



Minimum Wages in Malaysia

By

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Midrand, Gauteng,

South Africa



OUTLINE OF PRESENTATION



Part 1: Introduction of Malaysia

Part 2: Historical Background of Minimum Wages in Malaysia

Part 3: Rationale for Shift to National Minimum Wages

Part 4: How Malaysia Did the Transition on Minimum Wages

Part 5: Key Features of Malaysia's Minimum Wages Model

Part 6: Data on Enforcement of Minimum Wages

Part 7: Issues & Challenges

Part 8: Moving Forward & Conclusion

Part 1:

Introduction of Malaysia



BRIEF FACTS ON MALAYSIA (2014)



Population : 30.26 million
Capital : Kuala Lumpur
Admin Capital : Putrajaya
Official Language : Bahasa Malaysia

Political System :

Parliamentary Democracy with constitutional monarch

Economy :

GDP at current price: RM1,106,580 million

GDP Growth : 6.0%

Unemployment rate : 2.9%

Currency : Ringgit (MYR)

Climate : Tropical, annual monsoon

Area : 330,290 km²

Religion : Islam, Buddhist, Hindu & Christian

Ethnic Groups : Malay, Chinese, Indians & Others

Part 2:

Historical Background of Minimum Wages in Malaysia



WAGES COUNCILS ACT 1947



1. MW is **not a new concept** in Malaysia. In Sept 1947, Wages Councils Act 1947 (Act 195) were in place.
2. **6 Wages Regulation Orders** were enacted – by **occupations** and **subsectors**:
 - i. Wages Regulation (**Catering & Hotel**) Order 1967 (Amended in 1982);
 - ii. Wages Regulation (**Cinema Worker**) Order 1972 (Amended in 1981);
 - iii. Wages Regulation (**Stevedores & Cargo Handlers**) Order 1970 (Amended in 1977);
 - iv. Wages Regulation (**Shop Assistants**) Order 1970 (Amended in 1981);
 - v. Wages Regulation (**Shop Assistants**) (Sarawak) Order 972; and
 - vi. Wages Regulation (**Private Security Guards**) Order 2011



SETBACKS UNDER THE WAGES COUNCIL ACT 1947 (ACT 195)



1. Wages Councils were established for workers in **vulnerable** and **low pay** and with **inadequate collective bargaining** arrangements only.
2. **Process** to establish Minimum Wages Order under Act 195 were **long, tedious and ad-hoc**.
3. MWs rates were **not regularly revised**.
4. The mechanism for **updating MW** because **ineffective**.
5. With only 6 sub-sectors/occupations covered, **other large** workforce were left-out.

Part 3:

Rationale for Shift to National Minimum Wages

(1) Calls for National Minimum Wages

- **Malaysian Trade Union Congress (MTUC)**
 - On 18 Jun 2007, the MTUC made a proposal to the government to implement a national minimum wage of RM1,200 including RM300 Cost-of-Living Allowance (COLA).
- **The Rakyat (Blog)**
 - Official MoHR's Blog was launched on 24 March 2010.
 - The blog was opened for 2 months as a venue for discussion on the national minimum wage in Malaysia.



(2) SIGNIFICANT PERCENTAGE OF LOW-INCOME WORKERS IN MALAYSIA



The **National Employment Returns 2009** study conducted by the MoHR shows that **33.8%** of the private sector workers earned wages less than RM700 (USD 187) per month, **well below the 2007 poverty line income of RM720 (USD 193) per month.**

National Average = 33.8%

Sabah = 63.0%

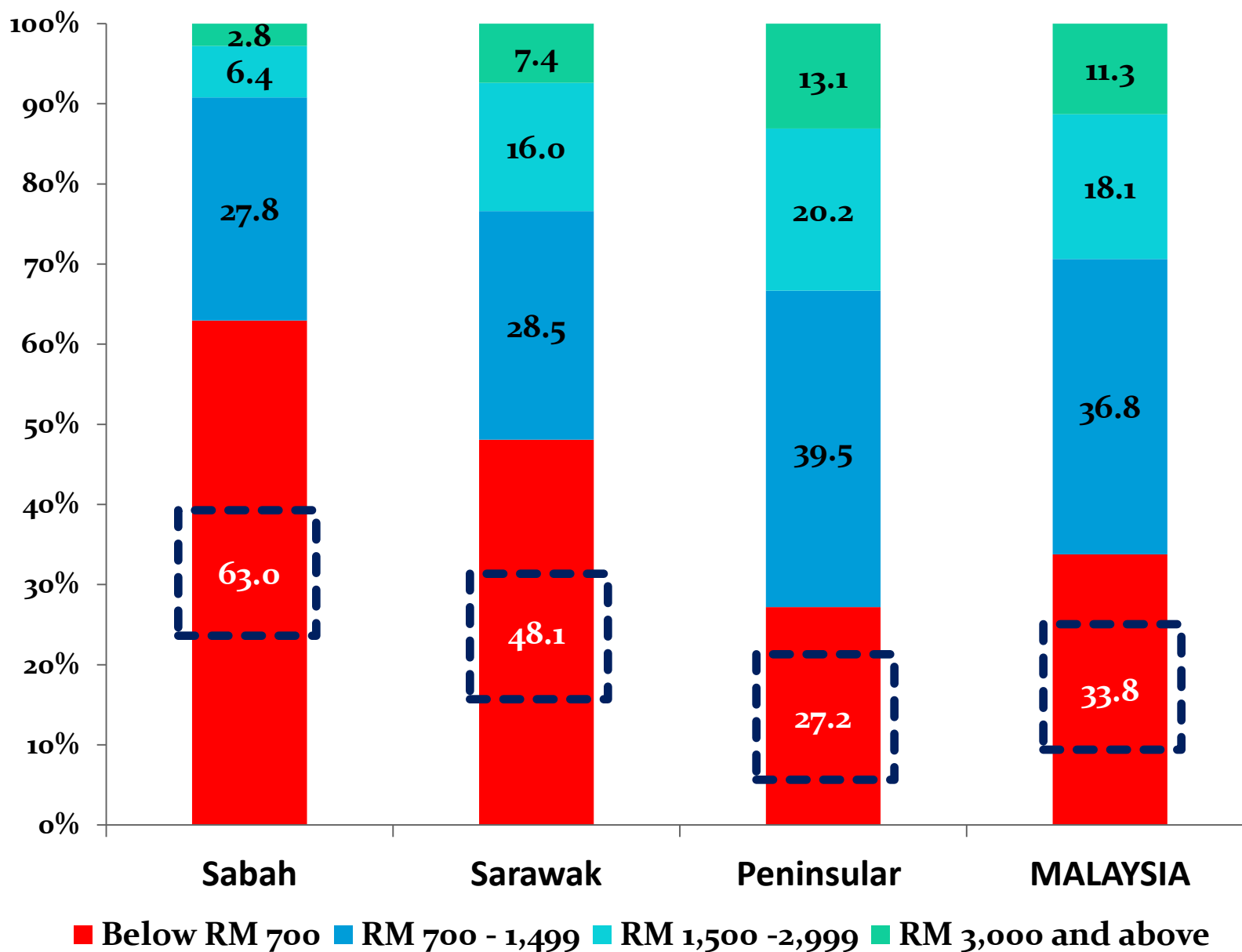
Peninsular = 27.2%

Sarawak = 48.1%

Source: NER 2009

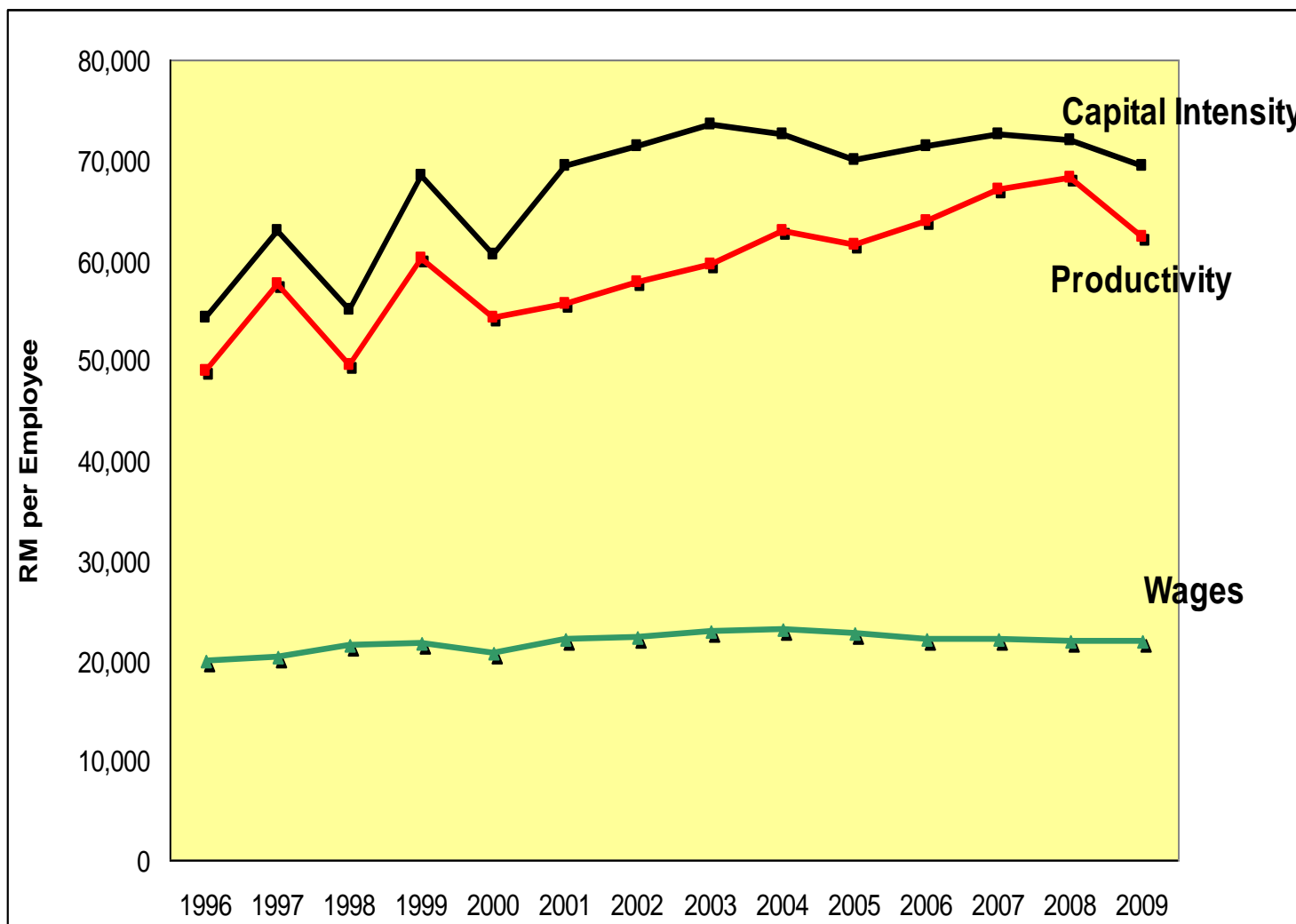


A SIGNIFICANT PERCENTAGE OF WORKERS WHO EARN WAGES LESS THAN RM700

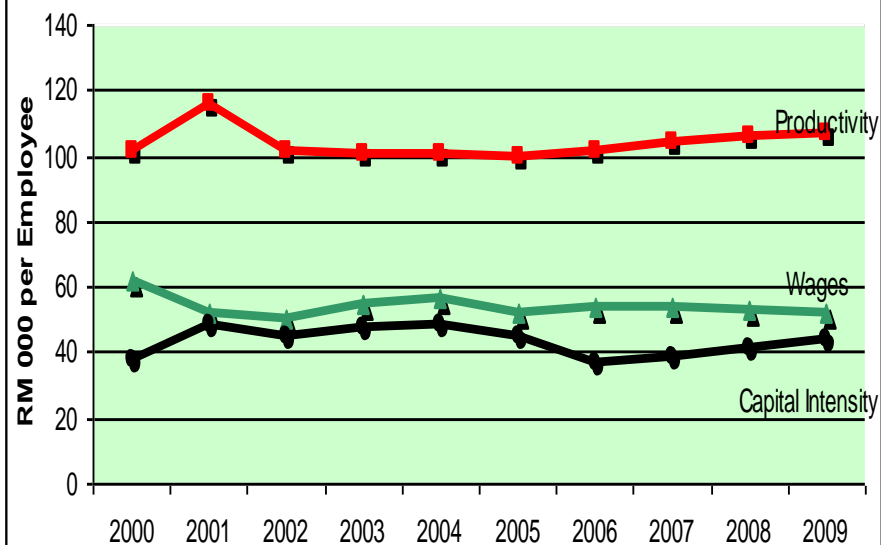




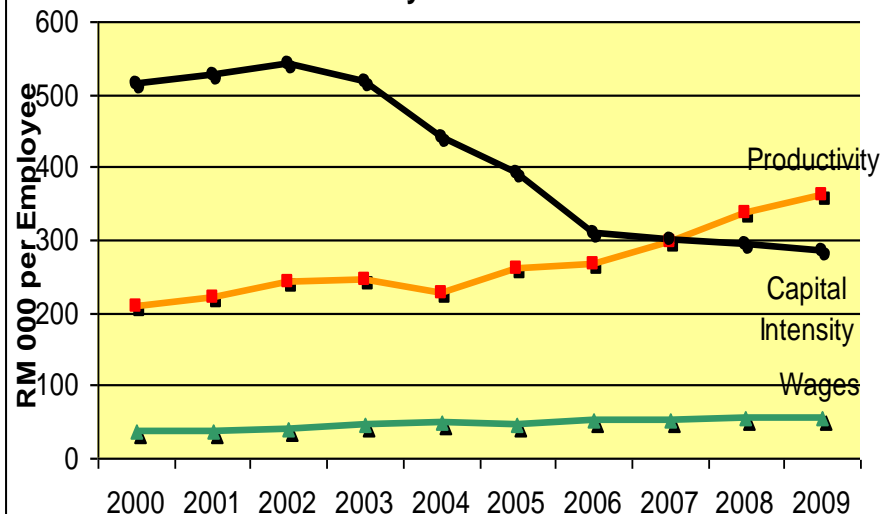
(3) PRODUCTIVITY AND WAGES IN MANUFACTURING SECTOR (2009)



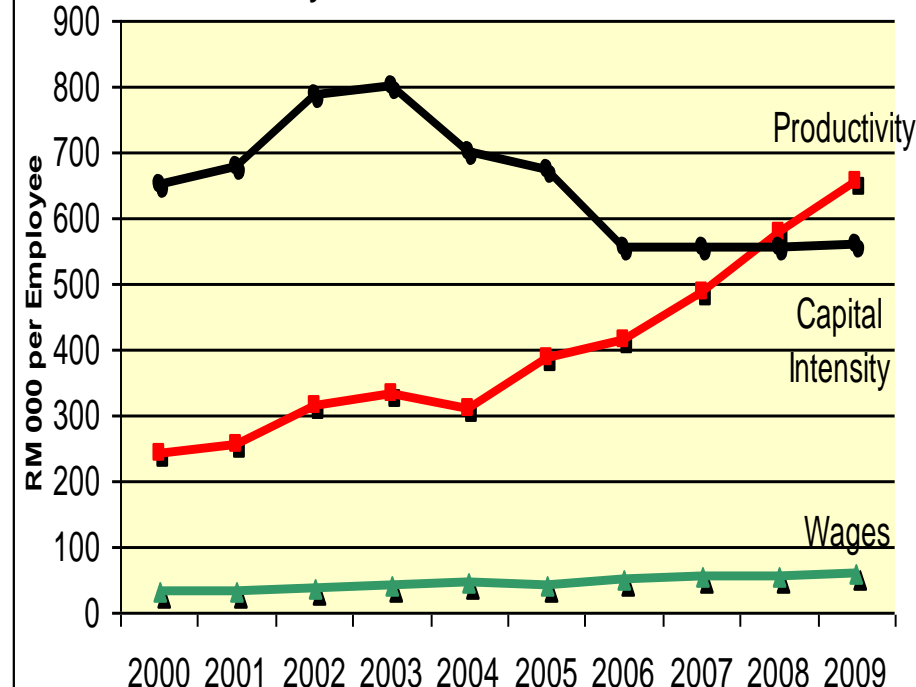
Productivity in Computer Services



Productivity in ICT Services



Productivity in Telecommunications Services

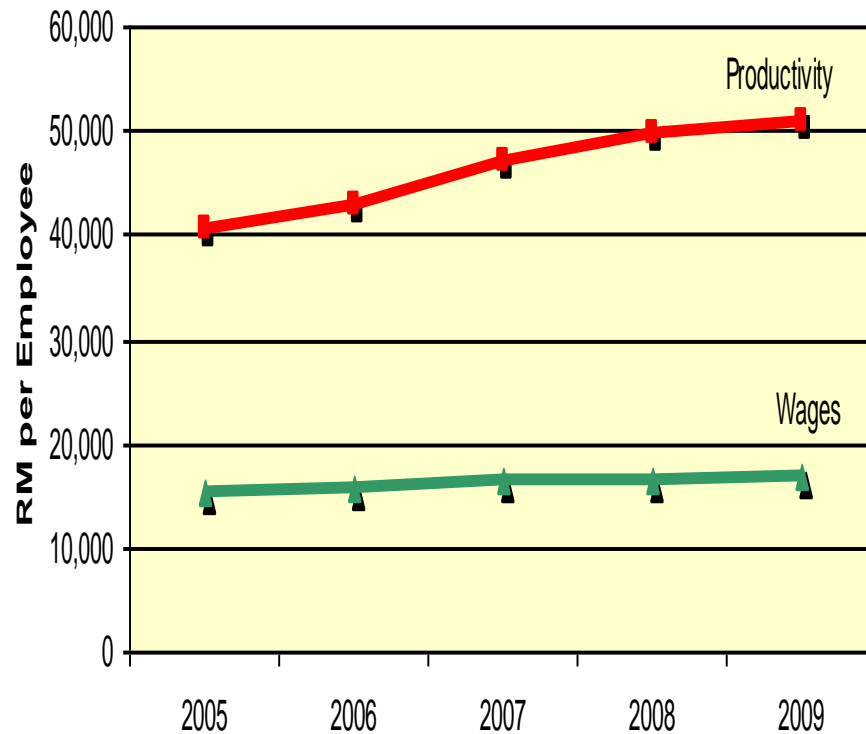




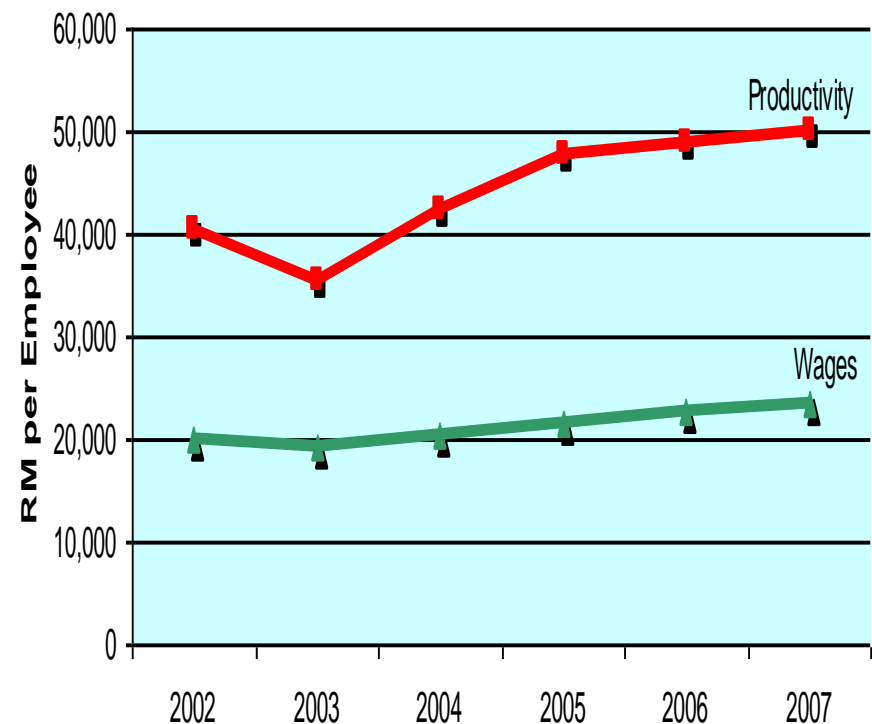
PRODUCTIVITY IN SERVICES SECTORS 2009



Productivity in Hotel Industry



Productivity in Hospitality Services





SUPPRESSION OF WAGES



The slow growth of wages relative to labour productivity (wage rate increases about 2.6% annually compared to productivity rate of 6.7%) – shows the suppression of wages, especially those of low skilled workers & inefficiencies in the labour market.

World Bank 2011



(4) WAGES GROWTH vs. CPI GROWTH

According to the Yearly Manufacturing Statistics, **wages growth** in Malaysia has marginally **increased by 2.0% per annum** over the last **10 years**, whereas the **Customer Price Index (CPI)** has increased on average **2.2% per annum** over the same period.

YEAR	WAGE INDEX	CPI	INFLATION (%)	WAGE GROWTH (%)
1999	81.2	90.3	2.8	
2000	83.4	91.7	1.6	2.7
2001	90.8	92.9	1.4	8.8
2002	92.6	94.6	1.8	2.1
2003	96.6	95.7	1.2	4.3
2004	98.7	97.1	1.4	2.1
2005	100.0	100.0	3.0	1.3
2006	101.0	103.6	3.6	1.0
2007	102.2	105.7	2.0	1.2
2008	103.3	111.4	5.4	1.0
2009	98.8	112.1	0.6	-4.3



(5) LOW QUALITY OF LIFE AMONGST LOW INCOME GROUPS



Lower wages will affect the quality of life of low income groups that will contribute to incidence of poverty, low purchasing power, low education attainment, poor health, food and nutrition.



(6) SHARE OF WAGES TO GDP WAS LOW



	<u>(2012)</u>	<u>(2014)</u>	<u>(2015)*</u>
Malaysia	32.9%	34.3%	34.9%
Singapore	41.4%		
South Korea	45.8%		
Taiwan	46.2%		
Australia	48.7%		
Canada	50.7%		
Japan	51.9%		
USA	53.4%		
France	53.4%		
Sweden	53.8%		
UK	53.8%		

*** Projected**



(7) GOVERNMENT'S RESOLVE



Prime Minister has announced that the national scale minimum wage policy to be introduced through the establishment of National Wages Consultative Council during the 2011 budget speech.

The National Economic Advisory Council (NEAC), in its New Economic Model Report – Concluding Part, also **aware that the dysfunction in the current wage-setting mechanisms is depressing wages to an unacceptably low level.** As such, in the spirit of the NEM objective of inclusiveness, NEAC advocates the introduction of a minimum wages policy.
(Page 69, NEM).

NEW ECONOMIC MODEL (NEM)

To become a high-income nation that is both inclusive and sustainable by 2020

High-income

- A high-income economy is defined by the World Bank as a country with a Gross National Income per capita of + \$12,196 2009.
- Labour market efficiency is one of the key factor for economic growth.

Inclusiveness

- No groups will be marginalised and the essential needs of the rakyat will be satisfied.
- Minimum wages will help the working poor including those in bottom 40% household earned less than RM1,500 per month.

Sustainability

- The minimum wages implementation seeks to improve the labour market efficiency where employers now have an upper hand in bargaining power than workers in determining wages.
- With minimum wages, workers and employers will have a more balanced platform in bargaining over wages, leading to a more economically sustainable wages growth.

Part 4:

How Malaysia Did the Transition on Minimum Wages



HOW MALAYSIA DID THE TRANSITION ON MINIMUM WAGES



1. More than 200 series of meetings/ engagements/ brainstormings with various employers/ workers/ relevant groups.
2. Collaboration with World Bank and ILO.
3. Public – online consultations through webpage/ blogs.
4. Technical Workshops with Government agencies.
5. Adoption of scientific/ statistical formula as guide (Base Criteria and Adjustment Criteria).
6. A specific legislation was enacted (National Wages Consultative Council Act 2011 (Act 732).
7. Benchmark studies of other countries (Japan, South Korea, Thailand, US, Australia, New Zealand, UK, Hong Kong, Indonesia, Philippines, Taiwan, etc.)

Part 5:

Key Features of Malaysia's Minimum Wages Model



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**.



KEY FEATURES OF ACT 732



1. Malaysia's MW only for **private sector** workers only.
2. Minimum wages is '**BASIC WAGES**'.
3. All aspects of the MW are by **legislative measures**.
4. NWCC comprises **4 groups** (Employers', Workers', Government & Independent reps).
5. **Same number** of Employer and Worker Representation.
6. **Chairman** – an independent person.
7. **Meeting procedures** are laid-out in Act 732.
8. **Technical Committee** to advice NWCC.
9. **Voting process** is provided for in the Act.
10. **Funds** to finance NWCC operations Secretariat's role.

cont....

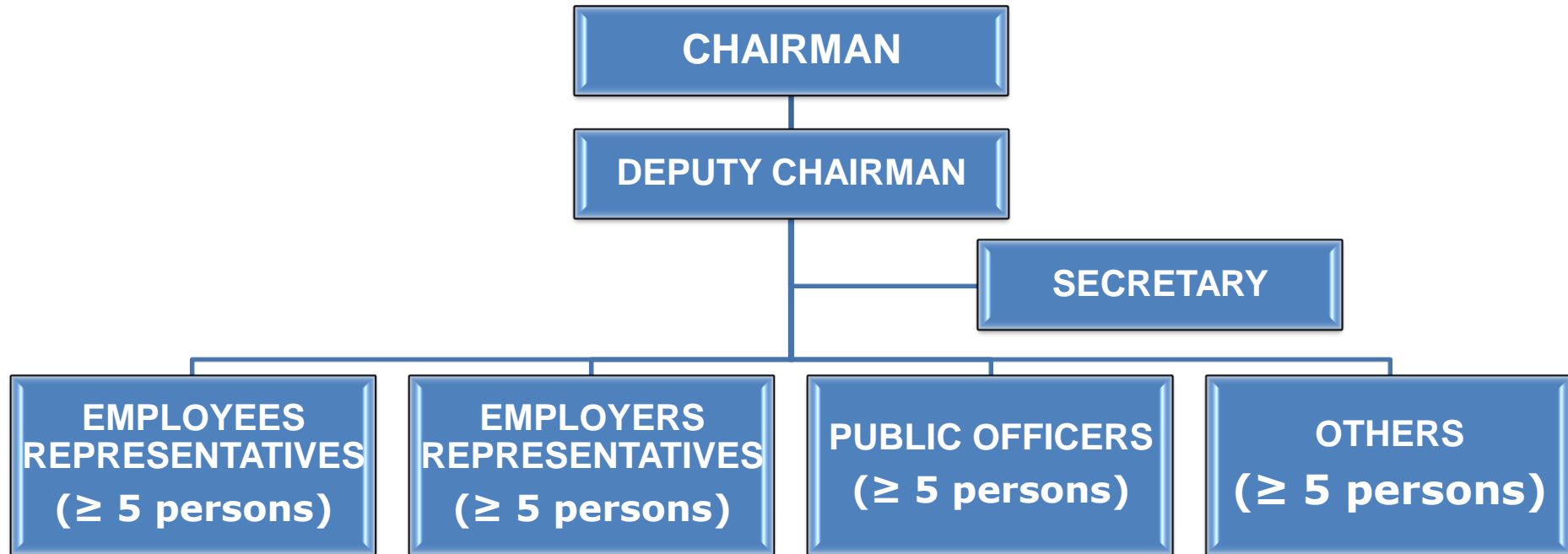


KEY FEATURES OF ACT 732



11. **Cabinet** make final decision.
12. **MW Order** made by Minister of Human Resources.
13. MW Order to be **reviewed** once every 2 years, or earlier upon request by any member.
14. **Notice for meeting** -14 days
15. Meeting Quorum – **2/3** of total Member of NWCC.
16. **Enforcement** of Minimum Wages Order by the Labour Department.
17. Enforcement powers are stipulated clearly in Act 732.
18. **Offences** and **Penalties** are stipulated.
19. Protection of civil servants
20. Provisions for **prosecutions** and **compounding** of offences

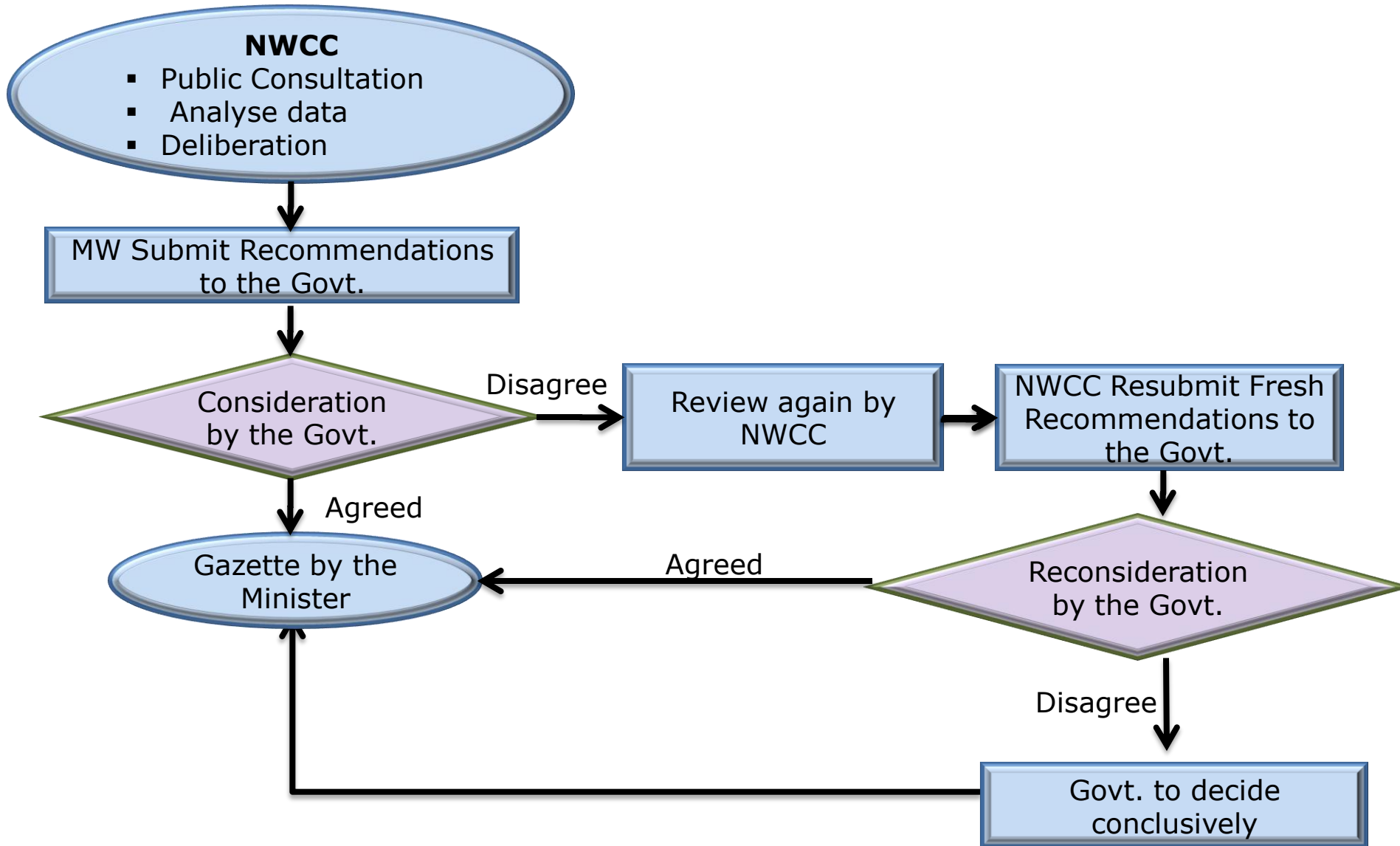
SECTION 5: MEMBERSHIP OF THE COUNCIL



- **Minimum 23** and **maximum 29 members** at any one time.
- Members of the Council except the Secretary and public officers shall hold office for a term not **exceeding 3 years and may be reappointed.**
- Number of members representing employees' and employers' shall be the same at any one time.

SECTION 21, 22 AND 23 OF ACT 732

PROCESS ON THE DETERMINATION OF MW





MINIMUM WAGES FIXING CRITERIA



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



MINIMUM WAGES FORMULA



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

- 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)

MINIMUM WAGES FOR PENINSULAR MALAYSIA

$$MW_{PM} = \left[\left(\frac{763}{1.2} + 1134.25 \right) / 2 \right] \times \left[1 + 0.038 + 0.032 - (-0.011) \right] = \text{RM}956.73$$

$$PLI_{PM} = \text{RM}763.00$$

$$\text{Avg workers per household (Bottom 40\%)} = 1.2$$

$$\text{Median Wage}_{PM} = \text{RM}1,134.25$$

$$\text{Productivity Growth}_{PM} = 3.8\%$$

$$\Delta \text{CPI}_{PM} = 3.2\%$$

$$\text{Real Unemployment Rate}_{PM} = -1.1\%$$

$$(2.9\% - 4\%)$$

$$i = \text{Peninsular Malaysia (PM)}$$

MINIMUM WAGES RATE FOR SABAH

$$MW_{SABAH} = \left[\left(\frac{RM1048}{1.2} + 577.40 \right) / 2 \right] \times \left[1 + 0.052 + 0.028 - (0.016) \right] = RM771.79$$

PLI_{SABAH} = RM1,048.00

Avg workers per household (Bottom 40%) = 1.2

Median Wage_{SABAH} = RM577.40

Productivity Growth_{SABAH} = 5.2%

Δ CPI_{SABAH} = 2.8%

Real Unemployment Rate_{SABAH} = 1.6%

(5.6% - 4%)

i = Sabah

MINIMUM WAGES FOR SARAWAK

$$MW_{SARAWAK} = \left[\left(\frac{912}{1.2} + 738.71 \right) / 2 \right] \times \left[1 + 0.036 + 0.027 - (0.020) \right] = \text{RM}781.58$$

PLI_{SARAWAK} = RM912.00

Avg workers per household (Bottom 40%) = 1.2

Median Wage_{SARAWAK} = RM738.71

Productivity Growth_{SARAWAK} = 3.6%

Δ CPI_{SARAWAK} = 2.7%

Real Unemployment Rate_{SARAWAK} = 2.0%

(6% - 4%)

i = Sarawak

MINIMUM WAGES RATES

Region	PLI	Median Wage	CPI	Productivity	Unemployment rate
	(RM)	(RM)	(% change)	(% change)	(%)
Malaysia	800	955	3.1	4.2	3.3
Semenanjung	763	1134	3.2	3.8	2.9
Sabah	1048	577	2.8	5.2	5.6
Sarawak	912	738	2.7	3.6	6.0

Region	Minimum Wages Rate (RM)	
	Monthly	Hourly
Malaysia	875.70	4.21
Semenanjung	956.59	4.60
Sabah	771.58	3.71
Sarawak	781.21	3.76

Recommended Minimum Wages Rate (RM)	
Monthly	Hourly
-	-
900	4.33
770	3.70
780	3.75

FINAL DECISION BY GOVERNMENT

Region	Monthly Rate (RM)	Hourly Rate (RM)
Peninsular Malaysia	900	4.33
Sabah & WP Labuan	800	3.85
Sarawak	800	3.85

WORLD BANK FINDINGS

Analysis conducted by the World Bank concludes that a minimum wage rate below RM1,000 per month /RM4.88 per hour (total compensation) or RM900 per month/ RM4.33 per hour (base compensation) **would not** significantly affect firms, employment, foreign direct investment and the migrant inflow into the country.



MINIMUM WAGES ORDER 2012



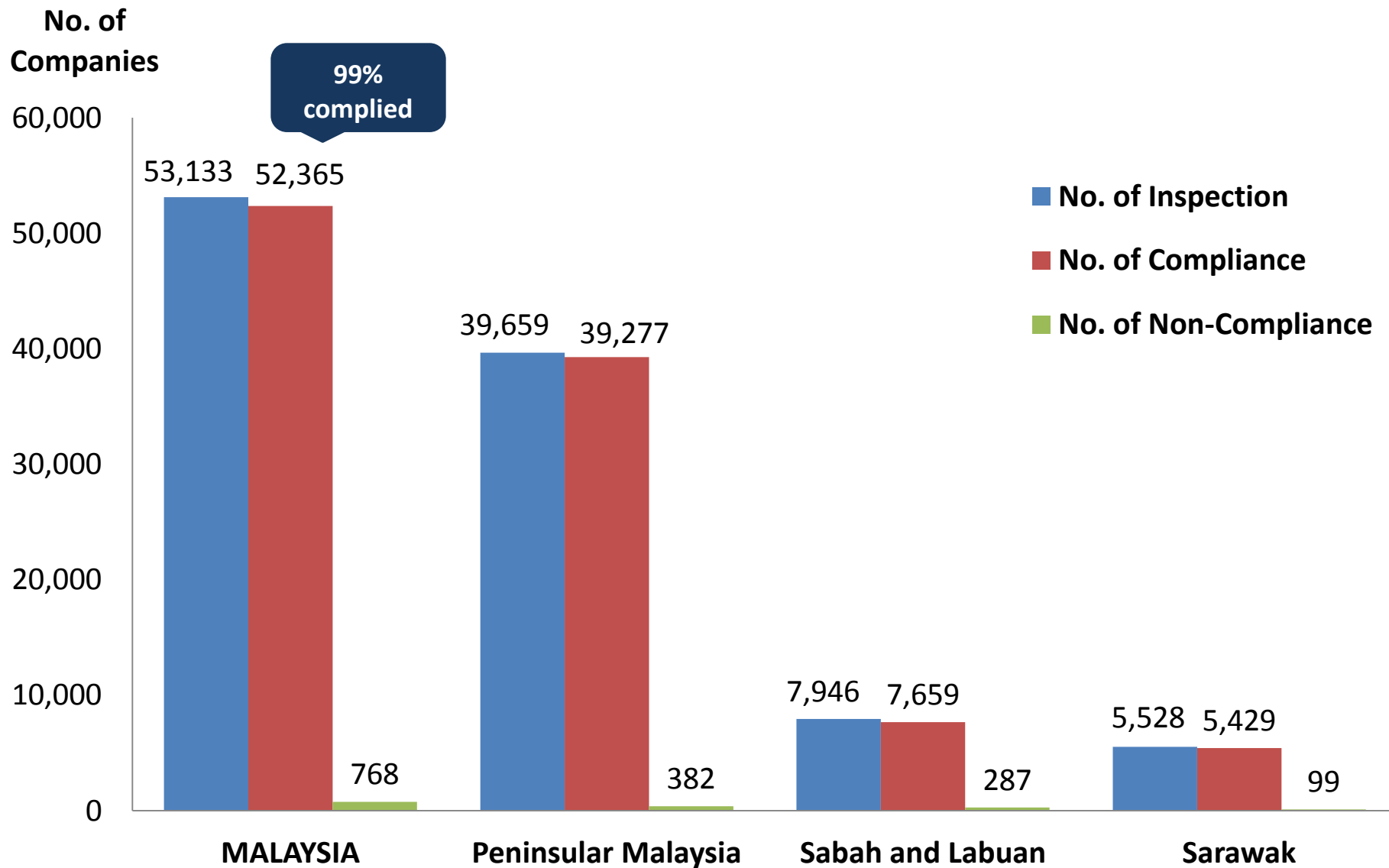
1. MW's **rate** (Peninsular Malaysia = RM900)
(Sabah, Sarawak & Labuan = RM800)
2. **Coverage** of MW to all workers, **excluding Domestic workers**.
3. **Non-micro employers** to start paying MW beginning 1.1. 2013.
4. **Micro enterprises** - start later – beginning 1.7.2013.
5. **Professional micro enterprises** – beginning 1.1.2013.
6. Employers may apply for **Deferments**.
7. Allows **Restructuring** of wages before enforcement date.
8. Reduced rate for **probationers**.

Part 6:

Data on Enforcement of Minimum Wages



MINIMUM WAGES STATUTORY INSPECTION (2014 & UNTIL 30 APRIL 2015)





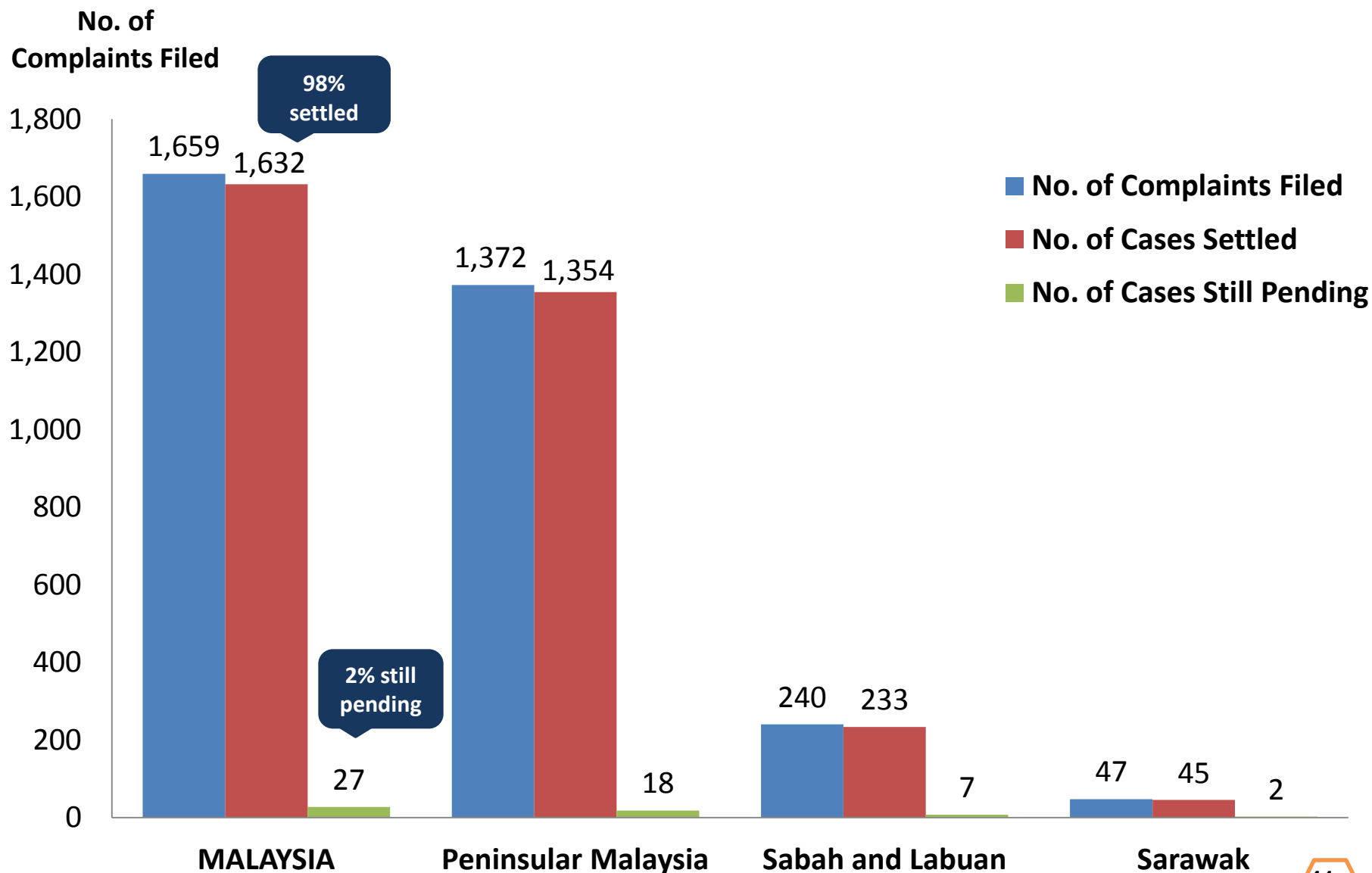
DATA ON LABOUR CASE RELATING TO MINIMUM WAGES (2014 & UNTIL 30 APRIL 2015)



Region	No. Of Cases Filed	No. Of Cases Settled	No. Of Cases Still Pending	Claim Amount (RM)	Ordered Amount (RM)
Peninsular Malaysia	1,230	188	1,042	20,690,055.94	722,714.33
Sabah	143	128	15	1,932,366.97	1,285,717.93
Sarawak	64	54	10	459,571.60	160,221.77
MALAYSIA	1,437	370 (26%)	1,067 (74%)	23,081.994.51	2,168,654.03



DATA ON COMPLAINTS RELATING TO MINIMUM WAGES (2014 & UNTIL 30 APRIL 2015)





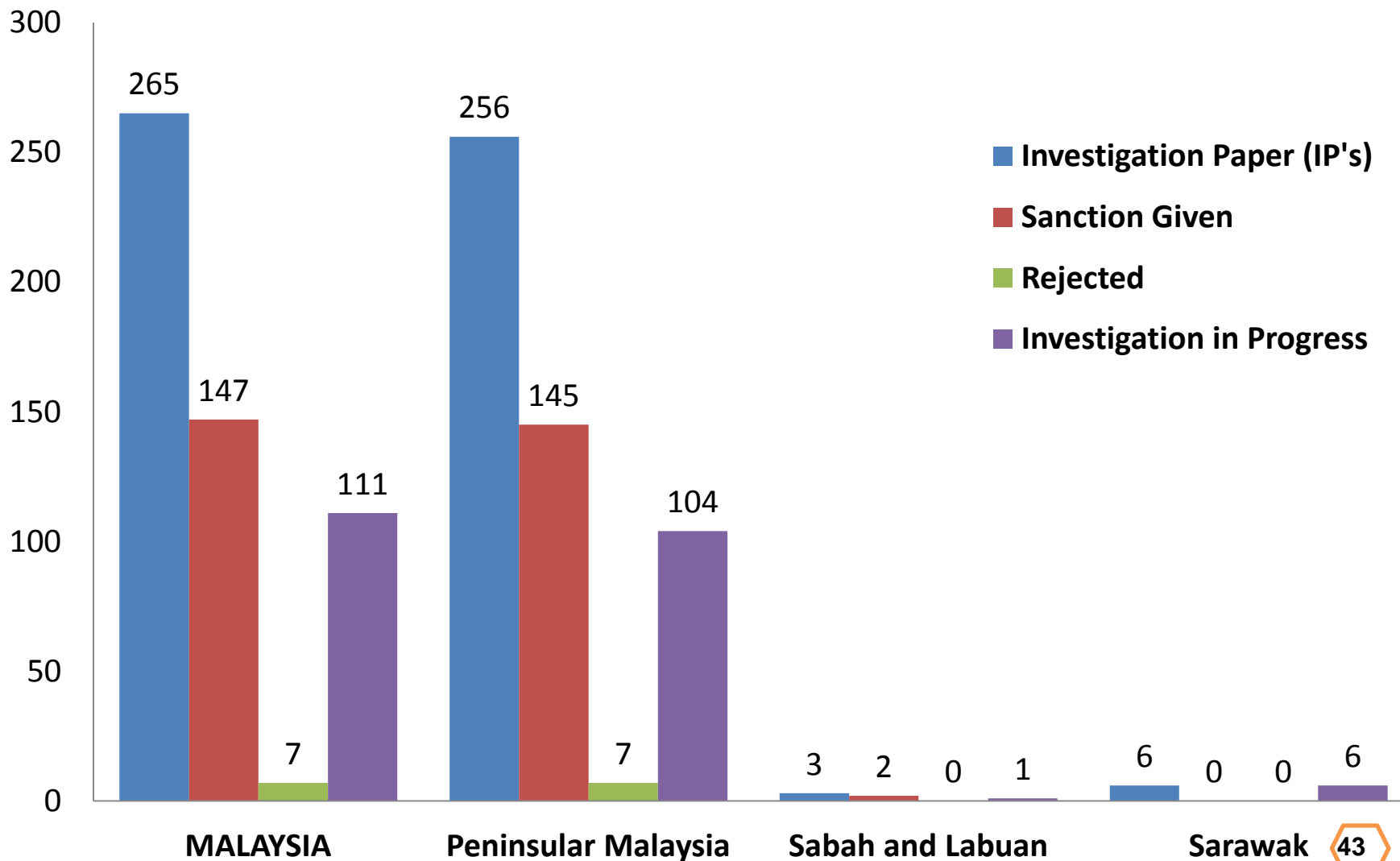
DATA ON TRADE DISPUTE CASES RELATING TO MINIMUM WAGES (2014 & UNTIL 30 APRIL 2015)

No. of Cases Filed	Number of Cases Resolved (Through Conciliation)	Number of Cases Referred to Industrial Court	Number of Cases Pending in Industrial Relations Department
52 (involved 7,233 employees)	17 (33%)	30 (58%)	5 (10%)



DATA ON PROSECUTIONS RELATING TO MINIMUM WAGES (2014 & UNTIL 30 APRIL 2015)

No. of Investigation
Papers (IP's)



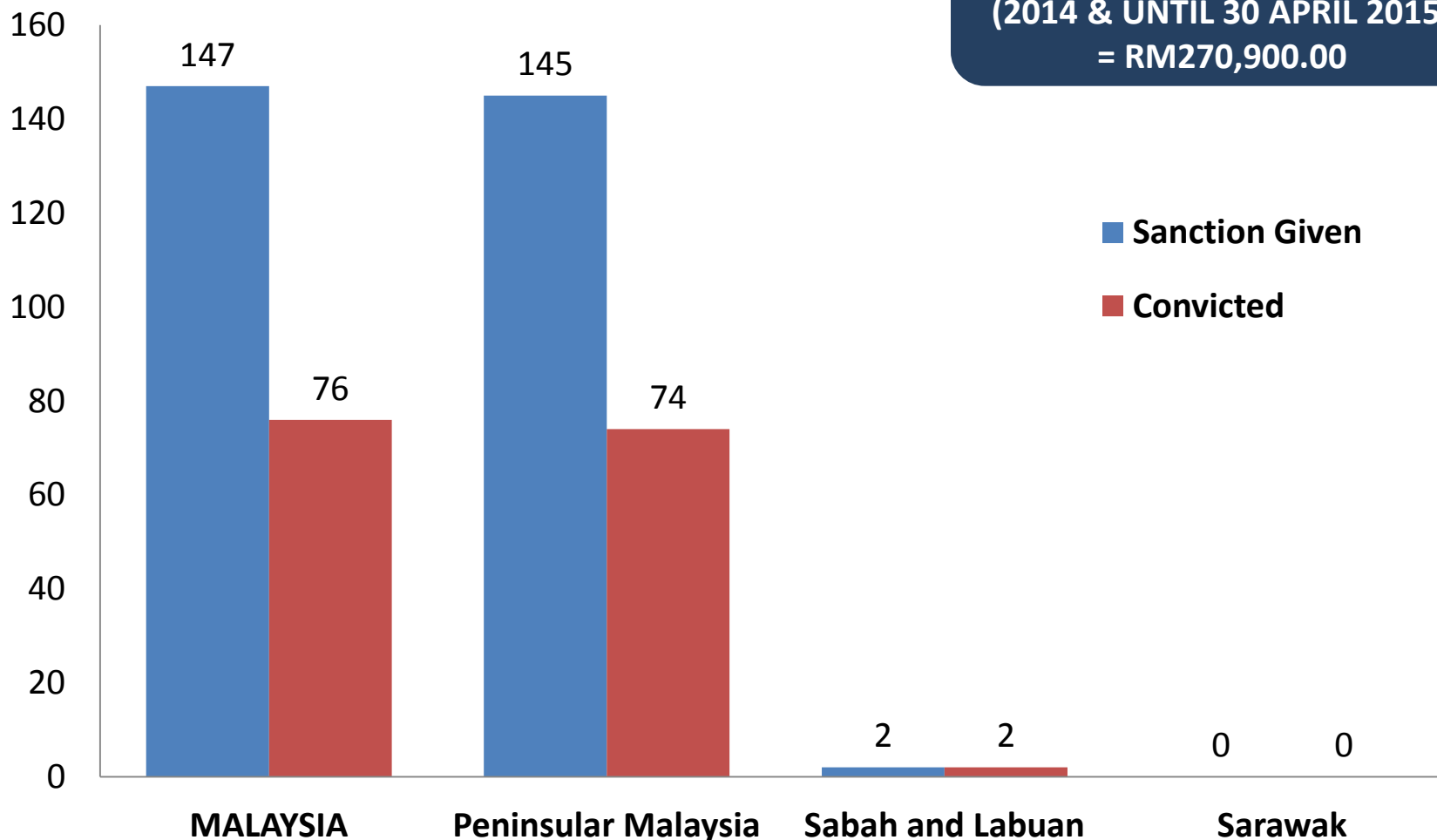


DATA ON PROSECUTIONS-CONVICTIONS RELATING TO MINIMUM WAGES (2014 & UNTIL 30 APRIL 2015)



No. of Sanction
Given

**TOTAL FINES IMPOSED
BY COURT
(2014 & UNTIL 30 APRIL 2015)
= RM270,900.00**



Part 7:

Issues & Challenges



ISSUES AND CHALLENGES



1. Calls for a Separate MWs for **foreign workers**.
2. MWs in **micro enterprises**.
3. MWs in **non-profit entities**.
4. MWs for **Persons with Disabilities**.
5. MWs for **piece-rated/ commission/ tonnage/ trip** based occupations.
6. MWs in **labour intensive industries** (textile, plastics, rubber, wood, furniture, agriculture, security services, cleaning).
7. MWs in **hotels and restaurants** (with service charge components).
8. MWs for **Domestic Workers**.

Part 8:

Moving Forward & Conclusion



MOVING FORWARD



1. Nationwide **Integrated MW Clinics** (8 clinics).
2. **MIDA Transformation Strategy** Report for Labour Intensive Industries.
3. Minimum Wages Portal (<http://minimumwages.mohr.gov.my/>).
4. **Seminar with ILO/World Bank on Review of Minimum Wages-** (25-26 March 2014).
5. **Income Tax Deductions for Expenditure in Relation to Minimum Wages** (P.U. (A) 206-mainly for SMEs for income in 2014 - 14 July 2014).
6. **Seminar on Implementation of Minimum Wages-Lessons Learnt from ASEAN Member States and Dialogue Partners** – (13th – 14th October 2014)
7. So far no adverse impact yet on Malaysia economy and social landscape.
8. Committed to continuous engagement.
9. **Review of the Minimum Wages Order 2012 – ongoing.**



CONCLUSION



1. MW policy (among others) to **transform the economy by 2020**.
2. **Short term** – higher cost of doing business.
3. **Medium and Long Term** – will augment the transformation of the economy.
4. **Challenges/ Hiccups are inevitable**.
5. Businesses esp. SMEs need to revisit their **business model** and **wage structures**.
6. Malaysian **Government is committed** to ensure success of MW policy.
7. Whole of 2013 – **hand holding** and **guiding** employers.
8. 1 January 2014 –**full enforcement** begun.



THANK YOU

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