jesudason, James (1989). *Ethnicity and the Economy: The State, Chinese Business, and Multinationals in Malaysia* (Singapore: OUP).
- Jomo, K. S. (1995). 'Capital, the state and labour in Malaysia', in Juliet Schor and Jong-Il You eds, *Capital, the State and Labour* (Aldershot: Edward Elgar) pp. 185–237.
- Jomo, K. S. and Patricia Todd (1994). *Trade Unions and the State in Peninsular Malaysia* (Kuala Lumpur: OUP).
- Jonas, Andrew E. G. (1996). 'Local labor control regimes: Uneven development and the social regulation of labour', *Regional Studies*, vol. 30, no. 4, pp. 323–38.

- Kelly, Philip F. (2002). 'Spaces of labour control: Comparative perspectives from Southeast Asia', *Transactions, Royal Geographical Society*, pp. 395–411.
- Kelly, Philip F. (2001). 'The political economy of local labour control in the Philippines', *Economic Geography*, vol. 77, issue 1, pp. 1–22.
- Khoo Boo Teik (1995). *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamad* (Kuala Lumpur: OUP).
- Lee Kiong-Hock and A. Sivananthiran (1996). 'Contract labour in Malaysia: Perspectives of principal employers, contractors and workers', *International Labour Review*, vol. 135, no. 6, pp. 75–91.
- Lloyd, Christopher (2002). Long-term evolution of labour control and regulation: Some theoretical issues. Unpublished paper presented at the Cycles of Labour Regulation Conference, ANU (Canberra) 27–28 July.
- malaysiakini* (available online at [www.malaysiakini.com.my](http://www.malaysiakini.com.my)).
- Malaysian International Chamber of Commerce and Industry (MICCI) (2001). Responding to the challenges of globalisation and liberalisation on human resource imperatives – A Chamber perspective. Unpublished paper presented to the NEAC Meeting, 5 Dec 2001.
- Ministry of Finance (MOF) (2000). Press Statement on the Signing of a Memorandum of Understanding on the Development of a National Knowledge-Economy Master Plan, issued 27 March.
- Morgan, Michael (1977). 'The rise and fall of Malayan trade unionism, 1945–50', in Mohamed Amin and Malcolm Caldwell eds, *Malaya: The Making of a Neo-Colony* (Nottingham: Spokesman Books) pp. 150–98.
- National Economic Action Council (NEAC) (1998). *National Economic Recovery Plan: Agenda for Action* (Kuala Lumpur: EPU).
- New Straits Times*, 18 August 2002.
- 9 August 2002.
- 8 August 2002.
- 24 June 2002.
- 9 May 2002.
- 1 February 2002.
- 3 October 1999.

- OECD (1999). OECD Science, Technology and Industry Scoreboard 1999: Benchmarking Knowledge-Based Economies, available online at [www.oecd.org//dsti/sti/stat-ana/prod/scorebd\\_TOC.htm](http://www.oecd.org//dsti/sti/stat-ana/prod/scorebd_TOC.htm), accessed 3 August 2000.
- Parmer, J. Norman (1960). *Colonial Labor Policy and Administration: A History of Labor in the Rubber Plantation Industry in Malaya, c. 1910–1941* (Glückstadt: Association for Asian Studies).
- Pillai, Patrick (1999). 'The Malaysian State's response to migration', *Sojourn*, vol. 14, no. 1, pp. 178–97.
- Ramasamy P. (1994). *Plantation Labour, Unions, Capital, and the State in Peninsular Malaysia* (Kuala Lumpur: OUP).
- Rasiah, Rajah (1997). 'Class, ethnicity and economic development in Malaysia', in Garry Rodan, Kevin Hewison and Richard Robison eds, *The Political Economy of South-East Asia* (Melbourne: OUP) pp. 121–47.
- Rasiah, Rajah (1995). 'Labour and industrialization in Malaysia', *Journal of Contemporary Asia*, vol. 25, no. 1, pp. 73–92.
- Rudnick, Anja (1996). *Foreign Labour in Malaysian Manufacturing* (Kuala Lumpur: INSAN).
- Snodgrass, Donald R. (1980). *Inequality and Economic Development in Malaysia* (Kuala Lumpur: OUP).
- Standing, Guy (2002). *Beyond the New Paternalism: Basic Security as Equality* (London: Verso).
- Standing, Guy (1999). *Global Labour Flexibility: Seeking Distributive Justice* (Macmillan Press: Basingstoke).
- Star*, 28 February 1981.
- 14 August 2002.
- Suarez, Sandra (2001). 'Political and economic motivations for labor control: A comparison of Ireland, Puerto Rico, and Singapore', *Studies in Comparative International Development*, vol. 36, issue 2, pp. 54–81.
- Suhanah Sharifah Syed Ahmad (2002). 'Law and labour market regulation in Malaysia: Beyond the New Economic Policy', in Sean Cooney, Tim Lindsey, Richard Mitchell and Ying Zhu eds, *Law and Labour Market Regulation in East Asia* (London: Routledge), pp. 55–90.

*Sun*, 9 July 2001.

- Turner, Donna (2003). The k-economy transition and the politics of labour reform in Malaysia: Some socio-political implications for labour, *IKMAS Occasional Paper Series*, no. 24, University Kebangsaan Malaysia (National University of Malaysia) Bangi.
- Vijaykumari Kanapathy (c. 2001). Skill shortages, training needs and HRD strategies of MNCs in Malaysia, available at [www.capstrans.edu.au/apec\\_report/3\\_Malaysia.htm](http://www.capstrans.edu.au/apec_report/3_Malaysia.htm), accessed 7 May 2002.
- Wad, Peter and Jomo K. S. (1994). 'In-house unions: 'Looking East' for industrial relations', in Jomo K. S. ed., *Japan and Malaysian Development: In the Shadow of the Rising Sun* (London: Routledge) pp. 213–31.
- Zulkifly Osman, Siti Hajar Ismail and Wook Endut (1998). The Economic consequences of immigration in Malaysia. Paper delivered to the Conference on Migrant Workers and the Malaysian Economy, 19–20 May, Kuala Lumpur, Malaysian Institute of Economic Research, KL.



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.