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

d represent a threat to management that deters multinational investment in developing

untries.... The second school of thought depicts unions as a source of "dynamic efficiency"

liging enterprises to pay efficiency wages rather than "market clearing" wages and forcing

anagement 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

ion 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

m 36 to 27 per cent of the total workforce in the past two decades (Ariza Rico, 1995). Similar

nd is observed in the United States (Krueger and Farber, 1990) which attributed higher job

tisfaction level of non-union employees to this decline. This raised the question of whether

obalization 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

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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" (Arokia Dass, 1991).

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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 shaken 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

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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 hat the results will shed more light on the role of trade unions in Malaysia's manufacturing sector is a whole. The findings of this study will have significant implications for the future levelopment of the trade union movement; particularly as the nation pushes towards the goal of iecoming 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 vorldwide towards trade unions: "the Patronage regime where the state nourishes unionism and :ollective bargaining.....the Obstructionist regime where the state undermines and subverts inionism and collective bargaining". By analysing the impact of unions on wage differential and iroductivity, we would be able to propose which stand the Malaysian government should adopt o further spur the economic growth of the country.

In recent years, a lot of focus has been placed on stipulating wage increases which

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mmensurate with productivity gains in Malaysia. This comes in the early part of 1990s, where

ere 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,

ıployers view trade unions as a party that takes advantage of this situation to negotiate for

3her wages and benefits for its members without the corresponding increase in productivity,

iich is to the detriment of the country.

Not much study on union-nonunion wage differential have been carried out in developing

tions, except Moll's study of South African unions (1993) and Park's (1991) study in Korea

ee 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

oductivity in the manufacturing industry is by Guy Standing (1990) under the World

nployment 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

ounds" (Standing, 1990). 1988 is a year where Malaysia is just recovering from the severe 1985

36 recession and naturally, in light of the high unemployment and retrenchment rates and pay

ts during the recessionary period it is not surprising that wages do commensurate or even

ceed productivity.

The rationale of this study is therefore to examine the Malaysian manufacturing sector

ıring the robust economic period of pre-1997, whether Standing's findings in 1988 would still

ıld. Due to financial constraints, the study would only focus on the food manufacturing

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ustry. This sector has been selected as it closely represents that of a perfectly competitive

rket and the demand for its products is inelastic (food being a necessity). Therefore we

icipate that there is no monopolistic structure in its product market. In addition, it also have

ional unions, in-house unions and non-union companies in sufficient numbers that enable us

obtain aggregated data from the Department of Statistics. With these findings, the study could

n propose whether the government should adopt the Patronage or Obstructionist stance or a

n bination 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

l non-unionized organizations that are needed for this study. The Department of Trade

ions, 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,

l 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

orkers and wages of other directly employed workers only (as defined under the Annual Survey

f Manufacturing Industries – Peninsular Malaysia) because it is our intention to capture only

formation 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

odes 311 and 312. Food manufacturing include "slaughtering, preparing and preserving meat;

illing grains and manufacturing bakery products; canning and preserving fish products, fruits

nd vegetables; manufacturing vegetable and animal oils and fats and animal feeds; and

rocessing sugar, coffee, tea etc." (Shizue Tomoda, 1992).

Specific company names which have workers' unions are identified and segregated into

ational and in-house unions. Based on the "spillover effect" argument, we have used the number

f workers and the related wages in those specific firms as representing union workers and wages

espectively, instead of the union membership as extracted from the register of trade unions. A

urther argument in adopting this approach is because one of the criterion required by the

ndustrial Relations Act, 1967 is that an employees union has to be recognised by the employers

rior to any collective bargaining. To be recognised, "the union must be sufficiently

epresentative of the employees concerned, that is it must represent at least 50.1 per cent of those

mployees on the date on which its claim for recognition is made" (Industrial Relations Act,

967). Another argument for using this method is collective agreements negotiated would

ormally cover all employees of the firm irrespective of their union status. Similarly, non-

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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,

$$\text{Log } W_t = a + b\text{UNION}_t + c\text{PROD}_t + d(K/L)_t + e\text{SEX}_t \text{ where}$$

W is the average earnings of workers at time t;

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 = average union worker wage rate at time t,

W_t^{NU} = 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 = average union worker wage rate at time t,

W_t^I = 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:

$$W_t = \frac{W_t^I - W_t^{NU}}{W_t^{NU}} \quad \text{where}$$

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 omparative purposes, one common approach is to define it in terms of gross value of output per vorker:

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

Quantity of output cannot be used as units of measures differ among the various products n the manufacturing sector. Some finished products may, for instance, be measured in kilograms vhile others are measured in litres, pieces and so on. In this study, we have utilised the value of roducts manufactured (ex-factory value) as defined in the Annual Survey of Manufacturing ndustries – Peninsular Malaysia as the gross value of output. The number of workers engaged s represented by the total number of other directly employed workers and workers employed

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hrough labour contractors (for computation of productivity purposes, this need to be included o give the actual productivity).

Another measure of productivity is value added per worker. This is perhaps a better neasure 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 ir in-house) and non-union workers to be positive, i.e. the wage ratio will be greater than unit 'alue.

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

In the Malaysian context, *a priori*, we would expect a higher concentration of female roduction workers in a particular category to be associated with lower wages earned in that ategory. We expect unions to play a role in protecting the rights of their members regardless of ender and so expect male-female wage differentials to be smaller in unionized firms as ompared to non-unionized firms.

A company can only pay higher wages if it is profitable. *A priori,* we expect wages to be igher for union members as compared to non-union members. Therefore, the production and perating costs of manufacturing firms with unionized workers would be higher *vis-a-vis* other irms whose workers are not unionized. In equilibrium, firms making losses would leave the ndustry. In order to "survive", we expect the productivity of unionized workers to be greater than lat 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 uch, it is on an aggregated level. Due to the sampling method employed by the Department of tatistics, some of the companies identified in this study may not be in the Department's atabase. The year 1995 is also not included in the study as the names of companies which are ı national unions are not available. All non-wage benefits, for example maternity leave, loans nd 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,

he rationale, objectives and significance of the study, research methodology and limitations of he study and finally, the organization of the study.

Chapter 2 provides a literature review of past studies on trade union impact on wages, wage lifferentials, 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 manufacturing industry wages for 1990 – 1994 and 1996.

Chapter 4 gives an in-depth analysis of wage differentials in general, by skill and by gender for he 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.