CHAPTER 1
INTRODUCTION

1 BACKGROUND OF THE STUDY

"There are essentially two schools of thought (on the impact of trade unions on industrial
bour markets and industrialization). The first, and more influential, is that unions raise costs
and represent a threat to management that deters multinational investment in developing
countries.... The second school of thought depicts unions as a source of "dynamic efficiency"
oging enterprises to pay efficiency wages rather than "market clearing" wages and forcing
agement to raise productivity by inducing technological change and cost-saving practices
ther than reliance on low cost labour" (Guy Standing, 1990). In recent years, a decline in trade
on membership have been observed worldwide: Japanese unions have been declining based
an employee survey carried out by Tsuru and Rebitzer (1995) whilst in the Organization for
onomic Cooperation and Development ("OECD") area, trade union membership have declined
om 36 to 27 per cent of the total workforce in the past two decades (Ariza Rico, 1995). Similar
and is observed in the United States (Krueger and Farber, 1990) which attributed higher job
satisfaction level of non-union employees to this decline. This raised the question of whether
alization impedes trade union growth (Breitenfellner, 1997).

In Malaysia, trade unions are governed by the Industrial Relations Act, 1967. Currently,
o types of unions are found in Malaysia. The first are national unions which represent specific
industries during negotiations with employers, and union officials are independent from the
enterprises. The second type, known as enterprise or in-house unions were adopted from the
Japanese practise, where the union representatives are representatives of management who
represent workers during negotiation with management of the enterprise concerned. Due to the
"Look East" policy adopted by Malaysia in the 1980s, it is generally perceived that the
government favours enterprise unions over national unions.

Malaysia's Prime Minister, Datuk Seri Dr Mahathir Mohamed has advocated on the 29th
of July 1996 to the trade unions to work together with the government and employers to make
Malaysia truly unbeatable in facing the challenges of liberalization and globalization. In essence,
the call is for trade unions to be partners with the government and employers in enhancing
Malaysia's international competitiveness. To be and stay competitive in the international market,
issues on productivity is once again thrown into the limelight.

1.2 TRADE UNION HISTORY IN MALAYSIA

Trade union activities have generally started in Malaysia (then known as Malaya) in 1894
with a group of Malay seamen known as the "Kelab Kapitan-kapitan dan Injinir". The records
also show that a Pineapple Cutters' Association was formed sometime in 1908. Trade union
presence, however, was felt during the Japanese occupation when, "during the final years of the
Japanese occupation, Chinese and Indian labourers linked with the Malayan People's Anti-
Japanese Army (to) bargain for higher wages and better conditions of work" (Arophia Dass, 1991).
After the Second World War, in 1946, to curb the communist vein in trade unions, the government set up a Trade Union Advisers Department with the appointment of a Registrar of Trade Unions. The Trade Union Enactment was also passed, where three of its important clauses include:

- All trade unions had to be registered;
- Federations of trade unions could only be formed by unions in the same industry; and
- Union officials had to be employed for a minimum of three years in the industry which they represented.

Subsequent to the implementation of this enactment, approximately 100 unions were de-registered. The Malayan Trade Union Congress ("MTUC") emerged a few years later to act as an umbrella body for trade unions in the country. MTUC was registered as a society in 1951 to represent workers in specific industries during negotiations with employers.

After Malaya’s independence in 1957, in order to promote the growth of a strong, free and democratic trade union movement, the Trade Union Adviser’s Dept was dissolved and its functions merged with those of the existing Labour Department to form a new Department of Labour and Industrial Relations. In 1959, a new Trade Union Ordinance, which revised and consolidated the old legislation and had been prepared after consultation with the trade unions, was introduced. In the Malaysian trade union history, one special case which have attracted widespread attention and warrant mention is the unionization of electronics workers, as Grace
1990) observed "it was thought that in late 1987, the AFL-CIO, the national federation of trade unions in US, had requested the US government (to) withdraw Malaysia's duty-free import privileges under the Generalised System of Preferences ("GSP") because of the country's violation of workers' rights (by disallowing electronics workers from joining or forming a national union). After years of adverse international publicity in forums such as the ILO over its refusal to allow unions in the electronics industry . . ., the Malaysian government was finally taken by the threat to its GSP status, therefore the country's 85,000 electronics workers would finally be allowed to form and join unions".

The Malaysian Labour Organisation ("MLO") was registered in 1990 as an alternative to the MTUC. The two parties decided to merge during the labour day in 1996. The MLO members were absorbed into MTUC and subsequently the MLO was dissolved.

.3 OBJECTIVES OF THE RESEARCH PAPER

The principal objective of this project paper is to examine the effects of trade unions in the food manufacturing industry in Malaysia. The study will cover the period from 1990 to 1994 and 1996. In particular, the study will focus on the following:

i. the impact of unionization on wages in general;

ii. the effects of capital (assets employed) on the wages of unionized, in-house
unions and non-unionized workers.

iii. differences in the relative impact of national vis-a-vis in-house unions on wages;

iv. the impact of unionization on average male-female wage differentials; and

v. the impact of unionization on productivity.

Although the study is limited to the food manufacturing industry alone, it is anticipated that the results will shed more light on the role of trade unions in Malaysia's manufacturing sector as a whole. The findings of this study will have significant implications for the future development of the trade union movement; particularly as the nation pushes towards the goal of becoming an industrialized economy by the year 2020. In so doing it will also shed light on the elevance of the two schools of thought in the context of Malaysia's manufacturing sector.

.4 RATIONALE OF THE STUDY

Pencavel (1995) have distinguished two types of postures adopted by governments worldwide towards trade unions: "the Patronage regime where the state nourishes unionism and collective bargaining.....the Obstructionist regime where the state undermines and subverts unionism and collective bargaining". By analysing the impact of unions on wage differential and productivity, we would be able to propose which stand the Malaysian government should adopt to further spur the economic growth of the country.

In recent years, a lot of focus has been placed on stipulating wage increases which
mmensurate with productivity gains in Malaysia. This comes in the early part of 1990s, where there is a serious shortage of manpower in the manufacturing sector, to the extent that foreign grants have to be brought into the country to alleviate the labour shortage problem. Naturally, employers view trade unions as a party that takes advantage of this situation to negotiate for higher wages and benefits for its members without the corresponding increase in productivity, which is to the detriment of the country.

Not much study on union-nonunion wage differential have been carried out in developing nations, except Moll's study of South African unions (1993) and Park's (1991) study in Korea, Panagides and Patrinos (1994) and Panagides and Patrinos (1994) on Mexico. In Malaysia, only recent study on trade union impact on wage differentials, capital intensity and productivity in the manufacturing industry is by Guy Standing (1990) under the World Employment Programme. In that study using 1988 data, it was found that "the overall evidence does not provide much support for those who wish to oppose unions on economic grounds" (Standing, 1990). 1988 is a year where Malaysia is just recovering from the severe 1985 recession and naturally, in light of the high unemployment and retrenchment rates and pay rates during the recessionary period, it is not surprising that wages do commensurate or even exceed productivity.

The rationale of this study is therefore to examine the Malaysian manufacturing sector during the robust economic period of pre-1997, whether Standing's findings in 1988 would still hold. Due to financial constraints, the study would only focus on the food manufacturing
ustry. This sector has been selected as it closely represents that of a perfectly competitive market and the demand for its products is inelastic (food being a necessity). Therefore we anticipate that there is no monopolistic structure in its product market. In addition, it also have national unions, in-house unions and non-union companies in sufficient numbers that enable us to obtain aggregated data from the Department of Statistics. With these findings, the study could propose whether the government should adopt the Patronage or Obstructionist stance or a combination of both when dealing with trade unions.

SOURCES AND COMPILATION OF DATA

Official publications of the relevant ministries do not contain all the data on unionized and non-unionized organizations that are needed for this study. The Department of Trade unions, however, maintains a complete listing of trade unions with data on membership that are uired in this study.

Names of companies under national unions are extracted from Borang N (Annual return uired to be filed under Section 56(1) of the Trade Unions Act and Rule 28 for the year ended ...), whilst names of companies with in-house unions are extracted from the register of trade ons of the Trade Unions Department.

The data extracted can then be merged with other data (such as capital utilization, wages, value-added) that may be obtained from the surveys of the manufacturing sector conducted
y the Department of Statistics. We have utilised data on the number of other directly employed workers and wages of other directly employed workers only (as defined under the Annual Survey of Manufacturing Industries – Peninsular Malaysia) because it is our intention to capture only information on factors which are directly involved in the production process.

In this study, the focus will be on the food manufacturing sector, denoted by the industry codes 311 and 312. Food manufacturing includes “slaughtering, preparing and preserving meat; milling grains and manufacturing bakery products; canning and preserving fish products, fruits and vegetables; manufacturing vegetable and animal oils and fats and animal feeds; and processing sugar, coffee, tea etc.” (Shizue Tomoda, 1992).

Specific company names which have workers’ unions are identified and segregated into national and in-house unions. Based on the “spillover effect” argument, we have used the number of workers and the related wages in those specific firms as representing union workers and wages respectively, instead of the union membership as extracted from the register of trade unions. A further argument in adopting this approach is because one of the criterion required by the Industrial Relations Act, 1967 is that an employees union has to be recognised by the employers prior to any collective bargaining. To be recognised, “the union must be sufficiently representative of the employees concerned, that is it must represent at least 50.1 per cent of those employees on the date on which its claim for recognition is made” (Industrial Relations Act, 1967). Another argument for using this method is collective agreements negotiated would normally cover all employees of the firm irrespective of their union status. Similarly, non-
unionized firms in the same industry may also need to pay wages equivalent to the rate in accordance with the collective agreement to prevent employees from leaving to join the unionized firms.

Wages of labour employed through labour contractors (as defined by the manufacturing survey form) are also excluded from our analysis as these are third party employees which do not come under the jurisdiction of the union employer per se. The subject of trade unions playing a part for these employees of labour contractors would be a separate analysis altogether, because data would have to be gathered for the labour contractors’ companies rather than the companies in our study.

1.6 METHODOLOGY

This study would employ cross-sectional regression runs for the years 1990 through 1996 (where data is available) using a simplified version of the equation used by Soon (1991) in her study of determinants of inter-industry manufacturing wages,

$\log W_t = a + b_{\text{UNION}_t} + c_{\text{PROD}_t} + d_{(K/L)_t} + e_{\text{SEX}_t}$ where

$W$ is the average earnings of workers at time $t$;

$\text{UNION}$ is measured by the fraction of the number of other directly employed workers in the unionized firms (up to a 3-digit level);
PROD is the value added per worker;

K/L is the capital intensity measured by the ratio of the book value of fixed assets to the number of workers in the industry;

SEX is the proportion of female workers in the industry.

The above approach would provide information on the impact of unions on wages, meeting the needs of objectives one and two of this study.

For the purpose of objectives three and four of this study, we define wage differential between national union and non-union workers as:

\[ W_t = \frac{W_t^U - W_t^{NU}}{W_t^{NU}} \quad \text{where} \]

\[ W_t^U = \text{average union worker wage rate at time } t, \]

\[ W_t^{NU} = \text{average non-union worker wage rate at time } t. \]

The wage differential between national union and in-house union workers is defined as:

\[ W_t = \frac{W_t^U - W_t^I}{W_t^I} \quad \text{where} \]

\[ W_t^U = \text{average union worker wage rate at time } t, \]

\[ W_t^I = \text{average in-house union worker wage rate at time } t. \]
A similar definition is adopted for the wage differential between in-house union and on-union workers:

\[ W_t = \frac{W_t^i - W_t^{NU}}{W_t^{NU}} \]

where

- \( W_t^i \) = average in-house union worker wage rate at time \( t \),
- \( W_t^{NU} \) = average non-union worker wage rate at time \( t \).

In the case of objective five, productivity may be defined in several ways. For comparative purposes, one common approach is to define it in terms of gross value of output per worker:

\[ \text{Productivity} = \frac{\text{Gross Value of Output}}{\text{Number of Workers Engaged}} \]

Quantity of output cannot be used as units of measures differ among the various products in the manufacturing sector. Some finished products may, for instance, be measured in kilograms while others are measured in litres, pieces and so on. In this study, we have utilised the value of products manufactured (ex-factory value) as defined in the Annual Survey of Manufacturing Industries – Peninsular Malaysia as the gross value of output. The number of workers engaged is represented by the total number of other directly employed workers and workers employed
hrough labour contractors (for computation of productivity purposes, this need to be included to give the actual productivity).

Another measure of productivity is value added per worker. This is perhaps a better measure than output per worker. The present study will take both measures into account.

6.1 Expected results

_A priori_, we would expect the wage differential between union worker (whether national or in-house) and non-union workers to be positive, i.e. the wage ratio will be greater than unity.

Based on theory, one would expect that the more capital-intensive the industry is, the greater the wage differential between unionized (and in-house union) workers and non-unionized workers.

In the Malaysian context, _a priori_, we would expect a higher concentration of female production workers in a particular category to be associated with lower wages earned in that category. We expect unions to play a role in protecting the rights of their members regardless of gender and so expect male-female wage differentials to be smaller in unionized firms as compared to non-unionized firms.
A company can only pay higher wages if it is profitable. *A priori*, we expect wages to be higher for union members as compared to non-union members. Therefore, the production and operating costs of manufacturing firms with unionized workers would be higher *vis-a-vis* other firms whose workers are not unionized. In equilibrium, firms making losses would leave the industry. In order to “survive”, we expect the productivity of unionized workers to be greater than that of the non-unionized workers.

.7 LIMITATIONS OF THE STUDY

This study is based on secondary data obtained from the Department of Statistics and as such, it is on an aggregated level. Due to the sampling method employed by the Department of statistics, some of the companies identified in this study may not be in the Department’s database. The year 1995 is also not included in the study as the names of companies which are national unions are not available. All non-wage benefits, for example maternity leave, loans and retirement benefits are also not considered in this study.

.8 OUTLINE OF THE RESEARCH PAPER

The research paper comprises 6 chapters:-

*Chapter 1* is the introductory chapter which include the trade union history in Malaysia,
the rationale, objectives and significance of the study, research methodology and limitations of
the study and finally, the organization of the study.

Chapter 2 provides a literature review of past studies on trade union impact on wages, wage
differentials, productivity and the role of capital intensity on wages.

Chapter 3 spells out the determinants of wages and presents the regression results on the food

Chapter 4 gives an in-depth analysis of wage differentials in general, by skill and by gender for
the food manufacturing industry during the period 1990 – 1994 and 1996.

Chapter 5 provides an analysis of the impact of union on productivity with reference to both
value added per worker and the gross value of output per worker.

Chapter 6 gives a summary of the findings in the earlier chapters and provide policy
recommendation that is feasible for trade union development in Malaysia.