

## The Implementation of Minimum Wages in Malaysia

Tin Pei Ling\*, Muhammad Fathi Yusof, Nik Hasnaa Nik Mahmood, Tan Hup Soon

UTM Razak School of Engineering and Advanced Technology, Universiti Teknologi Malaysia, 54100, Kuala Lumpur, Malaysia

\*Corresponding author: peiling\_21@hotmail.com

### Abstract

Minimum wage legislation is gazetted by government in order to protect low skilled employees in order to increase their quality of life and reduce poverty. In addition, it is also aimed at encouraging companies to increase the value chain by investing in new technologies that require less unskilled workers. The aim of the policy is undeniable noble but the impact of its implementation is still debateable. Some may question the adequacy of the minimum wage rate or may argue that the policy will induce the influx of illegal workers. Despite that, organizations have different approach in implementing the policy in order to achieve the best solutions. The new policy gives more financial burden on small and medium organizations as compared to large companies. Thus, small and medium enterprises (SMEs) were allowed to defer payment of minimum wage to foreign workers until December 2013. The objective of this study is to describe the implementation of minimum wage policy in Malaysia and compare the implementation of minimum wage legislation between China, South Africa and Brazil. This paper applies a comparative study by using round desk discussion and case-studies methods.

*Keywords:* Minimum wages; Small and Medium Enterprise (SME); foreign workers; full time and part time employment

### Abstrak

Undang-undang gaji minimum diwartakan oleh kerajaan untuk melindungi pekerja berkemahiran rendah bagi meningkatkan kualiti hidup mereka dan mengurangkan masalah kemiskinan. Selain itu, ia juga sebagai satu dorongan untuk meningkatkan rantaian nilai melalui pelaburan dalam teknologi baru. Apa yang pasti, dasar ini dibuat untuk tujuan yang murni, tetapi kesan penguatkuasaannya masih boleh dibahaskan. Mungkin ada yang mempersoalkan kecukupan kadar gaji minimum, atau mungkin mendakwa bahawa dasar ini akan mendorong kemasukan besar-besaran pekerja tidak sah. Sebaliknya, organisasi yang berbeza mungkin mempunyai pendekatan yang berbeza dalam melaksanakan dasar ini bagi mencapai penyelesaian terbaik. Dasar ini memberikan beban kewangan yang lebih besar kepada organisasi kecil dan sederhana berbanding syarikat yang besar. Oleh itu industri kecil dan sederhana (SME) dibenarkan tidak membayar gaji minimum hingga Disember 2013. Tujuan kajian ini adalah untuk menjelaskan tentang pelaksanaan dasar gaji minimum di Malaysia dan membandingkannya dengan pelaksanaan undang-undang yang sama di China, Afrika Selatan dan Brazil. Kertas ini menggunakan kajian perbandingan dengan menggunakan perbincangan meja bulat dan kaedah kajian kes.

*Kata kunci:* Gaji minimum; Syarikat Kecil dan Sederhana (SME); pekerja asing; bekerja sepenuh masa dan separuh masa

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## 1.0 INTRODUCTION

Malaysia is one of the developing countries in Asia Pacific that has introduced minimum wages legislation. The purpose of minimum wages legislation is to protect low wage workers, so that they will be able to afford better living and higher education. Besides that, the policy also can bring up value chain for employers by investing in technology innovation. This can be known as a best way of both worlds which are reduce poverty and increase the technology innovation towards developed country. According to a study conducted by National Wage Consultative Council, the minimum wage will then benefit 3.2 millions private sector workers other than those in domestic service workers. However, there are lots of things about the labour market that do not really fit well with the competitive model of the labour market (Konczal, 2013). The main objective of this study is to compare the practice of minimum wage between Malaysia, China and South Africa for the betterment of country development in the future, and hence to bring out a better suggestion for policy developer to improve the implementation.

## 2.0 LITERATURE REVIEW

Lessons from other countries are indeed significant for Malaysia, where the policy is relatively new. The following discussion will focus on two aspects namely the introduction of minimum wage policy in Malaysia, and secondly comparative analysis of implementation of the policy in various countries.

## 2.1 Minimum Wages Policy

The minimum wages order is applicable to all the employers with six employees and above in Malaysia, including foreign worker with effective date started from 1st January 2013. For the micro enterprises are allowed to defer for further 6 months from the commencement date. According to National Wage Consultative Council (2012), the government has set a minimum wages of RM900 per month for employees in Peninsula and RM800 for those in Sabah, Sarawak and Federal Territory of Labuan. A grace period is given to SMEs' employers to apply a deferment implementation of this policy for foreign workers until 31st December 2013. Furthermore, employers who applied for deferment were not allow to deduct the cost of levy, accommodation or other costs from foreign workers' salary.

The policy is a noble effort to reduce the problem of disparity in the distribution of wealth in the country, though the real solution needs more concerted efforts. It is understood that, in setting the minimum wage, the government took into account various social and economic considerations such as cost of living, productivity, competitiveness and employment. Hence the policy alone is inadequate. A study by CIMB found that, RM900 minimum wage is 49.9% of the national mean wage of RM1,804.43 in 2010. Almost 33.8% of about 1.3 million private sector workers still earned less than RM700/month in 2009, well below the RM800/month that is considered the poverty line. Wages have been lagging behind productivity growth, rising 2.6% annually versus productivity growth of 6.7% annually over the past decade. The new wage rate will have a bigger impact in Sabah (RM800 versus the current average salary of RM577), followed by Sarawak (RM800 versus an average of RM758). For Peninsular Malaysia, the new rate of RM900 is 20.4% below the current average salary of RM1,131 (Huie, 2012)

Not to forget, the implementation of minimum wages would probably bring other problems. Since part time employees are generally not protected by the policy, there could be tendencies of recruiting this type of employees in replace the full time ones. Generally it depends on the scope of the implementation of law. or other developing countries, such as Brazil and Indonesia the policy had indirectly increase the number of part time employees and reduce the number of full time employees (Carneiro, 2000 & New Delhi: National Commission for Enterprises in the Unorganised Sector, 2007) Since part time employees are not enjoying the same protection as full time employees, the influx of them will increase the burden for labour market. It is important to note that the policy would also induce the employment of illegal workers who are not protected by employment security, work security and social security.

Be that as it may, the implementation of the policy in Malaysia is expected to improve the social and financial condition of employees. An economic analyst concluded that there is strong empirical evidence that countries which implement a minimum wage tend to see a positive wage effect and a small negative employment effect among workers covered by the minimum wage legislation if the wage is set above the market equilibrium level (Kaviyarasu Elangkovan, 2012). In addition, implementation of minimum wages will bring up competitive advantage in order to help redress the imbalances and imperfections of the free market economy. However, the new minimum wages policy in Malaysia is still in the beginning of process implementation; therefore, research is needed in order to provide strong empirical evidence to support.

## 2.2 Implementation of the Policy in Different Countries

Generally, minimum wage has been known as the lowest pay rates to employees who accomplished their work task in the required time frame. In developing countries such as Malaysia, China and South Africa, the main purpose of introduced minimum wage is to protect unskilled workers and young workers from being discriminated and pay equally. At the same time, it also helps to improve the lower pay worker's living condition.

From Malaysia's context, minimum wages (MW) defines as the lowest hourly, daily or monthly remuneration that employers legally pay to workers and it is the lowest wage at which workers may sell their labor (Kaviyarasu Elangkovan, 2012). This legislation had been implemented since 1st January 2013 and the purpose is to protect lower pay slavery in market economy. This policy providing the protection for lower skill level or unskilled employee and maintains the employment opportunities of entry level for all industries and sectors registered in Malaysia.

Meanwhile, for South Africa, the purpose of introduced minimum wage is to improve the country economy and thus keep away from poverty line. The poverty line of the country is around R515 (approximately RM 165). The amount of minimum wage in South Africa is R1500 (approximately RM 480) per month. Therefore, the percentage of minimum wage from poverty line in South Africa is around 200%.

Unlike Malaysia, South Africa's minimum wage is determined at national, regional, sectoral and occupation/ skill level and are only applicable to certain sector where labour has been deemed vulnerable. In detail, there are nine sectors involved and these are: domestic work sector, contract cleaning, private security sector, wholesale and retail, farm worker sector, forestry sector, taxi sector, learner-ships and children in the performance of advertising, artistic and cultural activities.

However, if a sector is not considered vulnerable, the minimum wage is hence not applicable and it is regardless of the fact that some employees in that particular sector may be paid very low wages. On the other hand, for those vulnerable workers and work in the sectors stated above, if their employer is found guilty by which paying below the minimum wage, the individual can lodge complaint to the Department of Labour or to Trade Union representative, the employer can be fined. Minimum wages in South Africa is adjusted annually and usually fixed in one year.

Moreover, in China perspective, minimum wage had been introduced around ten years ago, which is on March 2004 by the Ministry of Labor and Social Security and is updated every two years. The meaning of minimum wage as according to "Minimum Wage" Article III, it is about the legal working hours of workers in labour contract law to provide normal working hours under the premise of labour, the employer shall pay the minimum legally labour compensation. China's minimum wage is determined at regional level as compared to South Africa, they have minimum wage to be determined at national, regional, sectoral and different skills level.

China's minimum wage is between RMB 500–RMB 1120 (approximately RM 265–RM 594) where the poverty line is somewhere around RMB 1196 (RM 634) per capita annual income. Two different kinds of minimum wages been introduced in China which are monthly and hourly rate minimum wages. Both monthly and hourly minimum wage component include fixed and variables elements. Several factors need to be considered when determine minimum wage such as cost of living of resident per capita, individual worker's insurance premium, housing fund, the average wage, unemployment and the economic developmental level.

In addition to the above statement, China's monthly minimum wage is refer to local employment and their dependents of the cost of living, the urban consumer price index, individual workers to pay social insurance and housing fund, the average wage, the level of economic development, and employment status. For the hourly minimum wage, it is to be paid according to basic pension and medical insurance, job stability, working conditions and labour intensity. Therefore, China's minimum wages are varied as according to their economic developmental and change. In contrast, the minimum wages level in Malaysia is unified for all workers with contract of service which are including local and foreigner labour in all sectors.

### ■3.0 METHODOLOGY

This study adopted a qualitative approach by using document analysis technique. The available articles that were related to the study were reviewed in the ways to find out the results. This study are conducted by searching the online databases like Emerald and Scopus which can be accessible via Universiti Teknologi Malaysia (UTM) library with the keywords 'minimum wage', to narrow the search. The local and international related articles are retrieved, read and paraphrased. Any necessary information for this study was extracted, and then critically analyzed and interpreted. The study has been structured in the light of the research objectives.

This study interest not only limited to the minimum wages in Malaysia's industry but also other countries such as South Africa and China. The study compared the practices of minimum wages among Malaysia, China and South Africa by reviewing published scholarly articles.

### ■4.0 RESULTS AND DISCUSSION

The literature on minimum wages practices in other developing countries had shown the different ways to implement minimum wages legislation. China and South Africa are known as the largest population in the world with labour intensive is manpower in their production line. Many big companies had invested their main production industry in China due to larger population and cheap labour for example, Apple Inc.

There are lots of arguments and almost all the entrepreneurs disagreed with the implemented minimum wages in Malaysia. They debating about the increase of labour cost and foreigner worker's levy cost and refuse to followed the implemented minimum wage policy.

Thus, there is no doubt that Malaysia's minimum wage policy makers should review how and what had to be done in order to create a fair and reasonable wage policy. A brief suggestion is that the policy makers should review minimum wages that have been implemented in South Africa and China where in both countries, their minimum wages are been categorized into few sectoral and are reviewed based on the cost of living of the urban and economic developmental of the country. Hence, Malaysia's minimum wage policy makers should consider their approach by reviewing cost of living for each state in Malaysia, and implement the minimum wage policy according to the sectoral and skills level of every single different industry instead of 'one covered all' policy.

As per findings of World Bank, the minimum wages rate in Sabah has a bigger impact from current average salary which is RM577 to RM800. Policy maker should be based on the standard of living and local economic to setting minimum wages level. In this case, these new adjustments will adherently increasing cost of employment and burden of employers. Small and medium enterprises (SMEs) employers will suffer from this increment. Malaysia totally consists of 13 states, and only few states are urban area and others still consider as rural area. So, it is unfair for minimum wages level which covers the same rate for all the states. For example, Federal Territory Kuala Lumpur is insufficient for new wages rates RM900 because of high cost of living in the city.

The minimum wage policy is playing an important role to reduce working poverty and provide social protection to vulnerable workers. It means to secure low paid employees have a basic standard of living and ensure that those employees can meet their basic needs. Moreover, government is playing a crucial role to pressure employer to comply the minimum wage policy which will cause them to revisit their wage structure and business model, and this is an opportunity to encourage employer to innovate new technology in their business by moving up their value chain. In order to change current situation of Malaysia which is caught on middle-income trap, the implementation of minimum wage is tend to reduce the poverty line and employees able to afford basic necessities; employers encouraged to invest in new technology in purposed of long run business. Therefore, this can help to transform Malaysian from middle income nation to high income nation.

### ■5.0 CONCLUSION

In this study, we compared the compliance of minimum wages among three countries which are Malaysia, China and South Africa. As we know, China and South Africa can consider as most populous countries which can considered as good examples for us to study their implementation on minimum wages compliance. Hence, it is recommended that the minimum wage rate can be redefined according to the cost of living of the entire states. It will be much better if further research for new minimum wages policy on small and medium enterprises to be carried out in order to strengthen the evidence found through this study.

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