CHAPTER 19

DEVELOPING SOCIETIES—ASIA

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INTRODUCTION

Asia is a region of great economic diversity. Japan, the Asian Tigers (Taiwan, South Korea, Hong Kong, and Singapore), and the oil-rich sultanate of Brunei are wealthy but Asia’s remaining 20 states have ‘developing country’ status (World Bank 2012). There is also great economic inequality within developing Asia, which is home not only to a substantial proportion of the world's poor but also to some of the world's richest individuals. Afghanistan is the poorest country in the region, with a 2010 average per capita GDP parity purchasing power of just over US$900, followed by Myanmar (Burma) and Nepal at around US$1,300. The richest is middle-income Malaysia, whose citizens enjoy an average parity purchasing power of almost US$15,000—well ahead of that of the next-richest, Thailand, at just over US$9,000. Among the most populous nations (which collectively account for 40% of the world’s people), China is the richest, with around US$7,500 per capita GDP parity purchasing power. India is the poorest of the three, at just under half that amount, while Indonesia sits a little higher at around US$4,300 (International Monetary Fund 2011).

Many countries in developing Asia have attempted to emulate the Asian Tigers’ export-oriented production-led rise to economic power-house status. Although some countries have significant natural resource bases, labour-intensive manufacturing has become the cornerstone of economic development in the region since the 1970s. Bangladesh, Cambodia, China, Indonesia, Malaysia, Sri Lanka, Thailand, and Vietnam—and to a lesser extent Laos and the Philippines—are integrated into global production chains, particularly in labour-intensive manufacturing industries such as electronics, garments, and footwear. Consumer electronics and electronic components account for a significant share of low-skilled manufacturing. In the footwear and clothing export sector, leisureware produced for international brands like Nike and Adidas
features heavily. A significant proportion of labour-intensive production takes place in dedicated Export Processing Zones (sometimes known as Free Trade Zones or Bonded Zones), but factories are also scattered around major urban centres and in some cases in more isolated locations, such as Mae Sot on Thailand’s western border with Myanmar.

Many of these countries also share other characteristics. They have large informal economies, relatively low levels of formal education and poor job tenure in the private sector. Business is dominated by domestic conglomerates and multinational corporations, which play an important role in the creation of low-level formal sector jobs. As a result of a continuing emphasis on agriculture and the informal sector in the labour market, state-sanctioned employment relations systems have relatively limited reach in most countries in the region. Within the employment relations system itself, there is often a significant gap between policy and practice such that even within the formal sector many firms effectively operate with little reference to a nationwide framework of processes underpinned by black-letter labour law. And although some countries (most notably India) have a long tradition of democracy, most have experienced long periods of authoritarian rule.

What explains the convergence in much of developing Asia around labour-intensive, export-oriented manufacturing and punitive employment relations regimes? Is there such a thing as a variety of capitalism (VOC) that captures the experience of these outward-looking countries? In their seminal discussion of the concept, Hall and Soskice (2001) identified two ideal types of capitalism—liberal market economies (LMEs) and coordinated market economies (CMEs)—each of which is characterized by different ‘institutional complementarities’ that push firms in different directions, in turn reinforcing the particular institutional structures of the economies in which they operate and ultimately leading to greater economic divergence.¹ Schneider and Soskice (2009: 37–40) later formulated a third model describing the ‘hierarchical market economies’ (HMEs) of Latin America, which are characterized by much larger informal economies and much lower levels of formal education than LMEs or CMEs.² HMEs are dominated by large, highly diversified family-owned domestic business groups and subsidiaries of US-owned multinational corporations (MNCs). In the employment relations arena, they have lower trade union densities than LMEs, but with a level of labour market regulation comparable to CMEs. They also have weak business associations, which Schneider and Soskice attribute to two causes: their lack of influence over either domestic conglomerates or MNCs and the weakness of trade unions in the workplace. As a result of the latter, trade unions operate through the political system to maintain labour market regulation and collective bargaining even in sectors of the economy which are relatively highly unionized.

On the surface, the VOC framework—or, more precisely, its Latin American variant—provides a starting point for analysis of the link between political systems, economic structure, and employment relations in developing Asia.³ Schneider and Karcher’s (2010: 633) concept of negative complementarities, in particular, is a useful way of understanding low-road models that trap countries in a vicious circle of dependence on cheap production for export, in turn making it difficult for governments to
up-skill their workforce or acknowledge a possible role for trade unions in promoting 'high-road' production. This chapter examines the possibilities of this model with reference to Indonesia, Vietnam, and Malaysia—three Southeast Asian countries with relatively developed formal sector workforces and a relatively high level of integration in global production chains. On the basis of this analysis, the chapter draws two conclusions. The first is that historical legacies and political context remain the key determinants in the structure and operation of employment relations mechanisms in developing Asia. The second is that Malaysia's attempts to pursue a high-road export manufacturing strategy have not been accompanied by the development of more effective structural mechanisms for the representation of workers' interests. Indeed, as the discussion that follows shows, the Malaysian government has actively sought ways of embracing elements of high-road production while maintaining the kinds of employment relations structures found in the low-road export production-led economies of Indonesia and Vietnam.

**Employment Relations in Developing Asia**

A multitude of factors can be taken into account when comparing employment relations systems: political context; the extent to which a system covers waged workers; whether that system is predominantly bipartite or tripartite; and the extent and nature of trade unionism (as the primary vehicle for employee collective action) in a particular country. Since employment relations systems focus almost exclusively on formal sector workers, system coverage is determined primarily by the relative size of the formal and informal sectors, but also by the extent to which employment relations policies and mechanisms are actually implemented. The elements most commonly used to assess the extent and nature of trade unionism are sectoral spread, membership density, and some measure of trade union power as expressed through their capacity to determine employment relations policy and/or outcomes. In order to assess the latter, it is necessary to analyse the nature of trade unions in a particular national setting through a consideration of factors such as whether they are more politically or economically oriented; the extent to which they can operate free from government or employer control; and the extent to which they are reliant on external support.

In developing Asia, national employment relations systems have to a significant extent been shaped by the experience of colonialism, which ended as late as the 1960s in some countries. The French, British, Portuguese, and Americans colonized all but Bhutan, China, Mongolia, and Thailand—in some cases, for several centuries. Their infiltration of local economies was patchy, but they controlled the modern economy (and thus formal sector employment) and designed the systems through which the employment relationship was regulated. In employment relations terms, the British colonial legacy in South and Southeast Asia has been perhaps the most enduring. With the exception of Myanmar (where trade unions were banned between 1962 and 2011),
former British colonies have retained many of the employment relations structures established in the colonial period. Trade unions in Bangladesh, India, Nepal, Sri Lanka, and Malaysia are primarily occupationally based and have little interest in the informal sector or peripheral occupations in the formal sector, reflecting the legacy of the British craft system, with its commitment to the 'labour aristocracy'. Like British trade unions, also, trade unions in Britain’s ex-colonies have a tradition of political engagement. And while Malaysia’s trade unions are now depoliticized, South Asia’s trade unions continue to be strongly political, with many maintaining links to leftist parties.

A second key historical influence in the region was the Cold War. China and Mongolia were, of course, already communist, and South Asia remained largely at the periphery of the struggle between capitalism and communism. However, East and Southeast Asia became a key Cold War battlefield from the 1950s, when the Cold War became hot on the Korean Peninsula and then in Indochina where, ultimately, the communists were victorious. Fearful of the domino effect, Western allies concerned with keeping the rest of East and Southeast Asia out of the hands of the communists gave almost unconditional support to the authoritarian developmentalist regimes of South Korea, Taiwan, and the Association of Southeast Asian Nations (ASEAN), which then consisted of the so-called ‘ASEAN five’ (Indonesia, Malaysia, Thailand, the Philippines, and Singapore). In the employment relations arena, the geopolitical situation in the 1960s, 1970s, and 1980s meant that governments in capitalist developing Asia were free to implement anti-labour policies without fear of opprobrium. The early successes of Japan and the Asian ‘Tigers’ has also been a major influence in developing Asia, with countries like Malaysia seeking to ‘look East’ in political and employment relations terms.

In the employment relations arena, Asia’s authoritarian developmentalist regimes found unexpected legitimation in the International Labour Organization’s West European-inspired emphasis on national tripartism. Superficially, the models were surprisingly compatible because of their emphasis on peak-level collaboration between the state, unions, and employers’ bodies over workplace negotiations. As a consequence of this strange confluence of influences, very similar employment relations systems emerged under communist regimes in China, Vietnam, and Lao PDR, but also at the opposite end of the ideological spectrum in Indonesia and, to a lesser extent, in Malaysia and even wealthy Singapore. These authoritarian corporatist arrangements—in which workers and employers were formally represented by national-level peak bodies but had little opportunity to act independently—proved to be well suited to the demands of foreign investment-driven, labour-intensive, export-oriented production because they provided multinationals not only with a low wage, low production cost environment but also with unparalleled stability in both the political and employment relations arenas.

However, the geopolitical situation—and, along with it, the employment relations climate—changed dramatically with the end of the Cold War. The USA and its Cold War allies no longer had a compelling reason to turn a blind eye to human rights abuses, or to ignore protest movements in the region or the campaigns of the growing global movement against sweatshop labour in Asia’s factories. The situation came to a head with the Asian financial crisis of 1997, when a run on the Thai Baht quickly developed into a
regional melt-down. Countries like Singapore and Malaysia weathered the crisis, but much of Southeast Asia (along with countries further afield, like South Korea) experienced a serious economic shock. In Indonesia's case, it provided the final impetus needed to dislodge President Suharto, whose New Order regime had ruled Indonesia for 32 years—the first in a series of dramatic reversals that led to the birth of Timor-Leste, developing Asia's youngest country, and saw Indonesia democratize and decentralize.

The fluidity of state structures in democratizing Indonesia and newly independent Timor-Leste opened up space for foreign influence over institution-building processes on an unprecedented scale. In the employment relations arena, the International Labour Organization has played a major role, advising on labour law and bank-rolling the establishment of new peak union bodies. As had been the case in post-Soviet Eastern Europe, international labour movement organizations like the International Trade Union Confederation, the Global Union Federations, and the Solidarity Support Organizations associated with the national trade union movements of Western Europe and the United States also invested heavily in the post-Suharto period. In Indonesia, this international intervention underwrote the substantive restructuring of employment relations mechanisms as well as an explosion in trade union numbers. In Timor-Leste, it saw the fashioning of an entire employment relations system. With the possible exception of Cambodia, opportunities for interventions have been more limited elsewhere in developing Asia. Global Union Federation and Solidarity Support Organization programmes are nevertheless significant in many countries in the region.

These historical legacies and international norms—as well as economic strategy and degree of foreign investment—have clearly influenced the structures and practices of employment relations. The relative strength of centralization, colonial legacies, and foreign influence vary between, in some cases even within, national contexts. But while there are great differences between economic structures and employment relations systems of developing Asia, there are also many similarities, as illustrated by a comparison of Indonesia, Malaysia, and Vietnam.

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**Southeast Asia's Export Manufacturing-led Economies**

Vietnam, Indonesia, and Malaysia have very different histories and political, economic, and employment relations systems. At the same time, though, they share perhaps more similarities than differences. All three were colonized (by different European powers), and all were key sites of ideological (in Vietnam's case, physical) struggle between the USA and its allies and the communists during the Cold War. Although Vietnam's socialist market economy is not strictly capitalist, all have to a significant extent engaged in foreign capital-driven, labour-intensive, export-oriented manufacturing over a sustained period of time.
Vietnam and Indonesia have continued to pursue this low-cost, low-skill labour strategy, a decision that led to similar pressures in worker communities and similar employment relations strategies, until such time as broader political events in Indonesia created space for independent trade unionism in that country. By contrast, Malaysia sought to adopt a 'high-road' strategy aimed at developing a new comparative advantage as it moved into middle-income country status and could no longer compete on cost alone. Yet despite these significant differences, all three continue to engage in a form of employment relations that privileges the interests of local and foreign investors over those of workers and their organizational representatives.

Indonesia

Indonesia provides the classic example of how colonial legacies and Cold War struggles have played out in the employment relations arena. Indonesian trade unionists look back to the late colonial period as the golden era of the Indonesian labour movement. In the 1920s and 1930s, trade unions had a membership of around 100,000—some five times the total membership of political parties at that time (Ingleson 2000: 471–7). The labour movement was closely tied to the nationalist movement, and maintained prominence in the revolutionary struggle against the Dutch (1945–9). Trade unionists had significant influence on social policy in the first decade of the new Republic, the period in which much of Indonesia’s progressive employment relations framework was established.

Leftist trade unions were crushed, along with other leftist groups, when General Suharto seized power in 1965–6. The Social Democratic, Christian, and Muslim trade unionists who remained initially believed they could leverage the situation to establish a middle-of-the-road trade union movement, positioned within a consensus model of employment relations based on the Western European model (Hadiz 1997). What happened, instead, was that trade unions were forced to amalgamate and join a single federation that focused entirely on the private sector. Labour repression reached another peak in the mid-1980s after Indonesia adopted an export-oriented industrialization strategy heavily dependent on foreign investment in light manufacturing (Hadiz 1997). In order to ensure that the investment climate remained ‘conducive’, trade unions’ independence was further undermined. In 1985, the industrial unions that belonged to the state-approved federation were forced to give up their status as independent organizations and become mere departments within a single state union with even less influence over employment relations outcomes (Ford 1999).

The restructuring of the trade union movement was part of the broader restructuring process, which led to the incorporation of a grab-bag of tripartite, bipartite, and unitarist elements into Indonesia’s employment relations system. On the one hand, Pancasila Industrial Relations was based on the unitarist premise that employers and workers should coexist in harmony in line with the ‘family’ principle said to underpin the Indonesian way of life. On the other, it incorporated elements of the pro-worker
employment relations system established in the 1940s and 1950s, and thus included firm-level bipartite collective bargaining mechanisms and regional and national tripartite mechanisms to manage industrial dispute resolution, wage fixing, and a range of other employment relations functions (Ford 1999). These tripartite bodies were unquestionably subordinated to the state—and therefore, to the interests of capital—but they preserved some semblance of conformity with international norms. It was this gesture towards tripartism that made it possible for the International Labour Organization and Indonesia’s political allies to turn a blind eye to the regime’s gross and repeated violations of the principle of freedom of association in the last four decades of the twentieth century.

Equally, however, Indonesia offers a valuable example of the extent to which employment relations mechanisms can be transformed when an authoritarian corporatist system is weakened and finally collapses. With the end of the Cold War and increases in foreign investment, international criticisms of labour conditions in Indonesia became more widespread and more strident. At the same time, the rapid expansion of light manufacturing was attracting large numbers of workers to the neighbourhoods around the factories that were being built on the fringes of Indonesia’s major cities (Wardouw 2008). This combination of foreign interest, worker discontent, and democracy activists’ growing interest in labour as a core element of regime change saw a series of labour non-governmental organizations (NGOs) and unofficial trade unions emerge in the late 1980s and early 1990s (Ford 2009). Together, these organizations worked to harness and systemize spontaneous labour protests within an alternative labour movement, which had no official standing but nevertheless represented a significant threat to the New Order’s attempts to control all aspects of employment relations.

Although it failed to gain formal recognition, this alternative labour movement, with its strong international links, managed to force some concessions from the regime, including recognition of factory-level enterprise unions independent of the state-sanctioned union. It also educated workers about alternative modes of organizing, preparing the ground for the time when it again became possible for independent trade unions to participate in the formal mechanisms of the employment relations system. That time finally came not because of the growing strength of the labour movement, but as a result of the Asian financial crisis, the aftermath of which ultimately forced Suharto to resign. Responding to international pressure, one of the first acts of his immediate successor was to liberalize the employment relations system. By 2004, a comprehensive Labour Law Reform Package had been implemented, which revolutionized many aspects of employment relations. The package included a new Trade Union Law, under which as few as ten workers could form a trade union and multiple unions were permitted to operate in a single workplace. Employees of state-owned enterprises were now able to establish and join independent trade unions. The trade union movement also experienced a small but significant shift in union activity away from the labour-intensive, export-oriented manufacturing sector and towards white-collar private sector occupations, such as finance and journalism.
A key driver of the rapid expansion of the Indonesian trade union movement has been international support. Under Suharto, international trade unions were formally restricted to working with the official union, though bilateral Solidarity Support Organizations like the American Center for International Labor Solidarity (formerly the Asian American Free Labor Institute) found ways to work with alternative trade unions and labour NGOs. With the advent of democracy, however, international labour movement organizations flooded into the country, bringing with them deep pockets and a determination to demonstrate that trade unionism had a future in the developing world. New confederations were supported (and, in one case, brought into being) by the international labour movement, while key new sectoral unions were fostered and funded by the Global Union Federations.

These new trade unions have gone a considerable way to reasserting organized labour’s role in the employment relations arena. Yet, notwithstanding its rapid transformation in the first decade of the twenty-first century, the Indonesian labour movement continues to struggle on a number of fronts. Union density has actually decreased despite the massive increase in the number of trade unions and the expansion in trade union activities. At approximately 11%, density is low even in the formal sector, which accounts for just 34% of employment opportunities in Indonesia (Badan Pusat Statistik 2011). Moreover, although many employers recognized that they could no longer ignore trade unions in the workplace or in higher-level negotiations, others continued to resist trade union attempts to negotiate at the shop-floor and at the national level, or to seek to reduce trade union power through large-scale labour outsourcing (Ford 2013).

Vietnam

Like trade unions in many other countries in the region, Vietnam’s first trade unions were heavily involved with the revolutionary struggle in the colonial period. Although trade unions were illegal in Vietnam under French rule, the country’s first union federation, the Red Federation of Trade Unions, was established in 1929 by Vietnamese who had come into contact with communist trade unionists while working in France (Pringle and Clarke 2011). The Vietnam General Confederation of Labour (VGCL) was subsequently established by Ho Chi Minh in 1946, using the model of the Confédération générale du travail.

As in Indonesia and Malaysia, attempts were made by the colonial power to shift the ideological balance within the trade union movement by encouraging non-communist unions—in Vietnam’s case, a Christian union established in 1948. Although the Vietnamese Confederation of Christian Workers was legalized four years later, it failed to dislodge the communists, and was destroyed in the north when Vietnam was partitioned in 1954, and then altogether with the fall of the south in 1974 (Pringle and Clarke 2011: 65–6). In modern Vietnam, the VGCL has extremely close links to the Communist Party, and has remained closely integrated into the state structure. High-level officials
must be members of the Communist Party, and its chairperson a member of the Party’s Central Committee (Clarke et al. 2007).

In many ways, the contemporary Vietnamese employment relations system is a mirror image of Pancasila Industrial Relations. The architects of Indonesia’s New Order regime argued that interest groups (and particularly workers) were inseparable parts of an organic whole, whose interests were indivisible from those of the state, and thus the primary function of the state union was to prioritize national development over the individual or collective interests of its members. Similarly, in Vietnam (as in China), trade unions are expected to subordinate the immediate interests of their members to the ‘wider social, economic and political goals of the Party’ (Clarke et al. 2007: 553). The primary difference between Pancasila Industrial Relations and the employment relations system in post-independence Vietnam lies in the fact that until recently the state was also the sole institutional employer in the latter, and thus there was no place for even a token commitment to tripartism.

Although the transformation of Vietnam’s employment relations system has been not nearly as dramatic as that of Indonesia’s, there, too, the structures of employment relations have undergone significant change since the introduction of doi moi (renovation) in December 1986. Since opening up to foreign investment, the Vietnamese economy has grown rapidly, achieving an average of 7.2% growth in GDP (Clarke et al. 2007: 548). Export-oriented manufacturing has not only played a central role in Vietnam’s industrialization, but the manufacturing industries most open to foreign investment have generated the greatest number of challenges to the country’s employment relations system (Quynh 2008).9

A new legal and institutional framework was put in place to support the transition to the market economy and to accommodate pressure from the international community, including the International Labour Organization. Collective bargaining was introduced on matters such as working hours and rest breaks, allowances, occupational safety, and social insurance under the 1994 Labour Code. Strikes were also legalized subject to prior engagement in mediation and arbitration (Pringle and Clarke 2011). All enterprises that have a trade union are required to have a conciliation council staffed by an equal number of representatives of management and employees, which represents a significant change from the previous situation, as foreign firms had been exempted from this requirement under the 1994 law (Pringle and Clarke 2011: 123). If agreement is not achieved, or if there is no conciliation council in the workplace, collective disputes are referred to the regional Arbitration Council. If the trade union is not satisfied with the result, it can refer the case to court or call a strike, on the condition that it have the support of the majority of the workforce (Clarke et al. 2007: 559).10

The VGCL has also undergone dramatic changes since the economy was liberalized, most notably through its expansion into the private sector (Edwards and Phan 2008). As of 2003, it claimed to have 4.3 million members (around 40% of those in employment). Union density sat at around 95% in the public sector, 90% in state enterprises, 30% in domestic private enterprises, and around 50% in foreign firms (Clarke et al. 2007: 550).11 However, it was not until the revision of the Labour Code in 2002 that responsibility for
employment relations in Vietnam began to focus primarily on employers and employees (Clarke et al. 2007: 548). And it was only in 2004 that national tripartite mechanisms were formalized, creating a mechanism though which the government could consult the VGCL, the Vietnam Chamber of Commerce and Industry, and the Vietnam Cooperative Alliance on the formulation of labour policy and legislation (Pringle and Clarke 2011: 105). According to research carried out by the Ministry of Labour, Invalids and Social Affairs (MOLISA), as of 2006, 73% of state-owned enterprises, 21% of foreign firms, and just 5% of Vietnamese private companies had collective agreements (Pringle and Clarke 2011: 96–7)—although questions have been raised about the quality of the collective bargaining process, with most observers noting that agreements simply follow a set template.

Ultimately, though, this complex new system of employment relations mechanisms has failed to accommodate the changes brought by the rapid increase in labour-intensive export-oriented manufacturing. As a consequence, the primary mechanism for resolving industrial disputes has remained highly organized wildcat strikes, particularly in foreign-owned companies located in the country’s Export Processing Zones. Almost 70% of strikes between 1997 and 2007 occurred in foreign-owned companies (Quynh 2008). In absolute numbers, strikes in foreign-owned companies gradually increased from 28 in 1995 to 66 in 2002, then grew more rapidly, reaching several hundred annually (Pringle and Clarke 2011: 67). The labour movement subsequently reached a major turning-point in late 2005, when employees in foreign-owned enterprises engaged in a series of massive strikes in protest against the fact that the minimum wage had not risen since 1999. Such was the effect of these strikes that many employers chose to raise wages unilaterally, a decision followed rapidly by the government, which increased the minimum wage in foreign-owned firms by around 40% in early 2006 (Pringle and Clarke 2011: 107–8).

As Quynh (2008) has noted, in Vietnam, attempts to balance the desire for economic growth and the need to maintain political stability are complicated by the party’s status as the vanguard of the working class. Research suggests that labour department functionaries (who are more often than not also senior trade union leaders) recognize worker grievances, and have responded to the challenges posed by wildcat strikes through a series of measures, which have included seeking to increase local trade union officials’ capacity to respond to worker demands; the provision of training to improve the skills of union officers; setting up legal aid centres within the provincial and sectoral levels of the union; and promoting collective bargaining to achieve better than minimum benefits for workers. Indeed, on the basis of a detailed analysis of the outcomes of 50 wildcat strikes, Lee (2005) found that workers’ key demands were met in 48 of those cases, often with the encouragement of local labour officials. District-level unionists have also collaborated with provincial labour inspectorates to investigate suspected violations of the labour legislation in the EPZs (Quynh 2008). Quynh (2008) concludes, however, that the VGCL is yet to tackle its ‘core problem’ of unionists’ structural subordination to management in the workplace.
Malaysia

The third case, Malaysia, represents a hybrid between the British system, the legacy of which remains strong also in Singapore and South Asia, and a commitment to the East Asian ‘strong state’, which became increasingly important during the 22-year prime ministership of Mahathir Mohamad, a modernizer inspired by the successes of the Asian Tigers. Malaysia is formally a multi-party constitutional monarchy broadly modelled on Britain’s Westminster system. However, the ruling coalition has held power for more than 40 years, a great number of them under Mahathir. Thus, although Malaysia has never formally adopted a corporatist model, influential political scientists point to a shift towards bureaucratic state authoritarianism in the 1980s (Crouch 1992; Khoo Boo Teik 1995), which had much in common with the systems in place in Singapore and Indonesia at that time.

The colonial legacy has remained an important influence on the institutional structures of contemporary employment relations, both in terms of the particular combination of bipartite and tripartite mechanisms that characterize the system, and in the ethnic and industrial contours of the trade union movement. Malayan trade unionism had its origins in the late nineteenth century among the Malay working class, as immigrant workers from China and India were reluctant to unionize (Jomo and Todd 1994). By the 1940s, however, Chinese and Indians comprised the majority in a trade union movement that, like the labour movement of neighbouring Indonesia, was highly politicized. At that time, the movement was dominated by Chinese-led unions, many of which had communist sympathies. When almost half of all trade unions were outlawed under amendments to the Trade Union Ordinance in 1948, union leadership shifted from the Chinese to the Indians with encouragement from the British, who supported anti-communist Indian-dominated unions over their Chinese rivals (Bhopal and Rowley 2005). It was not, however, until after the implementation of the New Economic Plan in the early 1970s that Malay participation in the workforce, and subsequently the trade union movement, again grew (Jomo and Todd 1994). Malays have since increased their presence in the trade union leadership, although Indian Malaysians continue to be strongly represented in the upper levels of many unions.

Politics and ethnic tensions continued to spill over into employment relations after Malaysia achieved its independence from Britain. Prime Minister Tun Razak warned after the race riots of 1969 that Malaysia ‘must have a loyal, disciplined and dedicated labour force’ and that the role of government ‘is to ensure that the trade unions are run in the interest of the country’ (cited in Jomo and Todd 1994: 129). Continuing in this tradition, Mahathir argued that Malaysians should, as Asian workers, be disciplined and loyal, and that trade unions should be closely controlled, because they alienate foreign investors and threaten national development (Crinis 2003). These statements were made at a time when the government was preparing to actively pursue a policy of foreign investment-driven export-oriented industrialization, which they hoped would provide a foil for Chinese-owned businesses and create employment opportunities for Malays (Elia 2005).

The state has since had a crucial role in determining the extent to which trade unions are capable of representing worker interests in the employment relations system
(Arudsothy and Littler 1993). The Trade Unions Act of 1959 cemented the requirement for unions to register in order to gain legal status, while the Pioneer Industries Ordinance of the previous year included provisions that limited trade union activity in an attempt to attract foreign investors. Repression of trade unions increased in response to widespread strike action in the early to mid-1960s, including the introduction of compulsory arbitration and limitations on the right to strike in essential industries. Further amendments were subsequently made to both the Industrial Relations Act and the Trades Union Ordinance in 1980, which made it easier for the state to suspend strike action and dissolve unions.

Perhaps the most radical attempt to undercut existing trade unions was Mahathir's in-house union policy, which he promoted as part of a 'Look East' strategy launched in 1982 (Wad 1997). Although some enterprise unions had existed before that time, the state increasingly 'encouraged' the formation of enterprise unions rather than national unions, particularly in sensitive industries such as electronics. A discussion of the electronics industry in Malaysia cannot be divorced from a discussion of Export Processing Zones, which were first introduced through the 1971 Free Trade Zone Act. For the first 15 years of their existence, electronics factories in Free Trade Zones were effectively excised from Malaysia's employment relations system, and Free Trade Zone workers were denied the right to form trade unions (Caspersz 1998: 265–72). Enterprise unions have been permitted in the sector for some years, and in 2009 the federal government gave permission to establish industrial unions for electronics at the regional level. However, authorities have continued to obstruct attempts to form a national electronics union (interview with Electrical Industrial Workers Union official, Penang, May 2010).

Yet while successive Malaysian governments have gradually extended the state's influence over employment relations, there has been no effort to explicitly co-opt trade unions as organs of the state. And, unlike New Order Indonesia, where only private sector workers could legally organize, most Malaysian formal sector workers have maintained the right to engage in trade union activity. Nor has the state attempted to fully centralize trade unions, although the predominantly private-sector Malaysian Trades Union Congress (MTUC) and the public-sector Congress of Unions of Employees of Public and Civil Services (CUEPACS) were established under government auspices (Jomo and Todd 1994; Ariffin 1997). Nonetheless, Malaysia's bureaucratic authoritarian tendencies remain evident in its employment relations system and, in particular, in its attempts to limit the power of trade unions and harness them in the national interest.

**Conclusion**

Malaysia differs significantly from Vietnam and Indonesia in a number of respects. Among other things, it is considerably more wealthy and its labour costs are much higher. These and other factors, including its historic rivalry and desire to compete with
neighbouring Singapore, have driven Malaysia to adopt a high-road strategy in key industries including electronics and segments of the garment and textiles industry. This emphasis on higher production values requires tighter control over supply chains, which, according to the literature on global production chains, should prompt buyers to favour large subcontractors with a higher level of professionalization of human resource management and a greater concentration of trade unions (Crinis 2010). Or, as Kuruvilla (1995) puts it, whereas low-wage export-oriented industrialization strategies focus on cost containment and repressive policies on trade unionism, as countries move up the production ladder, their competitive edge relies on niche production and higher skills.

But does the 'high road' necessarily lead to better opportunities for workers to engage collectively in the formal employment relations system? In Malaysia, this has not been the case, as is nowhere clearer than in the garment and textile industries. Prompted by the threat posed to Malaysian competitiveness by the Multi-Fibre Arrangement, the Malaysian government encouraged garment and textile manufacturers to move up the production chain, offering special incentives for investment in technology and training (Crinis 2010). However, Malaysia's foray into high-end garment production has been balanced strategically by a range of cost-cutting strategies at the lower end of the market and strategies to maintain control over trade unions. With government support, Malaysian garment and textile firms have employed three strategies to maintain a large, low-end production base to complement high-end production: the relocation of factories to rural areas in less-developed states such as Johor and Kedah; increasing reliance on subcontractors and home-workers in traditional garment and textile-producing regions; and the large-scale employment of foreign workers (Crinis 2003). Moreover, not only have firms involved in high-end production refused to engage with trade unions at the firm level, but the federal government has neither encouraged them to do so, nor empowered national-level trade unions to demand a seat at the bargaining table (Crinis 2010). Instead, the Malaysian government continues to repress independent trade unionism to a far greater extent than does the government of neighbouring Indonesia, where high-road production strategies have not been embraced.

So what does this mean for a so-called Asian variety of capitalism? Adopting Schneider and Karcher's (2010: 633) concept of negative complementarities, it is clear that the historical nexus between Malaysia's semi-authoritarian political system, its aggressive development strategy, and its repression of trade unionism is stronger than any structural imperative associated with high-road export production. Thus, while high-road strategies have indeed provided access to skills development—and, through the creation of value-added production niches, better wages and conditions—they have not guaranteed better access to collective representation.

Conversely, in the Indonesian case, it is evident that the serious disruption in the historical nexus between authoritarian rule, export-led industrialization, and repression of the labour movement has opened up room for trade unions, but not to such an extent that the imperatives of low-road export-oriented production have been overcome. Similarly, in Vietnam, while large-scale private investment has given rise to worker protest (the causes of which state officials have recognized and to some extent addressed), it
has yet to pose a real threat to authoritarian rule or to disrupt the subordinate position of trade unions to the party.

In other words, the legacies of colonial rule and Cold War politics, and compacts made with capital in the establishment of low-road export-oriented production strategies, continue to drive employment relations in all three countries. While not necessarily constituting a discrete ‘variety of capitalism’, these shared characteristics continue to be dominant despite the changing political context of Indonesia, Malaysia’s experiments with the high road, and the contradictions between socialist discourse and market capitalism in Vietnam.

**Notes**

1. Although they focused firmly on Western Europe and the advanced democracies of the Anglophone settler world, Hall and Soskice (2001: 2) asserted that the model has relevance in the South. They also made passing reference in their 2001 account of varieties of capitalism to a ‘Mediterranean economy’, but did not develop this model.

2. This article was one of a number co-authored by one of the framework’s architects which seek to address criticisms of the limitations, and in particular, its inability to explain economic and political change. See also Iversen and Soskice (2009) and Hall and Thelen (2009).

3. A number of scholars have adopted elements of the VOC framework (e.g. Andriesse and van Westen 2009; Carney and Loh 2009; Kong 2006). Others have proposed that the scope of the VOC model be expanded to better account for the Asian experience (e.g. Ritchie 2009; Tipton 2009). Others still have emphasized the poor ‘fit’ of the original model (e.g. Nottage 2002; Ahrens and Junemann 2007).

4. For a discussion of employment relations in China and India, see the following chapter in this volume on the BRICS.

5. This chapter is based on research funded by Australian Research Council grants DP120100654 and FT120100778. I would like to thank my research assistant Nicola Edwards for her help with an initial review of the literature on varieties of capitalism.

6. When the Portuguese left Timor-Leste, the territory was occupied by Indonesia, only achieving independence in 1999.

7. ASEAN has since grown to include all of Southeast Asia, with the exception of Timor-Leste, which at the time of writing was pursuing membership.

8. The discussion that follows draws on sections of Ford (2009).

9. Lee (2006) and others have observed that the approaches to economic and political reform in China and Vietnam share many common features. Most analysts argue, however, that Vietnam’s system is more liberal than China’s.

10. Strikes are prohibited in 54 sectors considered to provide essential public services or be of importance to national security. The government also has the power to terminate any strike deemed to be a threat to the national economy (HRW 2009: 16).

11. In the Vietnamese context, what I am here calling ‘foreign firms’ are officially known as Foreign Invested Enterprises, a category that includes joint ventures as well as wholly foreign-owned concerns.

13. Under the 1969 Industrial Relations Act, a range of tripartite bodies were established, including regional labour courts and the central Industrial Court. Wage councils, similar to those found in Sri Lanka, were established under a 1947 ordinance (Dunkley 1982).

14. For case studies of migrant workers' experiences in the electronics industry, see Bormann et al. (2010).

15. In 1989, a third umbrella organization called the Malaysian Labour Organization (MLO) was formed with government encouragement to rival MTUC. However, it was dissolved in 1996. As of 2011, there were 609 trade unions with a total of 800,000 members registered in Malaysia. Of these, 441 were located in the private sector, while the remainder operated in the public sector or in statutory bodies and local authorities. Just under half the total number were located in services, and a further quarter in manufacturing (Department of Trade Union Affairs 2012).

16. For details of Malaysia's high-road strategy, see Elias (2011).

REFERENCES


