

Labor Issues and APEC Liberalization

--- Case of Thailand and Malaysia

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I. Introduction

This article gives a brief survey of the labor issues which have arisen from the global trade liberalization process in Thailand and Malaysia. The purpose of this paper is limited to examine some issues which affect the human factor development and the economic and social issues caused by the recent robust economic growth and the fierce international competition. The economic and technical cooperation efforts of APEC should not be discussed here. As high growth continued, labor is considered as a crucial factor to sustainable growth. 80 projects under the Action Plan of Human Resource Development are being implemented, concentrating on the analysis of labor market issues, management and strengthening of small and medium enterprises, expansion of project initiatives on mutual recognition of skills qualification, provision of better opportunities for cross-member investment in the delivery of educational services and skills training, and continuous development of leadership skills of managers.

To cope with the liberalization process, each industrial sector should adjust itself and at the same time labor force should be shifted to newly emerging industry. Policy-makers do not worry with this adjustment because they understand that the situation of labor market is tight enough. In order to push this adjustment process, training of the workers is the essential task. Governments attach much importance to this matter but the activities of private sectors are more important. At firm level, the system of industrial relations should be maintained in a peaceful way to enhance the productivity. Although the inflow of immigrant workers might foment social tensions, there is a move by government to give temporary permission for foreign workers to

engage in certain occupations. This policy gives some difficulties to the local labor groups, especially organized workers. Human resource development issues are welcomed by every APEC policy-maker, but the issue of social clause which is advocated by some developed countries who want to take sanction against low wage countries, is not accepted.

II. Tightening Conditions of Labor Market

Tightening of the labor market is evident from the declining trend of unemployment rate. Recent rapid economic growth has created a great deal of job opportunities in the sectors of industries and services. Many factors have contributed to this trends. One can cite the shift of production facilities from Japan and NIEs countries or the domestic market expansion caused by the income growth. Thus, in these two countries, one can observe the move of workers from agricultural sector to industrial sector.

II.1 In Thailand

The employment structure in Thailand is characterized by its large share of agricultural sector which still accounts for more than half of total employment. This massive reserve of workforce has contributed to the expansion of production in the factories such as food processing, garment or other labor-intensive production.

The rate of unemployment remains at the level of 2.6%. Most of the unemployed are those who are not looking for work. In everyday life, we can observe that it is difficult to hire a house maid and the number of waitress has been reduced at the restaurant. The wage rate for such kind of job is too low to attract the attention of workers. As for the construction sector, people does not want to engage in the hard and dangerous work. Every factory manager says that it is still not so difficult to recruit unskilled workers. The most serious problem is the shortage of engineers and managers. Especially, in the newly established industrial zone, it is common to recruit skilled workers from nearby factories.

Table 1 Basic Labor Indicators of Thailand

	1990	1991	1992	1993	1994	1995	1996
Labor Force(millions)	31.18	31.79	32.42	32.90	33.23	33.62	34.03
Employed Person(millions)	29.98	30.79	31.45	32.03	32.36	32.77	33.14
(agriculture)(millions)	18.32	18.67	18.86	18.84	18.54	18.31	18.05
Unemployment Rate(%)	3.9	3.1	3.0	2.6	2.6	2.6	2.6
Minimum Wage(baht) (1)	90	100	115	125	132	145	157

Note) (1) at Bangkok.

Source) Bank of Thailand.

II.2 In Malaysia

In Malaysia, manufacturing sector is the major source of employment from 1994. In 1995, its share of total employment is 25.5% which is twice as big as that of Thailand (about 14%). The share of agricultural sector is 18.9% which is far lower than that of Thailand (about 54%). From Table 2 we can observe the move of workers from agricultural sector into other sectors, probably due to relatively better working conditions and terms of employment in these sectors.

Economic Report of Ministry of Finance of Malaysia states that the dependence on unskilled and cheap foreign labor will continue to be discouraged as the size of foreign labor is already large. Industries will be required to lessen the dependence on cheap and unskilled foreign workers through strategic adjustments toward using more efficient and labor-saving production technology.

Table 2 Basic Labor Indicators of Malaysia

	1990	1991	1992	1993	1994	1995
Labor Force(thousand)	7,042	7,204	7,370	7,627	7,834	8,140
Employment(thousand)	6,686	6,891	7,096	7,396	7,618	7,915

agriculture(thousand)	1,738	1,835	1,832	1,828	1,518	1,480
manufacturing(thousand)	1,333	1,374	1,448	1,523	1,878	1,997
Unemployment Rate (%)	5.1	4.3	3.7	3.0	2.9	2.8

Source) Economic Planning Unit.

III. Upward Trend of Wage Cost

Tightening of labor market has resulted in the upward trend of wages which affects the labor cost of production. This is the greatest concern for the government policy-makers and business circles because both countries are pursuing the policy to promote foreign capital investment. Thus, they intend to introduce income policy to keep labor cost at reasonable level, nor at high level, nor at low level. From the point of view of workers, they demand more pay as a reward to contribute to economic growth.

III.1 In Thailand

In Thailand, the minimum wage rate increased by 74% in 6 years. It means that the wage income will be doubled in these ten years. Under the tripartite system, minimum wage rate is determined at the wage council who consists of three parties. In 1996, Ministry of Labor seems to pursue the policy to stabilize the wage to keep the international competitiveness of industrial sector. Labor organizations (Labor Congress of Thailand, Thai Trade Union Congress) demanded the increase of 22 bahts for minimum wages and employer's association tried to lower it to 11 bahts. Finally, the wage hike has been decided at 12 bahts.

Thai labor market has diversified structure. Bangkok Bank Monthly Review (May, 1996) has stressed that wages in agricultural sector (85 bahts in 1995) are generally lower than those in the industrial sector (130 bahts), causing a steady outflow of labor from agricultural sector.

At the market of more skilled labor, the situation is more complicated. Dr.Kitti argued

that excess demand for professional has pushed up the salary for high level graduates and not for the professionals who have acquired skills through learning-by-doing(see Sungsidh, 1996).

III.2 In Malaysia

In Malaysia, again from Economic Report, labor productivity, as measured by output per worker in the manufacturing sector at RM19,410 in 1995, reflected an average annual growth of 3.9%. The tight labor market resulted in upward pressure on wages. Data from the Monthly Survey of Manufacturing Industries showed that average nominal wages calculated by salaries and wages paid per employee increased by about 46.6% between 1990 and 1995 or 8% per annum. Productivity measured by sales value per employee grew by 44% in the same period or 7.6% per annum. The wage bargaining follows the

Table 3 Productivity Trend in Manufacturing

	1991	1992	1993	1994	1995
Labor Cost	7.53	10.02	3.00	8.29	11.12
Productivity	8.02	-0.03	4.24	13.37	12.84

Source) Monthly Manufacturing Statistics, Department of Statistics.

unwritten guideline, that is, union demands higher rate than the consumer price index which government announces. CPI index stands at the annual rate of 3.5%. Collective agreement is revised every three years. The result is that the wage increases at the rate of 10 % in three years.

In Malaysia, there is not minimum wage system except for catering, hotel, shop assistant, cinema workers, Penang stevedores and cargo handlers. Labor leaders recognize that wage increases have not been keeping pace with price increases and wage rates between one company to another vary greatly. The starting rate for a production worker, in an electrical industry in Shah Alam is RM 490 and a large number of production workers are still paid less than RM 300 per month. Thus, in July 1996, Malaysian Trade Union Congress (MTUC)

proposed to increase their starting salary to RM 600 as a minimum wage.

IV. Demand for Skilled Labor and Training

For both countries, the improvement of skills and qualifications are critical to economic development and competitiveness. Industrial competitiveness is governed by the availability of qualified workers. In the so-called declining industries which have lost competitiveness, lay-off of workers has been observed. Being threatened by the rivals, two countries are forced to take action in order to win the race.

IV.1 In Thailand

As it is stated by many academicians and policy-makers, Thailand is losing comparative advantage in labor-intensive manufacturing. To cope with this situation, one of the most serious bottle-neck lies in the fact that the 72% of Thai labor force will have only primary education by the year 2000. To improve the situation, government has a policy to extend the compulsory education to secondary school. And besides, the formation of the engineers and technicians is still the urgent task to maintain the high technology operation. In order to meet the demands, government has a plan to train 1,028,120 persons in fiscal year 1997. Among this number of trainees, technicians account for a half. The projects are undertaken by each ministry, such as Ministry of Industry (39,045 persons), Ministry of Defense (80,000 persons), Ministry of Education (455,030 persons), Ministry of Labor (223,263 persons), Ministry of Interior (230,745 persons).

For higher education, government assists the private university to educate in the fields of engineering by removing the ceiling of school expenses. In the past, the state university has played an important role.

As the government efforts are not sufficient to resolve the manpower shortage, every firm is trying to train its staffs at its own institute. One electric appliance company has announced his

program of in-house training. Before, this company has sent the trainees to Japan, but decided to do in Thailand in order to fill gap quickly. For chief of division or department, the purpose of training is to reform their consciousness. As for the technicians, company hopes that they will be able to maintain the plants by themselves. Employers expect of them to realize the technology on the job. Employers are haunted by fears of job hopping but this company can not hesitate to do training. As an incentive for receiving training, company provides for them career development. It means that there is a chance for factory workers to become a manager. Generally speaking, Japanese joint venture is losing popularity in new graduates, because promotion policy of Japanese company lays on seniority not on qualification.

IV.2 In Malaysia

Malaysia, being a labor-scarce country, intends to be a developed country in the year 2020. For that goal, technological development, capital investment and human resource development are needed. To ensure that the skills of workers are relevant, there is a need to constantly monitor the demand for specific skills, particularly in new areas. Under the Ministry of Human Resources, there is a National Vocational Training Council whose objective is to promote vocational and industrial training programs at the skilled and semi-skilled level in public training institutions. In 1993, Government has established Human Resource Development Fund to assist training program at private company. One of the schemes is apprenticeship training scheme which responds to the needs for skilled workers.

There is a good example of foreign cooperation effort in Malaysia. One is the German Malaysian Institute which has started its training in 1992. Japan will give assistance to set up the training institute in Malaysia. The trainee is expected to acquire the high level industrial technology in the fields of electronics, information, and mechanical-electronics. In order to respond to practical needs, JICA asks the cooperation from the Japanese Chamber of Commerce and Japanese company. Training period is 3 years and in the third year, training will be done in plant.

V. Inflow of Foreign Workers

The high labor demand caused by the robust economic growth heightens the mobility of workers and some sectors such as agriculture, fisheries, construction encounter the shortage of workforce.

People fear that the inflow of foreign workers might cause social and security problems and will take job opportunities during the recession period.

In both countries, trade union leaders assert that government policy to admit the inflow of foreign workers should not have the purpose to support the low wage sectors. But in Thailand, the share of immigrant workers is small enough not to lower the national wage level.

V.1 In Thailand

In Thailand, from the survey of 1996, there are 733 thousand illegal immigrant workers. The biggest number is Burmese, then Chinese, and South Asia. Many associations such as maritime fisheries, rubber plantation, transportation, construction and labor-intensive industries have asked the government to permit to hire those immigrants. In June 25, July 2, July 15, 1996, cabinet approved for illegal migrant workers from Myanmar, Laos and Cambodia to work in 43 provinces in the fields of agriculture, maritime fisheries, aquaculture, construction, mining, river transportation, tobacco, tapioca and so on, for 1 year. In order to get the permission, employer must pay 1,000 bahts for insurance and employee must pay registration fee. The merit of this policy is considered to be as follows.

1. The government can get the data to examine the security problem and repatriation.
2. The government can get the revenue of registration fee and income tax.
3. To solve the labor shortage issue.

At present, alien work permit is issued in Bangkok at the level of 300 thousand persons and 50 thousand in Samutsakorn Province, 30 thousand in Ranong Province. The latter two

provinces are the base for fisheries.

Entrepreneurs pushed government to set up the special zone to hire immigrant workers at lower wages. This policy has been announced last year.

In July 1996, Labor Congress of Thailand organized a rally to oppose the sections of the June 25 Cabinet resolution. Labor leaders agree that there are labor shortages in the fisheries, agriculture, and construction fields but they claim that there would be no labor shortages if government increased the wages and benefits for workers in industry and transportation sectors.

V.2 In Malaysia

In Malaysia, there are an estimated 1.7 million foreign workers, of whom 700,000 are documented. Foreign labor comprises 15 percent of total labor force. The majority are Indonesians and Bangladeshis. There are about 50 thousand Thai workers working illegally in agricultural productions along the Thai-Malaysian border.

Government set the policy to legalize them, imposing a high penalty in case of being illegal and tightened the control in the year 1992 and 1996. From July 10, 1996, government has ordered all employers who have illegal workers on their payroll to register with the Task Force on Foreign Workers and to have the health status of their workers certified by approved clinics.

VI. Tripartite System of Industrial Relations

Both countries have adopted the tripartite system of labor relations. And they have common characteristics of state intervention in trade union registration and dispute settlement. The aim of these governments' policy is to ameliorate the business climate. Both governments have promoted the inflow of foreign capital to develop the industry. Thus, they need industrial peace. Once, both countries have experienced the labor movement pushed by the industrial union. Today, government has pursued the policy to set up the in-house union which is considered to be more efficient to keep sound industrial relations and raise productivity.

VI.1 In Thailand

As for the workers union, the density is no more than a few percent. The number of union members is increasing, especially in private sectors. Once, anti-communism policy has retarded the labor movement. Later, government has adopted tripartite system and tried to exclude the radical wing.

From 1981 to 1990, public enterprise unions played a very important role in the labor movements. In 1980, the number of union members of state enterprises occupied 59 percent of total union members. But in April 1991, National Legislative Assembly has passed the State Enterprise Labor Relations Act presented by the National Peace-keeping Council. According to this Act, state enterprise workers have the right to form their organizations, called "state enterprise employees' associations." The amendments of this Act are under consideration and employees' association takes a stand against these amendments.

In 1995, the share of union members of private sector is 69 percent. In private sectors, the number of union members increased from 152,296 persons in 1990 to 261,348 persons in 1995. The leadership of labor movement seems to be shifted from public sectors to private sectors. For example, textile sectors have ever experienced the big disputes caused by the lay-off. Last year, there occurred the case of burning the storehouse of Sanyo Universal Co. The incident occurred during the rally to protest the bonus cut. This kind of cases are likely to occur from now on. To prevent the incident, managers should be ready to let unions understand the business situation. There has often been seen a split of upper organizations. Now some leaders is trying to merge two big federations but in fail.

There are two main employer's federations. One is the Employer's Confederation of Thai Trade and Industry (ECONTHAI), and the other is the Employer's Confederation of Thailand (ECOT). Between two confederations, there seems to be some differences in the way to manage the labor relations. Traditional employers or personnel managers have had a way of paternalism and tried to obstruct the establishment of labor unions. Now, among big company managers, the idea to welcome the activity of labor unions for company's purpose

is being accepted.

Table 4 Number of Employee's and Employer's Organizations

	1990	1991	1992	1993	1994	1995
Employee's Organization						
Public Enterprise Union	129	36	37	35	43	43
Private Enterprise Union	584	657	749	839	888	971
Labor Federation	17	17	19	19	18	19
Labor Council	5	7	7	8	8	8
Employer's Organization						
Employer's Association	19	19	20	51	108	128
Federation	1	1	1	1	2	2
Employer's Councils	1	1	1	1	3	5

Source) Ministry of Labor and Welfare.

Table 5 Number of Disputes

	1991	1992	1993	1994	1995
Labor Disputes(times)	128	183	184	164	221
Workers involved	37,819	52,318	46,770	41,310	54,400
Strike(times)	7	20	14	9	22
Workers involved	5,316	6,614	4,817	4,675	8,950
Lock out(times)	7	14	9	7	18
Workers involved	4,729	1,765	1,387	3,954	7,948

Source) Department of Labor Protection and Welfare.

Main tripartite bodies are as follows. National Advisory Council for Labor Development is the advisory body to the government on labor policies and is comprised of 5 representatives from each party. Labor Relation Promotion Committee is composed by 5 representatives of

each party and gives advice to 3 parties on sound industrial relations. There are Labor Relations Committee, Wage Committee, Social Security Committee, State Enterprise Labor Relations Committee, Workplace Safety Standards Committee, Workmen's Compensation Fund Committee, Labor Court, Child Labor Protection Committee and so on. Now, government promotes the safety campaign, answering to the worker's request.

VI.2 In Malaysia

The government has the strategy to establish an alliance through tripartite consultations and cooperation with employers and workers organizations and enterprises to produce a highly skilled, productive, disciplined, and quality workforce possessing positive attitudes and good work ethics. Also, to establish Joint Consultative Committees at the enterprise level and use them to foster harmonious labor management relations and to implement a wage-linked productivity system.

In Malaysia, the Industrial Relations Act 1967 makes provisions for the settlement procedure by conciliation and arbitration. For the purpose of arbitration, the Industrial Court was established as a permanent specialized tribunal to resolve industrial disputes. If the parties are unable to reach agreements, the Director-General of Industrial Relations or the Minister may exercise his function as conciliator. But if this also fails, the dispute can be referred to the Industrial Court by Minister of Human Resources for compulsory arbitration. Industrial Court is consisted of chairman and two panels (one panel from representative of employer, another from employee). Before 1989, the panel was tripartite, including a panel of independent persons. It is said that about 85 percent of disputes are resolved in the voluntary conciliation by conciliator.

At present, the issues which are requested to discuss about the collective bargaining are:

1. What does Employment Act define, and what are decided by collective bargaining?
2. Economic development with productivity growth, with respect of collective bargaining.
3. How social clause or international labor standards is discussed at collective bargaining?

The legal definition of trade union states that union should be within any particular establishment, trade, occupation, or industry. The ability to set up in-house unions which may consist of a variety of occupations or trades in a particular establishment was made possible by 1989 amendment of the Trade Unions Act. Membership of the Malaysian Trades Union Congress (MTUC) and the Malaysian Labor Organization (MLO) are not confined to trade unions of employees in similar trades, occupations or industries. Accordingly, they do not qualify for registration as trade unions under Act. They are both registered as societies under the Societies Act 1966.

When policy makers turned their eyes to Japan and Korea, they found that in-house unions have been working well. Thus, they legalized the formation of in-house union.

In 1990, there were 446 registered employee unions with 658,656 members.

From the hearing at Japanese joint venture, strikes seldom occur. Basic reasons for troubles comes from the difference of culture.

In both countries, labor movement can not play an important role in the political fields. For example, in Malaysia, the legislative assembly is dominated by the Government party. Even if the workers object to government policy at tripartite committee, it is finally passed by assembly. The point about which labor union is concerned is the 1980 amendments of the Trade Union Act. This amendments have elevated the Registrar of Trade Unions to the position of Labor Supremo who has powers to arbitrarily de-register union, interfere in the administration and function of trade union, prevent or prohibit industrial action.

VII. Views on Social Clause Issues

The advocate of the issue of trade and labor standards wants to take sanction against low wage countries. Others refute the existence of any causal link between labor standards and trade.

OECD study has identified core labor standards as follows:

1. the elimination of exploitative child labor,
2. the abolition of forced labor,

3. non-discrimination in employment,
4. freedom of association and collective bargaining.

At the final stage of Uruguay round, US has brought the issue of fair labor standards and trade. US wanted to discuss this matter at APEC meeting, but developing countries opposed. At WTO meeting in last December, USTR insisted to take note of the rule of labor standards. Western countries intend to arrange the legal framework with sanction clause. Asian governments have the idea that all they have to do is to adapt the ILO standards flexible corresponding to the level of development.

Social dumping issue had ever been argued in 1930' about the export from Japan to western countries. In Japan, this claim was supported by leftist from the standpoint of criticism to the exploitation through cheap labor.

As it is seen in the move of International Confederation of Free Trade Unions, labor leaders support the claim asserted by western countries, but the government fears that social clause might result in trade restriction. The OECD studies concluded that it is impossible to prove the existence of an empirical link between the labor standards and global trade performance. Apart from the trade problems, this issues should be considered as the claim for human rights and is difficult to be brought up for APEC discussion.

VIII. Concluding Remarks

"Government", "Employer" and "Employee" are playing the leads in the act of labor issue drama at the stage of APEC process. In each part, the role is different between one of developing country and one of developed country. As far as the issue of labor standard is concerned, employee of Thailand supports the idea of the US., but Thai government does not. For the example of automobile sector, Thai market is expanding and US market is stagnant. So, there might be a conflict between two employees and there might be a joint effort of shifting the technology between two employers. In case of textile sector, market of Japan and Thailand,

both are faced to declining stage. So, trade union of Japan could give lesson about her experience to Thai friend.

One message derived from the interviews to those engaged in APEC activities is that the information should be shared among all partners. At Manila meeting, the role of business circles is made prominent. There might be more supporting players.

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