



Malaysia raises minimum wage to boost productivity

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After first implementing a minimum wage in January 2013, the Malaysian government further boosted payments as of 1 July, 2016. The move forms part of its “New Economic Model”, which aims to transform Malaysia from a middle- to a high-income economy by 2020. Officials believe that the extra costs involved for employers, particularly in the vitally important manufacturing sector, will encourage them to invest more in technology in order to increase productivity and reduce their reliance on labour-intensive practices.

It is also hoped that a minimum wage rise will inspire Malaysians to take better-paid jobs, decreasing the economy's reliance on foreign workers in the process. Understanding this policy will be of great importance for companies in wage-sensitive industries and among firms seeking to supply consumer goods to the Malaysian market.

Understanding Malaysia's minimum wage adjustments

Wage adjustments in line with the new law will depend on where workers are based, although there are exceptions in the case of apprentices and domestic servants. So:

- In Peninsular Malaysia, the monthly minimum wage will increase by 11% from US\$223 (RM900) to US\$248 (RM1,000)
- In Sabah, Sarawak and Labuan, the minimum wage will increase by 15% from US\$198 (RM800) to US\$228 (RM920).

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Failure to comply with the new legislation will result in fines of up to US\$2,544 (RM10,000) and possible jail time. These fines increase for repeat offenders.

But the minimum wage hike is not expected to substantially change current dynamics in the wider ASEAN region. Malaysia will simply continue to have higher labour costs than elsewhere – certainly well above Laos, Myanmar, Cambodia and Vietnam. The most recent increase in Malaysian wages means that its labour costs are now comparable to Thailand, and on a par with Indonesia's higher salary ranges. ▶

Malaysian Wages in Perspective

Country	Monthly Minimum Wage (US\$)
Malaysia	228—248 (previously 198—223)
Myanmar	93
Laos	112
Cambodia	137
Vietnam	108—157
Indonesia	84—236
Thailand	255
Philippines	170—306

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More important than regional dynamics, meanwhile, are the implications of the new law on the Malaysian economy. When Malaysia’s minimum wage first came into effect in 2013, nearly two million workers benefited immediately.

But even in the current financial climate, with the cost of living rising and a relatively new Goods and Services Tax (GST) in place, Malaysia’s main industries will not be substantially affected. As it is, most manufacturers already pay above the new minimum wage, and are also increasingly reliant on capital-intensive production methods.

The effect of the wage hike will not be uniform across the country, however. Labour-intensive industries such as the automotive sector, for example, may experience a more significant impact as a substantial portion of their workers are paid below the new minimum.

Other sectors on the other hand, may actually benefit from a potential rise in the number of consumers with more money in their pockets to spend. Malaysia’s population of nearly 30 million is starting to grow in appeal to producers of consumer goods, for instance. Household consumption has more than doubled over the last 10 years, hitting a record high in the 3rd quarter of 2015.

For those looking to expand into a growing ASEAN market, therefore, Malaysian minimum wage adjustments may be just the incentive they need. ■

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