



## GLOBAL FORUM ON INTERNATIONAL INVESTMENT

### *ATTRACTING FOREIGN DIRECT INVESTMENT FOR DEVELOPMENT*

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#### **COMPETITION FOR FOREIGN DIRECT INVESTMENT**

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#### **ITS IMPACT ON WORKING PEOPLE**

##### ***INTRODUCTION.***

Labour relations and trade unionism are issues generally perceived as problems of modern capitalism. Industrial relations experts seldom deal with "labour problems" of the industrialised non-capitalist societies and their "command economy" for reasons not often explained. Nevertheless, since the collapse of the Marxist regimes, and the transformation of their command economies, analysis on labour relations at the global level must take into account the fact that these former non-capitalist countries are now new players in this complex capitalistic game. This paper tries to analyse labour relations situation under a rapidly changing global economy which liberal capitalism as well as the various mixed-economies are important players.

Prior to the era of globalisation, industrial relations were mainly perceived as issues related to class relations under capitalism. During the period from 1919 to late 1980s, the ILO (especially its labour group) played the crucial roles in minimising class antagonism at work places so that the problems of class exploitation under the capitalist relations of production could be reduced and industrial relations conflict. Their fifty-year efforts have eventually produced what is known today as the International Labour Standard. Globalisation takes place after modern capitalism manages to have comprehensive conventions and rulings which govern employees-employers relations as well as dealing (mediate and arbitrate) with work-place disputes. The presence of these conventions and rulings, among others, make it possible for modern capitalism to be liberalised and becomes the global economic system. But, for a long time, this

International Labour Standard has not been enforced through out the world due to the fact that the ILO has no enforcing power to do it. Industrial relations system in ILO's member countries has been developed through voluntary initiatives. This continues to remain a main weakness of the system.

With globalisation, industrial relations system through out the world seems to have a completely new dimension. Labour relations have become a part of a bigger and strategic international relations between three categories of countries and economies: the developed capitalist countries, the industrialising capitalist countries and countries formally practising command economic system. Hence, labour relations have become a very complex international relations game.

The setting up of the WTO in 1994, with its "enforceable power", makes it viable for the ILO's International Labour Standard to be enforced through out the world, including into the former non-capitalist economies. The labour group in the ILO began to see the prospect for the whole world to have a common labour relations principle. Nevertheless, this idea was rejected by most industrialising countries based on the argument that, given the global social and economic inequality, developing countries will not be able to comply with the international labour standard, developed based on the experiences of advanced countries.

The labour relation's game changes significantly when China became a member of WTO. China joined the WTO with only a small portion of her command economy already transformed as a market entity. Nevertheless, this market entity is large enough in terms of its export contribution to the world market and attractive enough in terms of its ability to attract direct foreign investment of transnational capital. At the same time, the Chinese producers and exporters are able to flood the world market with goods at rock-bottom prices. For these three recent development, newly industrialised countries like Malaysia, are facing serious challenges in maintaining the viability and future prospect of their manufacturing sector, in protecting jobs and employment opportunities for their labour force, and in assuring the competitiveness of their products (in terms of prices) in the international market. Governments of developing countries, including Malaysia, insisted that WTO should deal with trade matters only and ILO is the appropriate organisation to promote labour standards. Yet these governments have made very little effort to ratify core conventions and those who have ratified have not put in place appropriate legislation to ensure enforcement.

## **COMPETITION FOR FDI**

### ***Cheap Labour Policy***

Malaysia hopes to take advantage of globalisation by attracting foreign investments and expertise by announcing to the world that its labour is cheap and good. By this the state thinks that the much needed capital could be attracted leading to the development of certain sectors. In the foreign dominated manufacturing sector, workers are paid poor wages and their right to join unions is strictly controlled and often made extremely difficult. Thus, the absence of national unions in the electronics sector has prevented workers from demanding for wage increase. In fact, foreign investors were encouraged to invest on the grounds of many incentives provided by the state. Other than the generous provision of tax incentives, the state also enables foreign capital to repatriate their profits without any complications and at the same time ensures that there would not be any national unions formed to challenge the multinationals. It is argued by the state that existence of national unions might give rise to disputes on wage matters.

Because of the influence exerted by foreign multinationals, the state refuses to budge on the question of allowing for the formation of national unions. It is feared that the appearance of national union would push wages upwards. Thus due to the lack of trade unions rights, wages of workers in the electronics sector is

about one-third of the wages paid in Singapore. Moreover the use of female labour and to some extent foreign migrant labour is intended to depress wages. It was found that women who work in the manufacturing sector do not work for many years.

Keeping production costs down seems to be main concern of foreign multinationals in the manufacturing sector. A recent study points out that almost all the foreign companies in this sector are not very comfortable with unions. While the American companies are not prepared to tolerate trade unions whether they are national or in-house, Australian and Japanese companies are somewhat flexible. However, despite this difference, it was found that all the companies prefer to function in an environment where there are no problems with unions.

Malaysia's reliance on foreign migrant labour is another feature of its cheap labour policy to look after the interests of capitalists. It is estimated that there are nearly 1.5 million migrants in the country, about 50% without work permits. Migrants dominate in such sectors as construction, plantations and domestic service. The tendency on the part of Malaysia to move away from these sectors and the relative high cost of hiring locals have pushed employers and the state to bring foreign migrant labour. Needless to say, migrants are paid low wages and subjected to all kinds of restrictions. Recently the state was only able to deport about 300,000 illegal migrants, before it realised that the total removal would jeopardise the economy. Diplomatic row with Indonesia and the Philippines and strong opposition from local employers also factored in the state's decision to halt the deportation exercises.

The reluctance on the part of the state and employers to agree to the Malaysian Trades Union Congress (MTUC) request for a basic minimum wage needs represents another instance of adherence to cheap labour policy. For many years, the MTUC has been struggling to provide a minimum basic wage for workers in the country. Every time the issue of minimum would come up, the employers would reject it by asking for commensurate productivity increase. About more than a year ago, the MTUC proposed a basic minimum wage of RM900 for workers in the country. However, such proposal was not discussed by the state or employers. It would be impossible for the minimum wage to be implemented for workers unless and until the state abandons its cheap labour policy. The call for the introduction of a basic minimum monthly wage for oil-palm plantation workers resulted in the provision of meagre sum of RM 325 per month. Analysts argue that since the average monthly income for oil-palm harvesters and factory worker are in the region of RM 550 and RM 450 respectively, the new monthly wage is not applicable at all.

There is developmental contradiction to the pursuance of cheap labour policy. While it might endear Malaysia to global investors, it has the ability to constrain the economy from fully developing and raising the skills and expertise of the workforce. As long as Malaysia is going to hold on to this policy, chances are that little attention will be paid to enhancing the productive value of labour. But then, considering the nature of investments in the country especially in the manufacturing sector, it would be difficult to make strong case for the qualitative transformation of labour. Therefore, unless and until, the state pays attention to general labour mobility, provision of freedom of association and necessity for workers to bargain and determine their conditions of employment, human resource transformation might not be discernible.

### **Freedom of Association**

The International Labour Organization (ILO) stipulates freedom of association as one of the core labour issues that should be adhered to by all countries. But then appeals, reports and recommendations of world bodies such as ILO, United Nations, International Confederation of Trade Unions do not seem to be heeded by countries hungry for development funds. The need to attract capital with the provision of generous conditions is making mockery of freedom of association, one of the fundamental aspects of human rights. The general decline of union membership over the years is a result of many factors, one of it

is the absence of freedom association. In Malaysia, trade unionists are of the opinion that it is the lack of freedom of association that is preventing the growth of union membership.

Given the subservient role of the state in its relationship with global capital, laws and regulations will be used to ensure that workers wanting to form new unions or seeking affiliation with the already existing ones will be subjected to a lengthy bureaucratic process. If it is possible for the state to prevent the formation of new unions, it will do so. However, sometimes it adheres to the practice of influencing workers to form in-house unions rather than national unions. Even the formation of in-house unions is not very rapid in the country. Employers especially in the manufacturing sector are not too keen to have unions, whether they are in-house or national unions. Even if the state allows for the formation of in-house, the obstinacy on the part of employers not recognise unions stifles the union formation process.

### **Violation of Trade Union Rights**

Employers generally are not very sympathetic to union formation in the country. The state's attempt to accommodate the concerns and interests of global capital, has only emboldened employers in the country to have blatant disregard for workers to join trade unions to protect their collective interests. Although the Industrial Relations Act of 1967 protects the trade union rights of workers, however, in practice, the state has unable to check some of the worst abuses of employers. In January 2001 more than 1500 employees of Ramatex Textile Industries picketed to protests against the management's refusal to recognise the union. In October 2002, Ramatex removed safeguards and security of tenure for all its employees. Dutch Multinational Shell Malaysia, redesignated all clerical and junior staff as junior executives, in order to deny them continued union membership and collective bargaining rights: Labour legislations in most Southeast Asian countries restrict union membership to non executives. The banking sector is currently on a major union busting campaign, in order to arbitrarily change working conditions.

Currently at least ten complaints of union busting activities by Korea, Japan and USA based companies are pending at Malaysian Courts; causing extreme frustration to workers efforts to organise and seek collective bargaining on terms and conditions. This unprecedented events are seen as a product of globalisation and workers and trade unions in most developing countries are witnessing such unhealthy trend on the increase and relevant authorities are reluctant or unwilling to act.

### **Free Trade Zones (FTZ/EPZ)**

FTZ's mainly established to attract FDIs has been in existence for more than two decades: Providing special privileges, tax holiday, exemption of minimum standards under countries labour laws, restrictions and in some countries like Bangladesh a complete ban of trade unions.

These special privileges were supposed to be temporary to help developing countries to create employment, technology transfer and skill development and there were indications governments were keen to fulfil their early promise. However events of the past twelve months has drastically changed governments thinking.

Recently Korean trade unions reported that Government has tabled a new bill to establish EPZ's with special privileges to attract FDI.

## **CAMPAIGN AND DEMANDS BY CORPORATIONS FOR MORE CONCESSION**

### **Electronics MNCs Want Everlasting Pioneer Status**

The electronics industry continues to be Malaysia's key exporter accounting for more than half of the country's exports of manufactured goods, hot on the heels of the booming Internet-based New Economy. But after three decades of enjoying its "pioneer status" that comes with huge tax concessions, guaranteed low wages and subsidised public amenities, these semiconductor fabrication facilities or fabs are asking for more of the same or they may go elsewhere.

(Sunbiz September 1, 2000)

### **Hi-tech Firms Review Investment Incentives**

A review of investment incentives accorded to IT companies in Penang is under way to seek feedback on how Malaysia can enhance its competitiveness.

The assessment of the incentives will be carried out by the Free Industrial Zone Penang Companies' Association via a questionnaire, with its findings to be submitted to the Federal authorities by year-end.

We aim to present to the Federal Government the competitive advantages being offered by other countries to investors in a bid to enhance our own competitiveness.

(New Straits Times September 25, 2001)

### ***ASEAN Sees China's Rise A Major Concern***

The rise of China's economic power and the consequent short and long term impact on the economies in the region have caused great concern among ASEAN's business community, said Malaysia-China Chamber of Commerce President Tan Sri Ngan Chin Wen.

He said ASEAN would see its global market share and foreign direct investments being further eroded with the rise of China as an economic power, unless business communities come up with viable plans to work together with their counterparts in China.

(SunBiz 20 July 2002)

### ***Singapore FTAs Spurred By Need To Strengthen Links***

With rapid liberalisation worldwide, ASEAN now has to compete hard for investments, particularly from China which has received nearly 40 per cent of the FDI inflows into Asia between 1995 and 2000.

China's attractiveness as an investment destination, he said, adding that some investment banks predict that FDI into China could rise from US\$40 billion-US\$45 billion level to US\$100 billion.

(Singapore High Commissioner, Mr K. Kesavapany – Business Times 14 August 2002)

### ***Asia Keeps Wary Eye Over China's Rapid Growth***

The rest of Asia has spent the past few years with a wary eye on China, home of the fastest growing local economy and the region's fiercest competitor. Those fears are about to get worse.

(New Straits Times 26 Jun 2002)

## *China's Engine Shakes Up The Neighbourhood*

(New Straits Times 6 July 2002)

### *Capitalist Globalism And Social Justice*

Unlike previous waves of globalisation, where religion and politics took the lead, this time the single most important influence is economics, more exactly, capitalist economics as epitomised by multinational corporations (MNCs). Not unnaturally, therefore, the end result is a world where social justice is a mere by line to the overriding rational of profit maximisation.

The WTO is the apogee of capitalist internationalism : the borderless, seamless world economy of free markets and open economies where MNCs are triumphant on several counts, none being beneficial to the average individual apart from the prospect of employment.

In fact, the on line world is an MNC paradise of instant cross-border movement of goods and information. Coupled with an enormous command over financial and other resources only another giant can do battle with what are deceptively dextrous institutions, almost chameleon in their adaptability with size being an important factor : the bigger the better. And, given their lobbying capacity, they can make big political waves tantamount to a tsunami, when it suits them. But for laws restricting this ability, they would have long drowned the world.

The only way forward, then, to ensure that globalism is not an exercise in the impoverishment of the many by the few, the WTO must be sensibly tempered by some international social justice agenda that is not fragmented over many disparate, supra-national bodies.

(New Straits Times editorial comment June 13, 2002)

### **Social Stability And Progress**

From its foundation in 1919, the ILO has sought to develop standards in the social and employment field which reflect the interest of all nations in social progress and the development of institutions which enable social problems and conflicts to be resolved. Its standards take the form of principles to be applied in national law and practice. They thus provide a framework which is clear in terms of objectives but provides sufficient flexibility to be adapted to national circumstances.

In recent years, as the interdependence of the world economy accelerated and respect for democratic forms of governance spread, the ILO was able to develop a large degree of consensus over the universal applicability of seven of its most basic Conventions. The ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up, adopted by the International Labour Conference in June 1998, sets out the commitment of the international community to establish a social minimum at the global level which responds to the realities of globalisation. The seven Conventions specified in the Declaration are core labour standards which, where properly observed, create the foundations for a sound system of industrial relations in which trade unions, together with employers and governments, can play a constructive role in working to ensure that social progress goes hand in hand with the progressive opening of markets to international trade and investment. ILO Conventions ratified by ASEAN member countries.

## CORE CONVENTIONS RATIFIED BY ASEAN MEMBER COUNTRIES

- C29            Forced Labour Convention, 1930
- C87            Freedom of Association and Protection of the right to organize Convention, 1948
- C98            Right to Organise and Collective Bargaining Convention, 1949
- C111           Discrimination (Employment and Occupation) Convention, 1958
- C182           Worst Forms of Child Labour Convention, 1999

Convention	Malaysia	Indonesia	Singapore	Thailand	Philippines	Vietnam	Cambodia	Laos	Myanmar
<b>C29</b>	√	√	√	√			√	√	√
<b>C87</b>		√			√		√		√
<b>C98</b>	√	√	√		√		√		
<b>C111</b>		√			√	√	√		
<b>C182</b>	√	√	√	√	√	√			

## CONCLUSION

### **Powers And Influence Of MNCs**

Respect for freedom of association is central to the attainment of economic development and sustainable growth. The evidence from many industrialised countries - France, Germany, Japan, Norway, etc - indicates the positive link between increasing wages and obtaining better productivity by improving the motivation of workers. Higher wages also act as a spur to productivity improvements by obliging employers to try harder to make economies on other elements of their costs, so increasing the efficiency of the production process. Furthermore, setting higher social standards often forces employers to upgrade and so results in more efficiency and higher growth in the long run.

Trade unions play an essential role in the development process by achieving a sustainable distribution of income and wealth. Unions have played a crucial role in improving the wages and working conditions, so ensuring that the benefits of productivity growth are not confined to a small elite but are distributed more widely over the whole population. Productivity, growth and development all depend upon a generalised perception that the labour market is equitable. Where this does not exist, the consequence has either been stagnation - shown by the below-average long-term performance of many Latin American economies with extreme income and wealth inequality - or social and political instability which has undermined development efforts.

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