

‘Malaysia Incorporated’: Corporatism a la Mahathir

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Abstract: Mahathir’s “Malaysia Incorporated” policy is reviewed here against how the Malaysian state evolved before the mid-1980s recession, including the first half decade of Mahathir’s premiership. After a decade and a half of growing regulation and public sector expansion, ostensibly to restructure society by strengthening the Malay business and middle classes and in pursuit of Mahathir’s heavy industrialisation project, the policy sought to reverse earlier excesses through some economic and cultural liberalisation following the 1985-1986 recession. This was followed by rapid growth from the late 1980s until the 1997-1998 Asian crisis. While business organisations have had limited, if not declining influence, some individual businessmen have become increasingly politically influential in securing state intervention to advance their particular interests. Mahathir’s corporatism – implied by the “Malaysia Incorporated” slogan – was largely limited to promoting company-level corporatism through in-house unions and better government-business relations. Instead of mobilising and incorporating organised labour – besides the short-lived Malaysian Labour Organization – in his corporatist project, there was little effort to improve industrial relations, suggesting that his corporatist project was largely limited to bridging the ethnic divide, rather than other social divisions.

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1. Introduction

Rapid growth of the Malaysian economy in recent decades has attracted considerable international attention. Since the decade-long economic boom from the late 1980s was preceded by some economic liberalisation, there has been a strong tendency to attribute sustained growth increase entirely to this liberalisation, and to conclude that deregulation and privatisation are generally desirable for sustained rapid growth and industrialisation. This

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article offers a more nuanced and complex interpretation of the Malaysian experience by comparing and contrasting the different implications of various government interventions and regulatory changes for corporate governance. Besides reviewing the changing nature of government-business relations since independence in 1957, the article will focus on government-business relations as well as industrial relations during the 22 year tenure of Mahathir Mohamad as the Malaysian premier from mid-1981 until October 2003.

2. Government-Business Relations

After independence in 1957, Malaya and later Malaysia in 1963, Malaysia achieved impressive growth, considerable infrastructure development, some economic diversification in both agriculture and industry, and improved social services. State intervention also grew from the 1950s onwards. By and large, elite interests have been furthered by development policies, often reflected in plan documents (e.g., see Mehmet, 1986). Development policies, government regulation, plan allocations as well as implementation have reflected the changing nature, role, and orientation of the state, as well as politically influential business interests and their political and economic priorities.

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

Thus, in contrast to the colonial policy, post-colonial governments actively sought to promote industrialisation. While early industrialisation efforts sometimes appeared erratic and haphazard, government policies from the late 1950s clearly favoured import-substitution industrialisation, with government intervention including tariff protection, infrastructure facilities, tax exemptions and other incentives. Unlike many governments' use of state-owned enterprises or encouragement of national investments, the strategy sought to encourage foreign investors to set up production, assembly and packaging plants in the country to supply finished goods previously imported from abroad. To

promote such industries, the government directly and indirectly subsidised the establishment of new factories in industrial zones and with new industrial financing facilities provided by Malayan Industrial Estates Limited (MIEL) and Malayan Industrial Development Finance (MIDF) respectively.

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

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

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

By then, however, there was also growing dissatisfaction with the government due to its policy responses to fiscal and debt problems as well as more general economic and political crises (Jomo, 2001). By this point, large Malay-controlled business groups had already emerged in the corporate scene, and were calling for a less regulated economy. Indeed, some of them saw excessive intervention as slowing growth, and hence, counter-productive to their interests (Khoo, 1992). The turning point for government policy, in terms of economic liberalisation and policy reversals, occurred around 1986. Greater liberalisation from the mid-1980s onwards has been a boon to the corporate sector, with most businesses benefiting, and hence supportive of further selective liberalisation. By this time, politically influential corporate groups had developed various new ways and means to advance their interests while appreciating the greater flexibility offered by reduced regulatory constraints required by public accountability.

3. “Malaysia Incorporated”: State-Business Corporatism

The role of the Malaysian state in relation to business interests was redefined by the NEP in the 1970s, and then by the Mahathir administration, especially from the mid-1980s onwards and again in 1991. Especially during the heyday of the NEP in the 1970s, the bureaucracy in Malaysia enjoyed considerably more ‘autonomy’ from vested business interests. NEP interventions generally reflected a preoccupation with inter-ethnic redistribution rather than other policy objectives. Hence, the objectives of the government’s interventions involving industrial policy have been quite different from those of industrial policy elsewhere: for example, in the first East Asian Newly Industrialised Economies (NIEs), such policies sought to achieve international competitiveness for new industrial activities.

For example, the 1975 Industrial Coordination Act (ICA) has generally been viewed as singularly concerned with redistributing manufacturing assets to Bumiputeras, and can be said to have been primarily responsible for the decline in private domestic investments, especially in the decade 1976-1985, when capital flight was estimated to be about US\$12 billion (Jomo, 1990).

The ICA failed to serve as an effective instrument of industrial policy, but instead associated industrial policy interventions in Malaysia with inter-ethnic redistribution. Not surprisingly then, most of the predominantly ethnic Chinese domestic private manufacturing enterprises have been wary, if not opposed to Malaysian state intervention generally.

After the rapid ascendance of the United Malays National Organization (UMNO) dominated state which introduced the NEP in the 1970s, Mahathir reversed this trend by advancing the “Malaysia Incorporated” slogan in the early 1980s in an effort to improve relations between the government and the ethnic Chinese-dominated private sector, by getting the government to revert to its “traditional” role of serving private business interests instead of the heavy handed regulation which had grown in the 1970s and early 1980s. The term “Malaysia Incorporated” was adapted from the originally pejorative “Japan Incorporated”, which had been popularised in the West in the 1970s to refer to the closer relations between the Japanese state and private business interests.

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

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

This distinct idiom of Chinese capitalism seems to have developed in response to experiences of perceived, if not real, hostility by states in Southeast Asia as well as elsewhere. The relations between business and government in Malaysia are therefore quite different from those in the Northeast Asian economies of Japan and Korea, where strong corporatist traditions, institutions and arrangements have developed. This idiom has taken on some characteristics of what has been described as insurgent capitalism, based largely on informal institutions, arrangements and practices based on culture and community sanctions, rather than systems of law and regulation enforced by the state.

However, some of its features, which have enabled it to survive and thrive in adverse circumstances, have also limited the scope and development of such business enterprises precisely because they cannot rely on legal sanction, the rule of law and “rational” bureaucratic behaviour. Business uncertainty stemming from such insecurity tends to encourage short-termism — which is generally inimical to the long-term commitments required for most productive investments, especially in heavy industry, high technology, and research and development, as well as investments in marketing such as brand-name promotion — as well as “hedging one’s bets”, by not “putting all one’s eggs in one (national) basket”. In such circumstances, therefore, financial liberalisation actually opens up new opportunities for capital outflows, thus facilitating and contributing to capital flight where previous capital controls effectively encouraged reinvestment within the national economy.

The notion of Malaysia Incorporated entered Malaysian discourse under these particular circumstances in the early 1980s. The notion hinted at the urgent need for national unity, a shared sense of national purpose or a national vision — particularly for achieving socio-economic progress. In Malaysia, ethno populism has thrived with ethno-cultural socio-political mobilisation ostensibly on the basis of ethnic corporatism, especially since the repression and elimination of the parliamentary left in the form of the Socialist Front during the period of *konfrontasi* with Indonesia in the mid-1960s (Jomo and Wee, 2014; Poulgrain, 2014).

This is inimical to — and has consequently undermined — nationalist corporatism, which then Prime Minister Mahathir seemed to want to promote after he came to power in the early 1980s, first with his Malaysia Incorporated slogan, and since 1991, with his commitment to build a “*bangsa Malaysia*” (Malaysian nation). In the Malaysian context, espousal of this concept implied recognition of existing problems between the Malay-dominated government and the predominantly Chinese domestic private sector, exacerbated during much of the NEP’s OPP period (1971-1990), and the desire to urgently overcome them with the expectation of achieving greater economic growth and dynamism.

After it was first announced, the Malaysia Incorporated concept was enthusiastically welcomed by the private sector generally, especially by the Chinese business community and the Chinese-based political parties in the ruling BN coalition. Although there were no public objections to the concept, some politically-influential Malays — including politicians and bureaucrats — objected privately that the policy had reversed previously growing Malay political hegemony, long associated with state dominance, and the growth of government regulation and public sector expansion to advance ethnic redistribution in the Malay interest. The popularity of such views among the influential Malay middle class probably accounted for its rather apprehensive and lukewarm reception of the Malaysia Incorporated notion although it is not clear how much support Mahathir's other policy innovations enjoyed in these quarters. Even Mahathir himself and Malay cabinet ministers closely associated with him were somewhat reticent to espouse the concept in the Malay community. Even after the 1991 Vision 2020 announcement, the policy was mainly emphasised by Chinese politicians and business leaders, and, more rarely, by the occasional Malay politician or bureaucrat addressing non-Malay businessmen. The slogan was rarely, if ever, invoked in the context of relations between the state and the ethnic Malay business community, which have grown rapidly since the 1970s with considerable support from the state, i.e. their relationship is arguably the most corporatist.

Much of what was hoped for Malaysia Incorporated was actually achieved with the various economic liberalisation and supply side-oriented policies implemented by the Government since the mid-1980s, especially after the onset of the 1985-1986 recession (Jomo, 2004). These initiatives involved many policy changes favoured by private capital, including:

- New investment incentives, especially with the Promotion of Investments Act, 1986;
- Higher Industrial Coordination Act (ICA) exemption levels to reduce the ICA's onerous legal consequences on non-Bumiputera investments;
- A depreciated Ringgit for export promotion from 1985 and again from 1997;
- Reduced wage costs, owing to high unemployment in the mid-1980s, greater labour flexibility, and the availability of cheap immigrant labour;
- Less emphasis on inter-ethnic redistribution, especially after Mahathir's announcement in 1986 that NEP requirement had been suspended due to the mid-1980s recession;
- Reduction of federal government, especially development (capital) expenditure, reducing the "crowding-out" effects of state investments;
- Reform of government bureaucracy to be more responsive to private business needs, expectations and requirements;

- Restraint of most public or state-owned enterprise expansion;
- Some deregulation as well as new regulations to attract investments;
- Privatisation of public or state-owned enterprises;
- Contracting out some government services;
- Allowing private enterprises to build and operate amenities previously provided by the public sector.

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

- The ascendance of new Malay social groups, notably ethnic Malay politicians and business executives;
- The emergence of alternative sources of technical and other competencies, thus depriving the bureaucracy of its previous “monopoly” of knowledge, capacity and ability; the availability of publicly-funded think-tanks, besides private (including foreign) consultancy services, may well have accelerated this erosion;
- The inefficiencies and wastage associated with past state intervention and public sector expansion undermined the standing of the bureaucracy, which was generally blamed for such failures;
- The official ethnic rationale and bias of much of this intervention meant little support for them outside the politically dominant Malay community;
- Attractive exit incentives as well as other lucrative opportunities available to those leaving the civil service, especially with privatisation and other contracting-out policies, encouraged early retirement besides weakening and compromising potential resistance from the bureaucracy to these developments;

- The international ideological atmosphere from the 1980s onwards and the academic training as well as socialisation of many bureaucrats also favoured reduced interventionism, deregulation and privatisation.

Successful politicians, especially from the dominant UMNO, and particularly those favoured by the executive, have often been rewarded (i.e. patronised) with various pecuniary benefits and, increasingly, lucrative business opportunities, usually linked with appointments to and control of ministries, state agencies (for example statutory bodies), and other public enterprises. Others were also allowed to buy stock in government-owned enterprises at prices well below market values, thus reducing their opposition to the changes in government-business relations.

As in the rest of Southeast Asia, the boom in Malaysia from the late 1980s benefited greatly from investments by East Asian firms experiencing rising production costs, due to tightening labour markets as well as stricter environmental controls. The withdrawal of privileges under the Generalized System of Preferences (GSP) from the East Asian NIEs in February 1988 also encouraged relocation to those countries which still qualified. The effective depreciation of the ringgit lowered production costs in Malaysia as real wage costs declined over the mid-1980s with the rise in unemployment as well as new labour policies and laws weakening organised labour's bargaining position and enhancing labour flexibility. The decline in Malaysia's real effective exchange rate was accompanied by a relaxation of the guidelines imposed under the 1975 Industrial Coordination Act (ICA) — for example, the requirements for local shareholdings were relaxed — and the increased incentives under the 1986 Promotion of Investments Act. Together, they made Malaysia an even more attractive place for investment. These factors, combined with favourable new international conditions, resulted in a resurgence of export-oriented manufacturing, largely under the auspices of foreign capital.

From the late 1980s onwards, incentives for exporting firms were extended in the form of export abatement allowances and double deduction exemptions. The new trend in foreign investment from East Asia since the late 1980s resulted in some technological deepening and greater linkages. In 1988, the double deduction for training incentive (DDTI) was introduced. From 1991 onwards, a local sourcing condition was included for firms applying for pioneer status and investment tax allowances though this soon came under threat with the new General Agreement on Tariffs and Trade, World Trade Organisation (GATT WTO) rules. From 1993 onwards, firms with more than 50 employees were required to participate in the Human Resource Development Fund. Double deductions for tax purposes were also introduced for research and development (R&D) expenses.

Thus, the policy change of the mid-1980s appeared successful. With the economic turnaround following the policy changes, the former was attributed to the latter. However, as the preceding account suggests, several different developments were occurring around the same time, and while all may well have contributed to the recovery, it is impossible to disaggregate their respective contributions. After all, Indonesia, Thailand and Singapore in Southeast Asia seem to have accelerated growth at around the same time (i.e. from the late 1980s). Although most also introduced some economic liberalisation measures around the same time, there is no evidence that the most successful or fastest growing economies have been the most liberalised or undertook the most drastic liberalisation measures.

However, until 1991, there remained a widespread perception that the mid-1980s' government policy changes tended to favour foreign, rather than Sino-Malaysian investors. Although there was little firm evidence of such a preference in existing government policies and regulations, this view was widespread, not only among local non-Malay businessmen, but also among many Malay government officials. This was reinforced by a common view that long-term Malay interests were better served by encouraging foreign, rather than domestic Chinese investment (i.e. by policies of "ethnic bypass").

From the mid-1980s, and especially from 1991, however, Sino-Malaysian business sentiment shifted in favour of the government, partly because of growing cultural liberalisation (e.g. greater use of English, greater opportunities for private tertiary education in Malaysia), ostensibly in the interest of modernisation. This was clearly reflected in the outcome of the April 1995 general election when the ruling coalition's share of the total vote rose to 65 per cent from 53 per cent in 1990. As the proportion of Malay votes for the coalition did not change much, it is generally accepted that the gain was mainly due to a significant shift in Chinese electoral support for the Mahathir administration.

4. Business Associations

There are a variety of inter-firm relations in Malaysia which need to be considered. This is partly due to the relative importance of foreign direct investment (FDI) in Malaysia compared with most other developing countries. Western (primarily British, then American) foreign investments gave way to Japanese and other East Asian investments in the 1980s. Changing comparative costs and competitive advantages also reshaped the international context — including regional divisions of labour, and involving new production, supply and marketing arrangements.

Compared with its Association of Southeast Asian Nations (ASEAN) neighbours, collective action by business firms in Malaysia exceeded that of Indonesia, but was less than in Singapore, the Philippines and Thailand.

Despite the weakness of civil society in Singapore, business associations have been allowed to develop in the island republic in order to ensure feedback mechanisms for Singapore-style corporatism, and also to encourage coordination and collaborative action among businesses.

In Malaysia, the historical preponderance of Chinese businesses in the face of a colonial, and then an ethnic Malay-dominated government has limited the profile and effectiveness of business associations dominated by the ethnic Chinese community. In the colonial period, British business associations were very influential while Malay business associations (such as the Malay Chamber of Commerce and Industry) became increasingly important with the NEP.

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

While such business associations seem to have considerable influence in special pleading for their particular interests, there is little evidence of collective action or coordination with respect to industrial policy beyond requesting protection. This seems to be quite different from the Japanese or even recent Thai experience, where responsible government agencies performed an important coordinating role in response to initiatives by individual firms or even industry associations. With economic liberalisation and the launching of Malaysia's privatisation policy from the mid-1980s, there is considerable evidence of politically influential businessmen in Malaysia securing state intervention to advance particular business interests (Jomo, 1995b; Jomo and Tan, 2011).

Besides buying government assets at discounted prices, such businessmen have been allowed to preserve the monopolistic status of the former state-owned enterprises or to secure other lucrative privileges. However, unlike some other East Asian economies, the award or allocation of such rents has rarely, if ever, been accompanied by conditions to achieve broader national objectives, for example, by making effective protection conditional on export promotion.

Privatisation probably provided incentives for new asset owners to improve the efficiency of their business operations to maximise returns on their investments (Jomo, 1995b; Jomo and Tan, 2011).

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

Industrial development - particularly heavy industrialisation in the mid-1980s and industrial relocation into Malaysia, especially from Japan and the first generation NIEs - has also had important implications. These trends have accentuated industrial agglomeration, with various implications for inter-firm relations due to proximate location. In so far as some of this involves extending supplier relations originally developed in the place of origin (usually Japan or Taiwan), many features of such relations have been replicated in Malaysia, although such replication can be the first step for subsequent autonomous development of subsidiary firms. Needless to say, such relations have been reflected by growing inter-firm linkages. However, the replication of such relations has undermined and pre-empted the development of Malaysian supplier firms. In response, the Malaysian government has intervened on a limited basis to develop local supplier firms through various “umbrella” and “vendor” schemes, but these have mainly been effective when the “anchor firm” is under Malaysian control, as in the case of Proton, the national car manufacturer.

5. Human Resource Policies

Malaysia has high rates of literacy as well as a large English speaking population. It also has rising enrolments at higher levels of secondary and tertiary education. This has provided a trainable and potentially productive workforce. However, this level of formal skills creation has often not been sufficient to meet the rising technical needs of the expanding high technology sector, or even some Small Medium Enterprises (SMEs). There has been growing evidence of skills

shortages at all levels, particularly in new technical fields (NEAC, 2009). Many manufacturing firms have complained of the constraints to technological upgrading and deepening posed by the shortage of particular skills and the high turnover rates for mid-level skilled employees.

Although the government expenditure for education has long remained relatively high, and a great proportion is spent on tertiary education, education policy was focused on achieving inter-ethnic parity in enrolment and attainment, even at the expense of limiting overall educational development. Education policy liberalisation since the mid-1980s did not serve to resolve widespread human resource shortages because private investments in education have tended to offer relatively low-cost offerings leading to credentials associated with high remuneration (e.g. in law and accountancy), rather than less profitable higher cost offerings (e.g. engineering courses) needed for accelerating industrialisation. By limiting officially recognised tertiary-level credentials outside the state-owned universities, private credentialing was initially profitably monopolised by joint ventures between politically connected higher education entrepreneurs with foreign institutions from the mid-1980s. However, the private higher education market structure has changed considerably since, over the last three decades. - at unnecessarily high cost to Malaysian students who pay them far more than necessary to acquire the desired credentials.

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

Many other educational reforms are urgently required. For example, the facilities for training mid-level technical human resources are still limited. Remuneration levels and career prospects in government service, state-owned enterprises and privatised enterprises still favour academic credentials at the expense of developing actual technical capabilities or competencies, thus adversely affecting educational preferences by prospective students, not least those most subsidised by the government. Also, the education and remuneration systems tend to emphasise credentials — rather than actual capabilities, which might be developed through less formal means and experience. In view of the magnitude and dimensions of the problem, bold new initiatives are still needed to achieve the major breakthroughs needed for accelerating Malaysia’s economic transformation in both industry and services.

6. Industrial Relations

Employees in Malaysia have generally little opportunity to participate in decision-making, let alone control their working lives. Relatively few workers in the agricultural and manufacturing sectors are unionised, while there has never been minimum wage legislation in Malaysia. Instead, the Malaysian Industrial Development Authority (MIDA) has been known to assure prospective investors in pioneer industries of safeguards against “unreasonable demands” from unions during their first five years of existence, or for “any such extended period”. While there is no legislation actually prohibiting unions in pioneer industries (as is sometimes mistakenly alleged), until the late 1980s, over 150,000 electronics workers - who would be able to form the largest industry-based union in the manufacturing sector - were not allowed to register a union two decades after the first electronics factory was set up in Malaysia in the late 1960s. Under tremendous international and domestic pressure, in-house (company) unions were finally allowed, but unionisation in the industry grew slowly even as the industry began contracting as deindustrialisation began in the 1990s.

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

It has become increasingly evident that the establishment of the Social Security Organization (SOCSO) in 1969 - to compensate victims of industrial accidents regardless of responsibility - has actually absolved employers of responsibility for accident compensation even if they have been negligent, and hence, for ensuring occupational safety at the workplace. Furthermore, since compensation payments have been kept low, SOCSO has become an additional source of cheap finance for the government. With the wage ceiling increased several times from RM500 in 1984, SOCSO membership has grown over the decades.

During the 1960s and 1970s, there were several government efforts to portray itself as a neutral arbiter standing above and mediating between management and labour. By and large, the state has generally favoured the former (as reflected, for example, in various amendments to the labour laws or the government’s role in industrial relations). The Mahathir administration was more overtly favourable to employers over employees. This was reflected in various amendments to the labour laws as well as the government’s role in industrial relations and labour policy.

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

The anti-labour character of the state has become more pronounced since the 1980s, as suggested by surveys of post-colonial labour policies (see Jomo and Todd, 1994; Jomo and Wong, 2008; Khong and Jomo, 2010). Ironically, while many of these policies were presented and justified as part of official Malaysian efforts to emulate harmonious Japanese industrial relations, the results in Malaysia have been quite different in substance, if not in form.

Soon after Mahathir became Prime Minister in mid-1981, the Look East policy was announced by his administration. The policy was originally (it was believed) targeted at changing Malaysia's orientation in a variety of foreign economic matters. Look East seemed to refer not only to efforts to emulate specific aspects of the Japanese and Korean economic miracles, especially late industrialisation, particularly state intervention to develop heavy industries, but also to efforts to establish Japanese-style *sogoshosha* trading agencies as well as improve relations between the public and private sectors (Malaysia Incorporated) and privatisation (Jomo, 1995a). For a time, Look East was also believed to mean favouring Japanese and Korean firms bidding for Malaysian government tenders. Criticism, not least by those who lost out from the new policies, and some very costly failures - e.g., the heavy industries and Malaysian *sogoshosha* experiments - later forced the government to backtrack. However, it soon became obvious that replicating Japanese or other institutions - without understanding the particular context and challenges - simply resulted in superficial imitation without a coherent and viable set of institutions.

After considerable and protracted confusion about the objective of the Look East campaign, Mahathir explained that it was intended to advance Malaysia's economic development and industrialisation by adopting and imbibing Japanese-style work ethics. He emphasised on the Japanese and Korean labour discipline, work ethics and productivity which he said had been crucial to their economic miracles, and hence, needed to be emulated by Malaysian, especially Malay, workers. Although there were perfunctory

efforts at emulating Japanese management styles (e.g., by getting managers to dress more like blue collar workers, rather than like Western office executives), most emphasis was given to raising productivity and work (as well as product or service) quality by exhortation and emulation of Japanese-style industrial relations, by promoting quality control circles (QCCs), for example.

Another key element of the Malaysia Incorporated notion was initially articulated in this connection. Malaysian workers were urged to serve their companies as if they were serving their country, with service to the country and company compared with the family. Greater worker loyalty in large corporations was sought through a combination of coercion and material reward. In Japan, job security (in the form of guaranteed lifelong employment) and wage increases linked to seniority have long encouraged company loyalty, particularly in big corporations. In fact, company loyalty has been “bought and paid for”, and not secured by mere exhortation or exclusive reliance on peculiarly Japanese cultural characteristics.

Mahathir’s labour policies also sought to shift the basis of trade unionism away from the collective representation of workers. Instead, he sought to render them more pliable and committed to achieving employer objectives. Malaysian trade unions, already considered docile by international standards, were to be further circumscribed. In 1983, Mahathir announced that the government would officially encourage in-house unions as part of its Look East policy.

This policy of promoting in-house unions over national, industry-wide unions represented a significant departure from previous labour policy. Enterprise unionism in Malaysia has a history which long predated the Look East policy, having previously been associated with public or state-owned enterprises, especially statutory bodies, and, to a lesser extent, with employers seeking to undermine or pre-empt national trade unions. Following the adoption of the Look East policy, however, the entrenchment and promotion of in-house unions became an official policy of promoting enterprise unionism, albeit by administrative means, and facilitated, but not required by law. Thus, the Look East policy is said to have promoted enterprise unions without eliminating most existing industrial unions. Lest it generate too hostile a response, enterprise unionism has not been required by law. Rather, the state tried to avoid confrontation with existing national industrial unions by simply ignoring them. The policy seemed primarily intended to accommodate new demands for unionisation by the rest of the workforce, mainly in the private sector, which remained unorganised. It seemed to cater primarily to Japanese employer preferences since American employers are generally more antagonistic to any kind of unions, including the in-house variety, while European employers appeared more tolerant of national unions. However, some employers were

not averse to taking advantage of the new official policy to undermine difficult national unions by encouraging in-house unionising efforts.

Despite ostensible government support for in-house unions, few new enterprise unions were registered where no unions existed before, except for some in the electronics industry. Instead, in-house unions were encouraged to weaken the existing “troublesome” national (industry-wide) unions. The government’s encouragement of in-house unions thus mainly undermined existing national unions. Some employers initiated the formation of in-house unions to pre-empt their workers’ involvement with stronger, more-established national unions.

The ground was cut from under the feet of existing unions while registration was generally denied to new national industrial trade unions except in exceptional circumstances. Both employers and the state sought to contain resistance among the industrial workforce but hesitated to replace existing national trade unions. The policies suggested a strategy of constraining existing national unions with restrictive laws and regulations, besides preventing their further expansion.

Cuts in public spending and a package of new amendments to existing labour legislation were introduced in 1988 after the recession of 1985-1986. Some inducements introduced in the 1980 legislation, notably higher remuneration rates for overtime work, were reduced while other amendments encouraged the establishment of in-house unions and the introduction of more flexible wage systems. Hot on the heels of the 1985-1986 recession and the economic liberalisation reforms of that period, the 1988 labour legislation was introduced to enhance labour flexibility and to strengthen management prerogatives and control over labour with promise of generating more employment.

With the trade union movement divided and weakened by a combination of government manipulation and co-optation, management intransigence, and petty rivalries among unionists, there was little organised resistance to the new legislation. The 1988 reforms were justified by invoking the supposed requirements for economic recovery after the 1985-1986 recessions and the higher unemployment of the early and mid-1980s. They also clearly reinforced the neo-liberal economic reforms by the Malaysian Government from the mid-1980s (Jomo, 1989). However, since managerial prerogatives were already well established and difficult to challenge, such legislative reforms made little difference in practice, only reflecting the new bias of the government.

However, a fragmented union movement is an unwieldy, if not clumsy, instrument for the pursuit of an administratively-directed incomes policy, requiring institutions for centralised collective bargaining, as suggested by the 1993 Budget Speech announcement of an imminent National Wages Council.

The existence of trade union centres and large union bureaucracies enables co-opting labour into a corporatist framework. Indeed, with ethnic Malays already constituting a majority of the labour force and of union members, this option was realistic and attractive. This had already been realised in the public sector through the Congress of Unions of Employees in the Public and Civil Services (CUEPACS) and reflected in the Malaysian Trades Unions Congress (MTUC)'s commitment to a tripartite corporatist relationship with the state and employers. Perhaps recognising the potential of corporatist tripartism, the government switched its trade union policy in the mid-1990s. After failing to gain much legitimacy for the subservient Malaysian Labour Organization (MLO), it encouraged the MLO to merge with the more independent MTUC, which the government had sought to marginalise from the 1980s.

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

To offset wage pressure and to overcome labour shortages, the government adopted several measures. It has been alleged that the UMNO-dominated government also sought to increase the number and proportion of ethnic Malays, through the immigration and assimilation of foreign labour (especially Muslim Indonesians, Filipinos and Thais). The increased use of illegal contract labour and immigrant workers - primarily from Indonesia, Southern Thailand (especially to the northern states of Peninsular Malaysia), the Southern Philippines (to Sabah) and Bangladesh — depressed real wages. Relatively poorly paid immigrant workers were increasingly widely employed in plantation agriculture, land development schemes, construction, services and manufacturing. Tacit official approval of massive labour immigration adversely influenced wage levels, affecting mainly Malay and Indian unskilled and semi-skilled workers. The actual magnitude of this often illegal labour immigration is difficult to measure, with estimates varying from one to four million by the mid-1990s - an astonishingly high figure given a national population of twenty million and an official labour force of less than eight million then.

The recession, as well as government attempts to freeze and reduce the size of the public sector in the mid-1980s, resulted in rising unemployment and concurrent downward pressures on wages. With rising unemployment through the mid-1980s, real wage levels were depressed until the late 1980s saw employment rise again (Standing, 1993). By the early 1990s, labour

shortages (especially skilled workers) had driven wages up, although growing employment of foreign labour continued to check this tendency. In such circumstances, it is not surprising that worker loyalty was difficult to secure.

The Malaysia Incorporated notion was limited to relations between public and private sectors, or more specifically, between politicians and bureaucrats on the one hand and business on the other. This clearly limited the scope of and social base for corporatism in Malaysia. To gain broader acceptability and social support, Malaysian economic nationalism should have been more inclusive, securing the crucial involvement and support of workers, especially organised labour. In this regard, the state should not have been seen as siding with management against labour.

7. Closing Remarks

An early attempt at tripartism (among employers, employees and the Government) — embodied in the Code for Industrial Harmony in the first half of the 1970s - died with Malaysia's second Prime Minister, Razak, in 1976. Malaysia's fourth Prime Minister, Mahathir was associated with two different variants of corporatism. On the one hand, he sought to promote company-level corporatism, particularly by encouraging in-house or company unions. On the other hand, he promoted the Malaysia Incorporated notion, popularly seen as an attempt to improve government-business relations.

But neither of these initiatives were truly national corporatist projects. Of Mahathir's initiatives, the former was limited to better controlling labour as immigration became inevitable, while the latter mainly involved bureaucrats and business elites, and not the rest of the population, especially the "popular" sectors. Mahathir's Vision 2020 reiterated the importance of national corporatism, albeit narrowly understood (Jomo, 1994). In terms of "Looking East", there are significant differences between industrial relations in Korea and Japan, with the former more blatantly repressive before the 1990s, while the latter has been more corporatist at the company level, thus ensuring competitive advantage on the shop-floor (Lazonick, 1990).

A truly nationalist corporatist project could have helped Malaysia become a newly industrialised economy (NIE) with its own industrial capacity and dynamism (Jomo, 1993; Jomo, 2007), rather than relying so heavily on MNCs manufacturing for export, as has been the case since the 1970s. Growth performance and industrialisation between 1988 and 1997 was very impressive, but almost entirely due to foreign (increasingly East Asian) investment. Throughout the 20th century, Malaysian growth had been heavily based on the successful export of raw materials, including some non-renewable natural resources, but a limited range of manufactured exports became more important from the 1970s until the 1997-1998 Asian crisis.

Domestic industrial linkages improved from the late 1980s, mainly because economic and technological changes and relatively lower production costs made it worthwhile for foreign firms to relocate more production testing and even research processes in Malaysia and to subcontract the supply of inputs locally, sometimes on a just-in-time (JIT) basis, to minimise inventory costs and risks. Unlike Korea and Taiwan and even Hong Kong, industrialisation in Malaysia has been heavily dependent on foreign capital, technology and markets. In recent decades, however, the trend has been reversed with the same foreign firms now preferring to relocate in China and elsewhere. A great deal more needs to be done to promote industrial dynamism in Malaysia, and this can only be achieved through better collaboration between the state and genuine Malaysian industrialists.

The announcement of Vision 2020 in early 1991 provided a renewed opportunity for implementation of the Malaysia Incorporated notion to try to move the nation forward on the basis of improved government/private sector relations (Jomo, 2004). A broader-based national economic strategy would require involving labour (and the peasantry) more fully in national development efforts. Such participation will only be forthcoming if better deals are offered to these two large, productive, but disadvantaged groups, which will reduce poverty and inequality (Jomo and Jacques, 2007; Ocampo and Jomo, 2007). Tripartism and generally improved conditions for labour would go some way to securing worker support for a national development strategy. Such a national vision of development is not only necessary to achieve sustained progress, but would also go a long way towards improving ethnic relations, and hence, the socio-political stability of the Malaysian nation. Developmentalism - including late industrialisation - need not be based on dirigiste authoritarianism or labour repression, but could be better and more firmly constituted on the basis of a popular, democratic, and nationalist social corporatism.

Note

The late Osman Rani was a dear friend and colleague. We shared the same birthday. He was among the first to welcome me as a colleague when I joined the UKM Economics Faculty in early 1977. I was especially intrigued by his post-graduate education in the Philippines unlike others who had studied in Malaysia or in the Anglophone West. Born on the same date exactly a decade apart, we enjoyed a personal chemistry which continued for decades long after I left UKM in mid-1982. During my 5.5 years at UKM, we organised a conference together and edited a volume (Osman-Rani *et al.*, 1981) which contained articles on Malaysian public policy and public sector reform. We also collaborated on a paper showing that productivity gains in manufacturing had accrued much less than proportionately to workers in Malaysia (Jomo and Osman, 1984).

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