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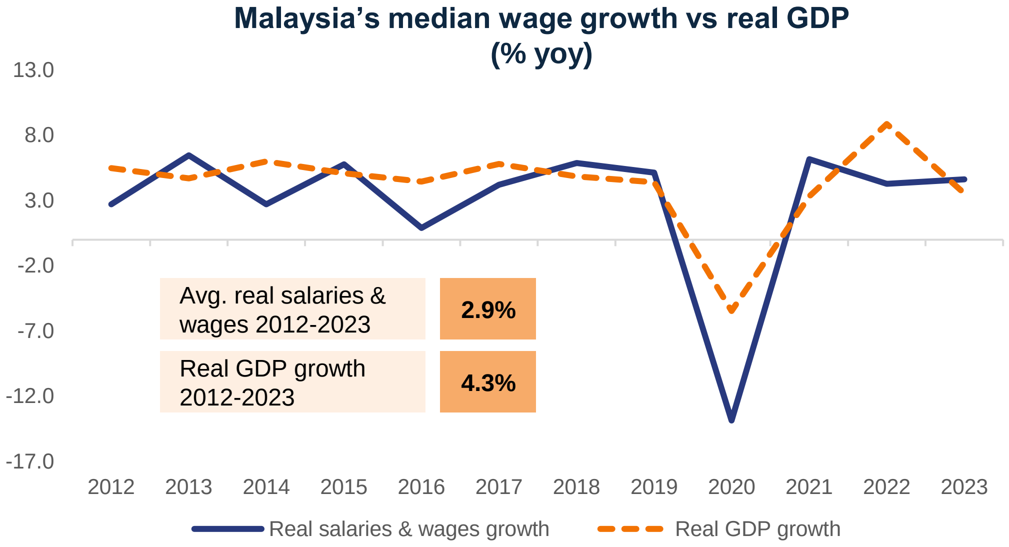
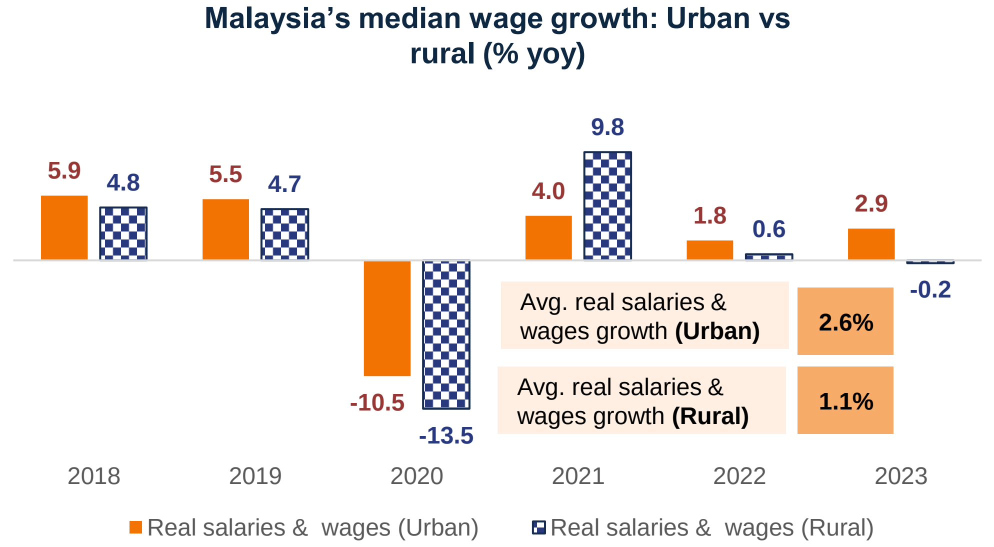
Malaysia's Wage Dilemma: Growth Without Fair Gains?



Sources: DOSM, CEIC, BMMB Economics



Sources: DOSM, CEIC, BMMB Economics

Malaysia's economy has demonstrated resilience and steady growth in recent years, supported by robust investment inflows, a dynamic industrial sector, and a series of structural economic reforms aimed at enhancing productivity and competitiveness. The country has benefitted from strong export performance, a thriving manufacturing sector, and ongoing infrastructure developments, all of which have contributed to its economic expansion. However, despite these macroeconomic gains, **wage growth has not kept pace with the rising cost of living**, posing a significant challenge for many Malaysian workers. Over the past 12 years, **real wages and salaries have grown at an average annual rate of just 2.9%**, compared to **average GDP growth of 4.3% over the same period**, highlighting a persistent gap between income growth and overall economic expansion. This disparity is even more pronounced in rural areas, where real wages and salaries have recorded a significantly lower average growth of just 1.1% per year, compared to 2.6% in urban areas.

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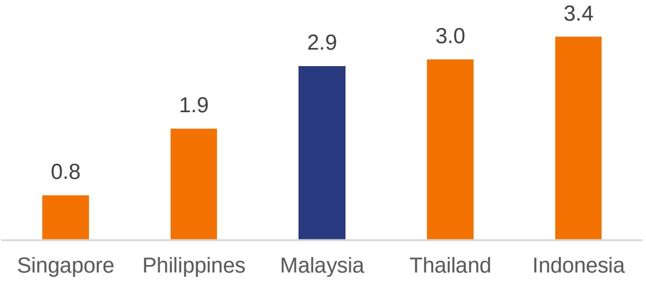
Notable wage disparities persist across Malaysian states

When benchmarked against regional peers, Malaysia's wage growth also falls behind that of Thailand and Indonesia, raising concerns about long-term economic competitiveness and income sustainability. The slower wage growth relative to neighbouring countries suggests potential issues in labour market policies, bargaining power, and productivity-linked compensation. Addressing these challenges will be critical for ensuring that economic gains are more equitably distributed across all segments of society, particularly in the face of rising inflation and cost-of-living pressures.

Across states, Malaysia's wage landscape is also highly uneven. Some key insights from state-level wage distribution data:

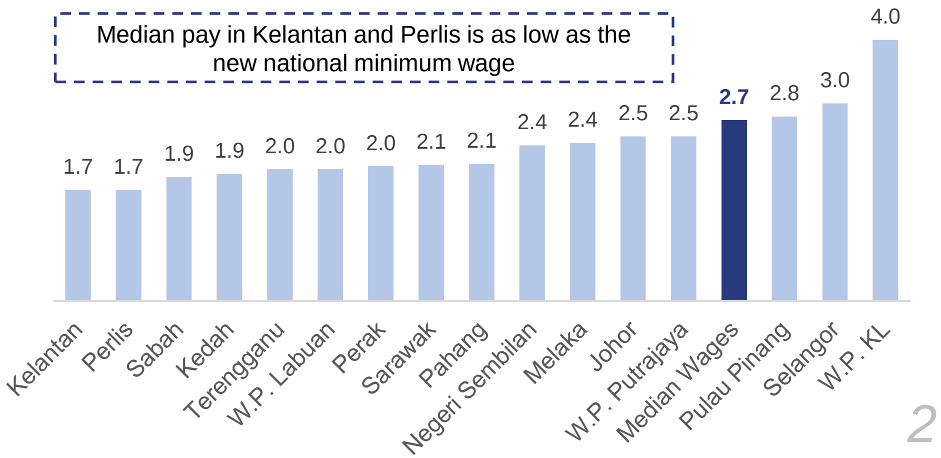
1. **Penang as a high-wage standout**
   - Benefiting from a tech-driven "friend-shoring" investment boom, Penang has experienced strong wage growth and ranks just behind the Klang Valley in terms of absolute median wages and leads in median wage growth y-o-y.
2. **Low-wage regions**
   - Kelantan and Perlis have the lowest median wages, barely meets the newly announced national minimum wage.
3. **Resource-rich but low-wage states**
   - Some high-GDP-per-capita states, driven by resource extraction, still have low wages, indicating that economic gains are potentially capital-intensive rather than labour-intensive.

Regional comparison of avg. median wage growth 2013-2023 (%)



Sources: DOSM, CEIC, BMMB Economics

Median wages across Malaysian states (MYR thousands)



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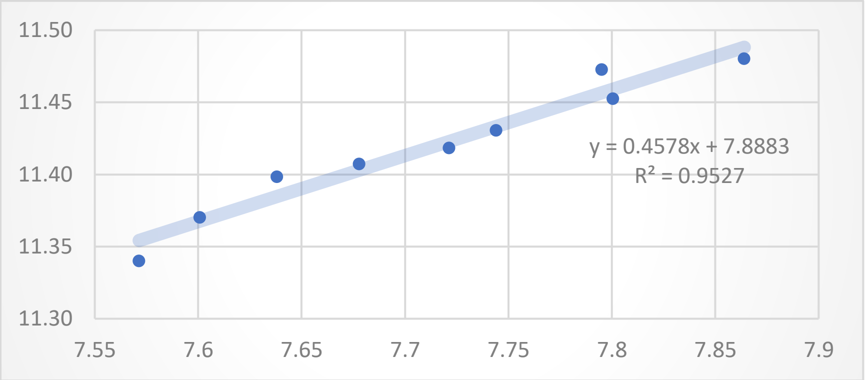
Estimates show that while wages in Malaysia respond to productivity, structural barriers hinder wage growth from keeping pace

To estimate the wage growth elasticity in Malaysia, the team conducted an Ordinary Least Squares (OLS) regression analysis using median wages as the dependent variable. The objective of this study is to examine the relationship between wage growth and key economic drivers, particularly labour productivity and unemployment*.

The findings indicate a high wage-productivity elasticity of 2.12, suggesting that **a 1% increase in labour productivity is associated with a 2.12% rise in median wages**. The estimated elasticity is relatively high compared to many developed economies where elasticities often fall between 0.5 and 1.0, which suggests that if productivity gains were **fully transferred to wages**, workers' incomes could potentially rise sharply with improvements in productivity. Several factors may explain this paradox:

Median wage vs labour productivity



Sources: DOSM, CEIC, BMMB Economics

1 Uneven Distribution of Productivity Gains

- The gains from productivity may disproportionately favor high-skilled workers. If low- and middle-skilled workers do not experience similar gains, the aggregate effect on median wages remains limited.

2 Structural and Institutional Constraints

- Firms might opt to reinvest productivity gains into expanding operations or increasing profits rather than passing these gains on to workers as higher wages.

3 Labour Market Dynamics

- Availability of low-cost foreign labour helps keep overall wage levels down, even if productivity is rising. This can result in a situation where productivity gains do not sufficiently incentivize wage increases for local workers.

** Limitation = The model, however, does not account for foreign labour share, industries / sectoral variations, and unionization rate (proxy for worker bargaining power)*

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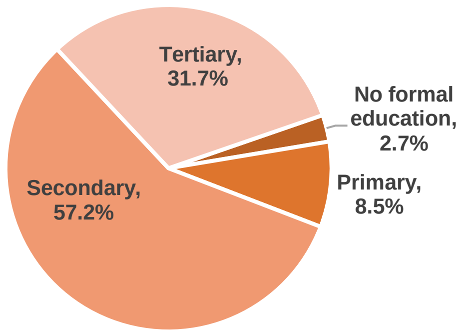
Malaysia’s labour market is held back by a reliance on low-cost, low-skilled workers, foreign labour, and declining unionization

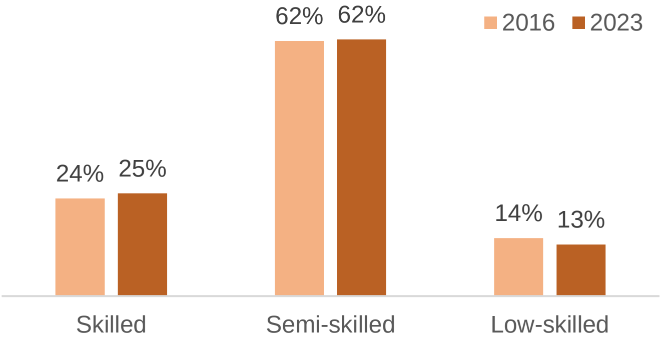
Total employment by level of education

The proportion of workers with tertiary education, which has remained **around 30% for the past decade**, highlights Malaysia's ongoing dependence on lower-skilled jobs



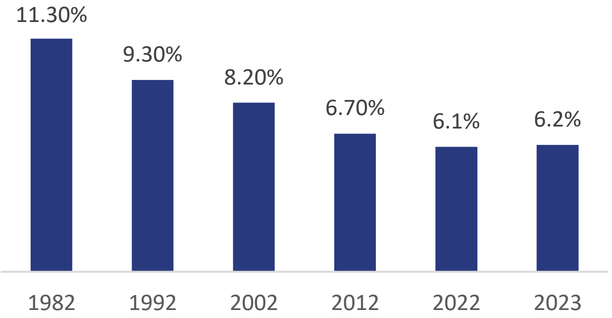
Sources: DOSM, CEIC, BMMB Economics

Proportion of Skilled, Semi-Skilled, and Unskilled Jobs



Sources: DOSM, CEIC, BMMB Economics

% of unionised labour



Sources: Department of Trade Union Affairs

Malaysia's labour market remains stuck in a **low-cost business model**, heavily dependent on semi-skilled and low-skilled workers. With only about 30% of workers holding tertiary qualifications, the workforce continues to be dominated by lower-skilled roles, a trend that has persisted for over a decade. This lack of focus on developing human capital or embracing technology keeps wages stagnant, despite productivity gains. Unless there's a shift towards more skilled, tech-driven industries, wages will continue to trail productivity improvements. The situation is further exacerbated by Malaysia’s **ongoing reliance on foreign labour**, which makes up around 15% of the workforce. This abundance of cheap labour puts downward pressure on wages, especially in lower-skilled sectors, as businesses prefer to keep costs low rather than invest in automation or raise wages. Additionally, a **decline in unionized workers**, driven by restrictive government policies and the rise of outsourcing and gig work, weakens workers' bargaining power. This makes it harder for workers to push for better pay, benefits, and job security.

*** The future and challenges of the trade Union movement in Malaysia, Working Paper presented at the Union Executive CIMB Bank (UEC) First Area Committee Conference*

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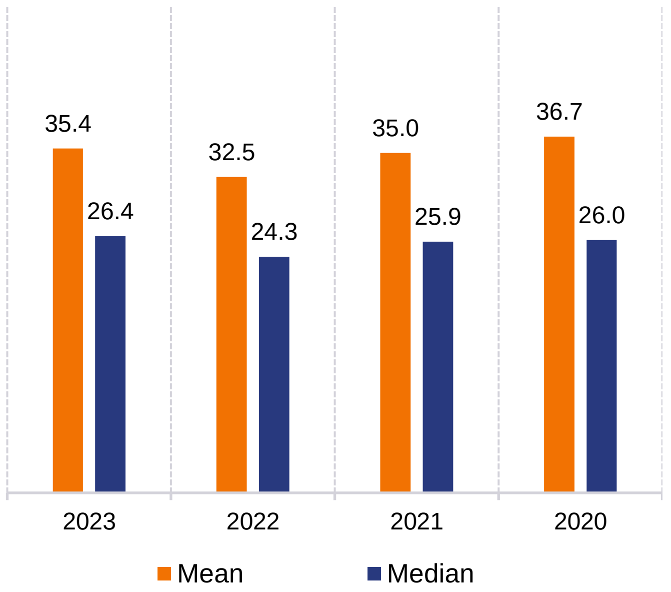
Government intervention is key to promoting fair wages and skills development for a more sustainable, equitable labour market

Malaysia's wage stagnation remains a pressing issue, despite pockets of strong growth in select regions. Without proactive policy interventions, the risk of continued wage stagnation could hamper Malaysia's long-term economic trajectory and quality of life for its workforce. Addressing these challenges requires a coordinated effort between the government, businesses, and labour groups to ensure that economic gains are more evenly distributed and sustainable in the long run. Therefore, we are optimistic that the newly introduced Progressive Wage Policy (PWP) could help alleviate the aforementioned paradox by:

1. **Ensuring Fairer Wage Sharing**
   - ✓ PWP sets wage floors and clear wage progression paths, ensuring that productivity improvements are more directly translated into higher wages for these workers.
2. **Enhancing Skills and Career Progression**
   - ✓ PWP includes provisions for training and skills development. By encouraging employers to invest in human capital, workers can transition to higher-skilled, higher-paying roles over time. This shift not only boosts individual earnings but can also raise overall productivity in sectors that have traditionally lagged.
3. **Reducing Dependence on Cheap Labour**
   - ✓ One of the challenges in Malaysia has been the heavy reliance on low-cost foreign labour, which exerts downward pressure on wages. By ensuring better wages and working conditions for local workers, the policy may reduce this dependence, encouraging a more sustainable and skill-oriented labour market.

Labour's share of national income (% of GDP)



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