

Minimum wage hike, cause for celebration or ill-timed move?

On May 1, the Malaysian Minimum Wages Order 2022 came into operation. The order increased the minimum monthly wage of employees to RM1,500.

The order applies to all employees except domestic servants. Temporary exemption until Dec 31 has been given to employers who employ fewer than five workers. Such exemption, however, does not apply to employers who carry out professional activities.

In Malaysia, the concept of minimum wage was introduced by the Wages Councils Act 1947, which was applicable to several sectors. It was repealed by the National Wages Consultative Council Act 2011, which established the National Wages Consultative Council to advise and make recommendations on minimum wages.

In 2013, the monthly minimum wage rate was RM900 for Peninsular Malaysia and RM800 for East Malaysia. It was subsequently raised to RM1,000 for Peninsular Malaysia and RM920 for East Malaysia. The two different rates in East and West Malaysia were abolished in 2019 when the monthly minimum wage rate was raised to RM1,100. The same was, again, raised to RM1,200 in 2020 and now to RM1,500.

The increment in minimum wage received a mixed reception. On one hand, it might be a positive development for employees; on the other, it might have a significant effect on the employers. This is particularly so given the 25% increase in labour costs for minimum wage workers.

It may be an untimely move as businesses are still at a tough recovery stage. Most of the industries were badly hit by the Covid-19 pandemic. Therefore, to increase the minimum wage at this juncture may jeopardise the efforts of employers to revive their businesses.

Employers who are unable to recover or sustain their businesses will have to reduce their operating costs, including their manpower costs. Employers may freeze increments, bonuses or recruitment and enforce pay cuts or even retrench workers. Employers may also seek the services of independent contractors instead of hiring employees to reduce costs. In other words, depending on the employers' ability to cope with the current economy and spiralling costs, the unemployment rate might increase.

In simple economics, the increase in minimum wage ought to be associated with an increase in productivity, which will lead to an increase in revenue. If it does not, it will raise production costs and lead to spiral inflation.

Based on the Q4 2021 report on Labour Productivity by the **Department of Statistics Malaysia**, labour productivity merely increased by 1.7% (based on the ratio of value added per employment). Zooming in on the relevant sectors, only the manufacturing and services sectors posted an increase of 6.8% and 0.5% respectively. The agriculture, mining and quarrying and construction sectors recorded a decrease of 4.6%, 3.4% and 8.3% respectively.

When labour productivity is unable to correspond with the increment of minimum wages, the cost of goods will eventually go up, resulting in higher costs of living. Therefore, higher wages may not improve the quality of life of workers or increase their purchasing power.

The increase in minimum wage might also result in Malaysia losing its international competitiveness compared to its neighbouring countries. Foreign investors may be more attracted to countries like Vietnam, Thailand, Cambodia, Indonesia, the Philippines, Laos and Myanmar, bearing in mind that their minimum wages are lower than Malaysia's by approximately 43.99%, 41.14%, 43.21%, 11.63%, 36.98%, 69.63%, and 90.22% respectively.

Lower minimum wages would mean lower operating costs and by extension, higher profits. It comes no surprise that electric vehicle titan Elon Musk is considering investing in Indonesia. The diversion of foreign investment will further dampen the recovery of Malaysia's economy.

In conclusion, while increasing the minimum wage might be a celebrative cause, it could be an ill-timed move, in particular where most employers are still recovering from the losses caused by the Covid-19 pandemic.

Coupled with the global inflationary pressure due to the Russia-Ukraine war and our weakening currency, introducing an increase in the minimum wage at this juncture may do more harm than good.

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