EARLY EFFECTS & CHALLENGES OF MINIMUM WAGES IN MALAYSIA: SHARING OF PRE & POST ECONOMIC & SOCIAL INDICATORS

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National Wages Consultative Council
Malaysia

at
National Minimum Wage: Symposium & Policy Round Table
Johannesburg, South Africa
2 – 4 February 2016
Outline of Presentation

Part 1: Summary on Malaysia & Minimum Wages (MWs) in Malaysia
Part 2: Economic Indicators (Pre & Post MWs)-
  a. Salaries & Wages
  b. Mean Wages
  c. Share of CE to GDP
  d. Unemployment Rate
  e. Labour Force Participation Rate
  f. Productivity Growth
  g. Poverty Line Income
  h. Income Inequality (Gini Coefficient)
  i. Consumer Price Index
  j. Foreign Direct Investments (FDI)
  (k-n) Insolvent Companies, etc
  (o-s) Complaints, Claims, Trade Disputes, etc
Part 3: Challenges of Implementing MWs in Malaysia
Part 4: Summary
Part 5: Conclusion
Part 6: Moving Forward & Suggestions

Political System:
Parliamentary Democracy with Constitutional Monarchy

Economy:
GDP: RM877.2 billion
GDP Growth: 6.0%
Unemployment rate: 3.0%
Labour Force: 14.4 million
Inflation Rate: 3.0%
Per Capita Income: US$9,914

Climate: Tropical, annual monsoon
Area: 330,290 km²
Religion: Islam, Buddhist, Hindu & Christian
Ethnic Groups: Malay, Chinese, Indians & Others

Population: 30.6 million
Capital: Kuala Lumpur
Admin Capital: Putrajaya
Official Language: Bahasa Malaysia
OBJECTIVES OF MINIMUM WAGES

Objectives

• to ensure **basic needs** of workers and their families are met;

• to provide **sufficient social protection** to workers;

• to encourage industry to **move up the value chain** by investing in higher technology and increase labour productivity; and

• to **reduce** nation’s dependence on **unskilled foreign labour**.
1. Minimum Wages (MWs) is “basic wages”.

2. MWs does not include allowances & value of non-monetary benefits.


4. MWs Order 2012 consists of:

   - Commencement for non-micro employers on 1 January 2013
   - Later commencement date for micro employers @ 1 July 2013
   - Application for deferment
   - RM900 (US$217) for Peninsular Malaysia
   - RM800 (US$193) for states of East Malaysia

   - Non application for Domestic Worker
   - Reduced rate for probationers
   - Clause for restructuring of wages (with consent) from union/workers

5. SMEs given blanket deferment in 2013 (for foreign workers only).

## MINIMUM WAGES FIXING CRITERIA

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>JUSTIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BASE CRITERIA</strong></td>
<td></td>
</tr>
<tr>
<td>Poverty Line Income (PLI)</td>
<td>Determine the basic needs of the worker and his / her family</td>
</tr>
<tr>
<td>Median Wage</td>
<td>A point of reference for employers ability to pay</td>
</tr>
<tr>
<td><strong>ADJUSTMENT CRITERIA</strong></td>
<td></td>
</tr>
<tr>
<td>Changes in Consumer Price Index (CPI)</td>
<td>An indicator to reflect changes of cost of living</td>
</tr>
<tr>
<td>Productivity Growth (P)</td>
<td>Re-aligning productivity growth with wage increase</td>
</tr>
<tr>
<td>Real Unemployment Rate (UE)</td>
<td>To ensure wage increase do not hamper the market ability to create and retain employment</td>
</tr>
</tbody>
</table>
MINIMUM WAGES FIXING FORMULA FOR MALAYSIA

\[
MW_i = \text{Avg} \left( \frac{PLI_i}{\text{Avg workers per household}} + \text{Median wage}_i \right) \times \left[ 1 + \left( \frac{P_i}{100} \right) + \left( \frac{CPI_i}{100} \right) - \left( \frac{UE_i}{100} \right) \right]
\]

MW = Minimum Wages (RM)
PLI = Poverty Line Income (RM)
P = Productivity growth (%)
CPI = Consumer Price Index (% change)
UE = Real Unemployment Rate (%)

= (Unemployment rate – 4%)

i = Region (Peninsular Malaysia, Sabah and Sarawak)
Part 2 : Economic Indicators (Pre & Post MWs)
(a) Salaries & Wages: Malaysia

Source: Department of Statistics Malaysia (DOSM)
(b) Mean Wages: Malaysia

Source: Department of Statistics Malaysia (DOSM)
(c) Share of Compensation of Employees to GDP (%) : Malaysia

Source : Department of Statistics Malaysia (DOSM) and Economic Planning Unit (EPU), Malaysia
(d) Unemployment Rate: Malaysia

Source: Department of Statistics Malaysia (DOSM)
(e) Labour Force Participation Rate: Malaysia

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>64.4</td>
</tr>
<tr>
<td>2012</td>
<td>65.5</td>
</tr>
<tr>
<td>2013</td>
<td>67.0</td>
</tr>
<tr>
<td>2014</td>
<td>67.5</td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Malaysia (DOSM)
(f) Productivity Growth : Malaysia

Source: Malaysian Productivity Corporation (MPC)
(g) Poverty Line Income : Malaysia

Source : Economic Planning Unit, Malaysia (EPU)
(h) Income Inequality (Gini Coefficient)

Malaysia’s Gini coefficient series shows a clear downward trend in household income inequality from 2004 to 2014. In 2014, Income Inequality plunged to the lowest level which reflects a positive trend.

Source: Economic Planning Unit [www.epu.gov.my/household-income-poverty]
(i) Consumer Price Index: Malaysia

Source: Department of Statistics Malaysia (DOSM)
(j) **Foreign Direct Investment : Malaysia**

### Minimum Wages 1.1.2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Minimum Wages (RM Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>37,325</td>
</tr>
<tr>
<td>2012</td>
<td>28,537</td>
</tr>
<tr>
<td>2013</td>
<td>38,175</td>
</tr>
<tr>
<td>2014</td>
<td>35,344</td>
</tr>
</tbody>
</table>

*Source: Department of Statistics Malaysia (DOSM)*
(k) Insolvent Companies: Malaysia

Minimum Wages 1.1.2013

Source: Department of Insolvency
(L) New Foreign Company Registered: Malaysia

Source: Companies Commission of Malaysia (SSM)

Minimum Wages 1.1.2013
(m) New Local Companies Registered: Malaysia

Source: Companies Commission of Malaysia (SSM)
Minimum Wages 1.1.2013

Source: Companies Commission of Malaysia (SSM)

No. of Complaints Filed

- 2014: 1,389 complaints
- 2015: 453 complaints

Reduced by 67.38%

Source: Secretariat, NWCC

No. of Claims Filed

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Claims Filed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,111</td>
</tr>
<tr>
<td>2015</td>
<td>618</td>
</tr>
</tbody>
</table>

Reduced by 44.37%

Source: Secretariat, NWCC
(q) Trade Dispute Cases Relating to Minimum Wages (2014 & 2015)

Source: Secretariat, NWCC

Source: Secretariat, NWCC

- Investigation paper (IP's)
- Sanction Given
- Conviction Secured

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>151</td>
<td>209</td>
<td>360</td>
</tr>
<tr>
<td></td>
<td>91</td>
<td>99</td>
<td>190</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>121</td>
<td>142</td>
</tr>
</tbody>
</table>

Source: Secretariat, NWCC
Part 3: Challenges of Implementing MWs in Malaysia

1. MWs for micro employers.
2. Separate MWs for foreign workers.
3. MWs for disabled workers.
4. MWs for workers in Non-Profit Entities (NPEs), Welfare Homes and Senior Citizen.
5. MWs for hotel workers @ service charge components.
6. MWs for workers in privatized government contracts.
7. MWs increases cost of labour for employers.
8. MWs is too low from Workers point of view!
9. MWs is too high from Employers point of view!
10. MWs should also apply equally to Domestic Workers!
Part 4: Summary

Positive Vibes:
Increase in Wages & Salaries; Increase in Mean Wages; Increase in CE share to GDP; Reduced Unemployment Rate; Increase in LFPR; Increase in Productivity growth; Increase in PLI; Reduced Gini Coefficient Indices; Lesser number of companies become Insolvent; Increase in number of local companies Registration; Reducing trend of complaints, claims from Workers and etc....

Negative Vibes:
CPI increased; FDI reduced; Drop in registration of foreign companies; Increase in companies closing down and leaving Malaysia.

cont....
Part 5: Conclusion

1. MWs is to transform the Malaysian Economy / Labour Market by 2020.

2. MWs is still new in Malaysia beginning January 2013.

3. Challenges and hiccups are inevitable – addressed in tripartite manner.


5. Long term effect – will augment in transforming the economy.

cont....
6. Government of Malaysia is committed to ensure success of the MWs policy- taking stock of existing tripartite arrangements in Malaysia.

7. SMEs (including micro employers) need to revisit their business model/ wage structure.

8. No significant negative effect of 2012 MWs Order.

1. REVIEW OF THE MWO 2012:
   January 2016 – Completed review of 2012 MWs Order @ New Order expected by March 2016 to take effect on 1 July 2016.

   New MW rate (pending Gazette soon):
   (i) From RM900 (US$217) in Peninsular Malaysia to RM1,000 (US$241) (11% increase) and from RM800 (US$193) in East Malaysia to RM920/ (US$222) (15% increase).

   (ii) Removal of deferment application clause; clause on reduced rate for probationers and clause on restructuring of wages.

   (iii) Domestic workers remain excluded.

   (iv) Introduced MW for piece rated, task work, trip, commission and tonnage based paid employees.
2. Success of MWs policy lies in effective enforcement.

3. Capacity building of enforcement officers.

4. Increase in number of enforcement officers.

5. Get professional / External advice (i.e. World Bank / ILO etc)

6. No ‘one size fits all’ model on Minimum Wages.

7. Advisable to adopt a ‘balanced approach’ for first time implementation.

8. MWs should be based on empirical data and reality of economic indicators.
“Minimum wages is here to stay for good and there is no turning back”

Commitment by Hon. Richard Riot Anak Jaem Ministry of Human Resources Malaysia on 25 June 2013

THANK YOU
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http://minimumwages.mohr.gov.my/