

Are Malaysian Workers Paid Fairly?: An Assessment of Productivity and Equity

By Athreya Murugasu, Mohamad Ishaq Hakim and Yeam Shin Yau

A. Introduction: Aspirations, Perceptions and Assertions of Incomes in Malaysia

As we draw closer to 2020, conversations on incomes of Malaysians increasingly dominate the public sphere. First mooted in 1991, Vision 2020 was seen as a notable milestone for Malaysia to achieve, with 2020 deemed as the year that the country will attain the coveted “high-income nation” status. Partly motivated by a shared national aspiration, the growing dialogue also reflects rising public angst over the rising cost of living, housing unaffordability and household indebtedness. Ensuring a reasonable income level and sustainable income growth is integral to manage these issues, especially for those in the lower and middle-income brackets.

Previous work done by Bank Negara Malaysia on the living wage¹ highlighted that in 2016, up to 27% of households in Kuala Lumpur earned below a level of income that allows a meaningful participation in society, opportunities for personal and family development, and freedom from severe financial stress. While the assessment of income against expenditure reveals some degree of inadequacy in incomes from a consumption perspective, this article aims to assess the appropriateness of income levels from productivity and equity perspectives. The findings suggest that incomes received by Malaysian employees are not commensurate with the value of output they produce. This article then discusses policy ideas to complement existing national strategies in ensuring equitable and sustainable income gains.

B. Benchmarking Income against Productivity: Are Wages Reflective of Workers’ Efficiency?

The relationship between wages² and productivity mainly reflects the dynamics of the interrelationship between employees and their respective employers. Employees contribute to the production process by providing labour input (i.e. skills, ideas, manual labour) to produce goods and services. The amount of value-add generated per employee is commonly referred to as labour productivity.³ Employees are in turn compensated with wages. Thus, the wage that employees earn should fairly reflect their productivity.

Comparing productivity and wage levels across economies shows that wages broadly exhibit a positive correlation with labour productivity (Chart 1). Countries with higher labour productivity levels tend to have higher wages. While Malaysia’s productivity level is comparable to other middle-income countries, it is still well below that of advanced economies. This is due to a number of factors, including the slower pace of technological advancements⁴ and human capital development⁵ that lag behind those of advanced economies. Thus, on the surface, the lower wage rate earned by Malaysian workers relative to those in the advanced economies seems consistent with their relative productivity.

To enable a deeper assessment of Malaysia’s wage level vis-à-vis the advanced economies, the article seeks to determine how much Malaysians would earn if they were as productive as workers in the advanced economies. In doing so, a ratio of wages to productivity per worker⁶ is calculated to measure the wage rate paid to an employee for generating a dollar’s worth of output.⁷ This allows for cross-country comparison, as the value of the output produced is kept constant. The economies used as benchmarks in this analysis are the United States of America, United Kingdom, Australia, Germany and Singapore. These economies were chosen based on two factors - the more advanced state of economic development (for aspirational comparisons) and availability of data.

¹ The Living Wage: Beyond Making Ends Meet, Bank Negara Malaysia’s 2017 Annual Report.

² The term ‘wages’ is used instead of ‘income’ in the following sections as the analysis utilises wage statistics. In contrast, the term ‘income’ is used when narrating the broader context of compensation in the economy.

³ Labour productivity is formally defined as the ratio of gross domestic product to the total number of employed persons in the economy.

⁴ Robot density in the Malaysian manufacturing sector was approximately 50% lower than the Asian average and 93% lower than that of Singapore (International Federation of Robotics, 2017).

⁵ Malaysia ranked 55th out of 157 countries in the Human Capital Index (HCI). Malaysia’s HCI score at 0.62 (high-income economies: 0.74) indicates that children in Malaysia will be only 62% as productive as they could be in adulthood (World Bank, 2018).

⁶ All nominal values are deflated by the GDP deflator.

⁷ This article attempts to analyse wage **levels** in order to understand where Malaysian wages currently stand relative to productivity levels. This contrasts with the existing literature largely dedicated to comparing wage and productivity **growth**.

Chart 1: Cross-Country Labour Productivity and Average Wages (2016)

Higher labour productivity is often accompanied by higher wages



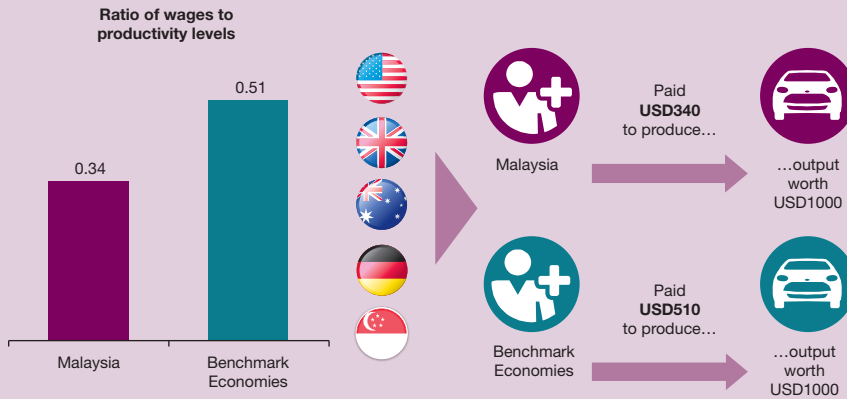
Note: Productivity is computed by taking a ratio of nominal GDP to the total number of employed persons in the economy

Source: Bank Negara Malaysia estimates using data from United Nations Statistics Division, International Labour Organisation (ILO) and World Bank

Analysis of the wage to productivity ratio shows that Malaysian workers are still being paid less than workers in benchmark economies, even after accounting for the different productivity levels across countries (Chart 2). This suggests that Malaysia's current wage productivity levels are misaligned. To illustrate this point, if a Malaysian worker produces output worth USD1,000, the worker will be paid USD340 for it. The corresponding wage received by a worker in benchmark economies for producing the same output worth USD1,000 is, however, higher at USD510.⁸

Chart 2: Cross-Country Comparison of Productivity and Wages in 2017

Malaysian workers are paid less than workers in benchmark economies even after accounting for differences in productivity



Note: 1) The figures are derived by taking the ratio of wages to productivity, with productivity being defined as GDP per worker
 2) Data for all countries are as at 2017 except for Malaysia (2016) as Malaysia's 2017 salaries and wage data only represent citizens (instead of both citizens and non-citizens as per previous years)

Source: Bank Negara Malaysia estimates using data from National Account Statistics, Labour Force Survey Report and Salaries and Wages Survey Report published by Department of Statistics, Malaysia, CEIC and national accounts of respective countries

⁸ While workers in benchmark economies would produce higher output in a given time due to better technology (and hence earn a higher wage), holding the value of output constant would have controlled for this technological effect.

Further analysis reveals that most industries in Malaysia compensate workers less than those in the benchmark economies, even after adjusting for productivity (Chart 3). This is particularly evident in the wholesale and retail trade, food and beverage and accommodation industries that make up 19% of economic activity and 27% of total employment in Malaysia. These industries are generally more labour-intensive, and dependent on low-skilled workers.

Several factors could explain this. The workforce in these industries typically lacks bargaining power, particularly due to the abundance of low-skilled workers, including foreign workers.⁹ As a result, the mean wage in these industries, at RM1,727 in 2016, was nearly 30% below the national average of RM2,463. On the other hand, the disparity against benchmark economies is considerably lower for the information and communication and utilities industries that typically hire more high-skilled workers who are able to command a wage premium due to their specialised skillset and expertise. The average wage level in these industries was RM3,556 in 2016, more than 40% higher than the national average.

Chart 3: Ratio of Wages to Productivity by Sector, Malaysia Against Benchmark Economies in 2017

Malaysian workers are compensated less across most economic activities



Note: 1. The figures are derived by taking the ratio of wages to productivity, with productivity being defined as output per worker
 2. Data for all countries are as at 2017 except for Malaysia (2016) as Malaysia's 2017 salaries and wage data only represent citizens (instead of both citizens and non-citizens as per previous years)

Source: Bank Negara Malaysia estimates using data from National Account Statistics, Labour Force Survey Report and Salaries and Wages Survey Report published by Department of Statistics, Malaysia, CEIC and national accounts of respective countries

A Deeper Analysis of the Wage-Productivity Growth Link: Employer versus Employee

Real wage growth in Malaysia has outpaced productivity growth in recent years (Chart 4). The recent strength in wage growth in Malaysia suggests that employers are compensating workers more appropriately for the output produced, improving the wage to productivity ratio. However, public sentiments continue to suggest otherwise. To validate these diverging sentiments, wage growth was adjusted through the lens of employers and employees.¹⁰ Specifically, wages were adjusted using the output deflator to reflect employers' perspective that wages are costs of production. On the other hand, for employees, wages are compared to prices of goods and services consumed (Table 1).

Table 1

Adjusting wage growth to account for changes in price levels in the economy (Employer vs. Employee Perspective)

Agents	Perspective of Wages	Wage Deflator	Rationale
Employer	Cost of producing goods and services	Output Deflator	Change in the market value of goods and services sold by the firms
Employee	Means to purchase goods and services	Consumer Price Index	Change in prices of purchasing a "basket of goods and services"

¹⁰ Wages in this analysis are calculated in *real terms* by adjusting nominal values to exclude changes in prices over time. The price indexes that are used to adjust for changes in prices are referred to as *deflators*.

⁹ Share of foreign workers in the wholesale retail trade, food and beverage and accommodation industries was 12% in 2017, nearly double the share for the rest of the services sub-sectors in the economy.

Chart 4: Real Productivity and Wage Growth in Malaysia (annual change, %)

Real wage growth has outpaced productivity growth in recent years

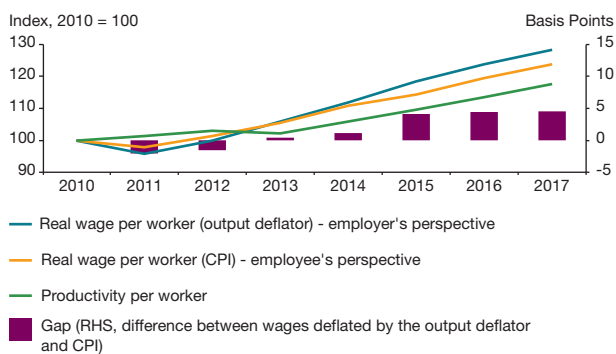


Source: Bank Negara Malaysia estimates using data from Labour Productivity Statistics and Salaries and Wages Survey Report published by Department of Statistics, Malaysia

Contrasting the two perspectives, the gap between real wage growth from a firm’s and worker’s perspective has significantly widened, particularly since 2015 (Chart 5). Wages have increased faster from an employer’s perspective than a worker’s perspective as the market price of goods and services sold by firms (output deflator) increased at a slower pace than the price of goods and services consumed by employees (CPI).¹¹ In the Bank’s engagements with industries, firms often cite rising wages as a squeeze to business margins, while workers complain about “stagnant wages” and rising cost of living. This broadly captures the sharply differing sentiments on sluggish wage growth between employers and employees in recent years.

Chart 5: Comparison between Productivity per Worker and Real Wage per Worker Index (2010=100)

Real wage has grown faster from a firm’s perspective than from a worker’s perspective since 2015



Source: Bank Negara Malaysia estimates using data from Labour Productivity Statistics and Salaries and Wages Survey Report published by Department of Statistics, Malaysia

¹¹ Divergence in CPI and output deflator could arise due to differences in coverage. While CPI only captures price movements of items bought by consumers (both imported and domestically-produced items), output deflator covers all domestically-produced items (for both exports and domestic consumption). Thus, the output deflator could be more affected by movements in prices of exports, including commodities.

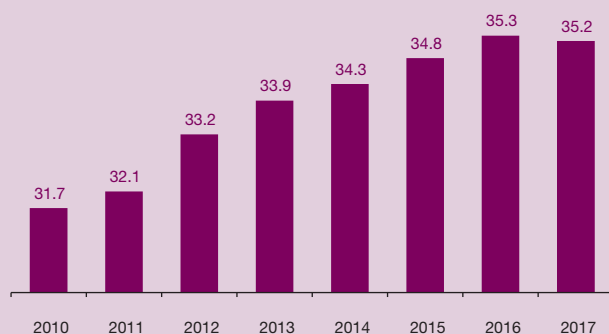
C. Benchmarking Incomes against Equity: Workers vs. Capital Owners

In the production process, labour is only one of the factor inputs, in addition to factor inputs provided by the employer (i.e. capital, land) in producing goods and services. From this perspective, one way of measuring equity is to analyse the labour share of income¹² as it represents the share of national income accrued to labour rather than capital owners (i.e. firms).¹³

The labour share of income has been on the rise in Malaysia, from 31.7% in 2010 to 35.2% of GDP in 2017 (Chart 6). This bucks the global trend where the labour income share has trended lower in recent years. However, Malaysia's labour share of income still lags behind most advanced economies (Chart 7). This implies that a larger fraction of national income in Malaysia goes to capital owners rather than workers, that is capital owners benefit much more than workers in Malaysia.

Chart 6: Labour Share of Income in Malaysia (2010-2017), % of GDP

Malaysian labour share of income has risen over the years



Source: Bank Negara Malaysia estimates using data from Department of Statistics, Malaysia

Chart 7: Cross Country Comparison of Labour Income Share (Latest Year Available), % of GDP

Nonetheless, the level of labour income share still lags that of advanced countries



Source: Bank Negara Malaysia estimates using data from Department of Statistics, Malaysia and ILO

Intuitively, the lower share of income accrued to labour may suggest that capital is playing a bigger role in the production process. Accordingly, a lower share of labour income should be associated with a relatively higher level of capital intensity. For example, in a highly capital-intensive industry, capital inputs such as machinery and equipment play a bigger role in the production process and capital owners (rather than workers) should receive a larger share of income generated.

However, this relationship does not hold true for Malaysia. Malaysia's capital intensity is significantly lower than the benchmark economies (Chart 8) signalling that workers play a relatively larger role in the production process in the Malaysian economy compared to benchmark economies. Yet, the labour income share in Malaysia is relatively lower.

A similar trend is observed at the industry level (Chart 9). Most Malaysian industries fall in the bottom-left quadrant characterised by lower capital intensity and lower labour share of income relative to benchmark economies. Notably, labour income shares in the wholesale and retail trade, food and beverage as well as accommodation industries were only about half of benchmark economies despite capital intensity being far lower at only about 40%. Only two industries fall outside this quadrant. First, the mining sector has a relatively higher capital-intensity. Hence, the lower labour share of income of 7% is to be expected. In contrast, the construction sector is characterised by higher labour-intensity, and thus correspondingly exhibits a higher labour share of income (73%).

¹² The labour share of income is derived from the GDP by Income Approach that serves as an essential reference in gauging the economy from the perspective of income provided by factors of production. The labour share of income comprises salaries, wages, allowances, bonuses, commissions, gratuities and payment in kind.

¹³ The calculation of the labour share of income is broadly similar to the derivation of the wage to productivity ratio. However, they differ in terms of concept, treatment of varying means of compensation and derivation. While the wage to productivity ratio motivates an assessment of the workers' productivity, the labour share of income addresses an assessment of the distribution of income.

Chart 8: Capital Intensity (USD `000 PPP per worker) vs. Labour Income Share (% of GDP) in 2017

Despite being less capital intensive (more labour intensive), Malaysian labour share of income is lower



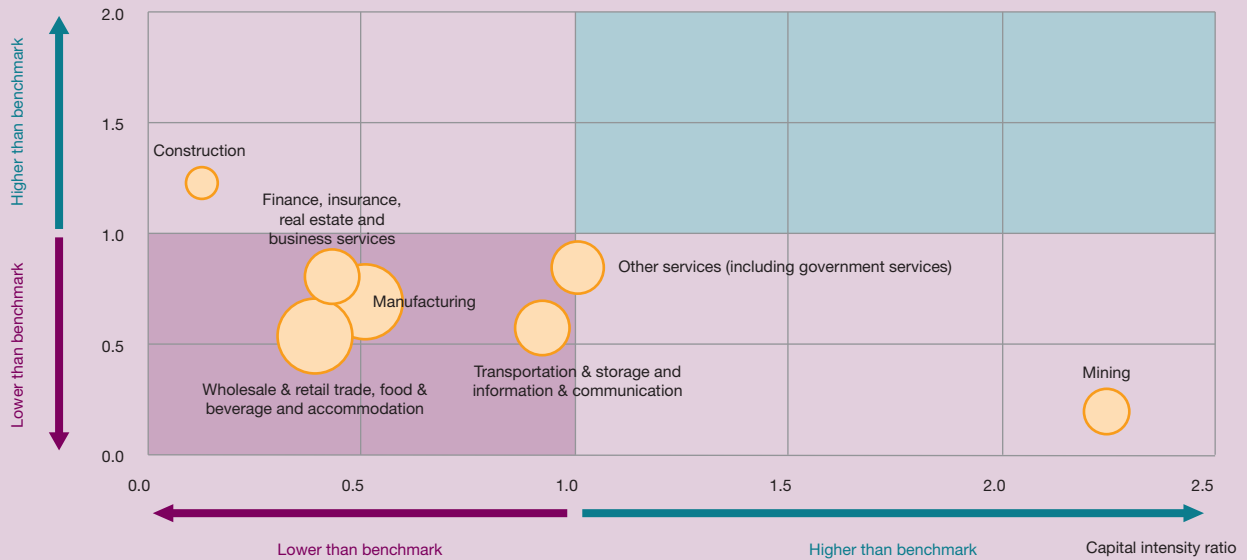
Note: 1. Capital intensity is measured by the ratio of net capital stock per employed person
 2. The benchmark economies here consist of the US, UK, Australia, Germany and Singapore

Source: Bank Negara Malaysia estimates using data from the Capital Stock Statistics, Gross Domestic Product by Income Approach and the Labour Force Survey Report published by Department of Statistics, Malaysia, national accounts of respective countries and ILO

Chart 9: Malaysia's Sectoral Labour Share of Income and Capital Intensity to Benchmark Ratio in 2017

Most Malaysian industries have lower capital intensity (higher labour intensity) and lower labour income shares

Labour income share ratio



Note: Size of the circles represent the share of respective sectors in overall economic activity (share of total GDP). The benchmark economies consist of the US, UK, Australia, Germany and Singapore

Source: Bank Negara Malaysia estimates using data from the Capital Stock Statistics, Gross Domestic Product by Income Approach and the Labour Force Survey Report published by Department of Statistics, Malaysia, national accounts of respective countries and ILO

D. Labour Income Developments in Malaysia

The article has thus far largely focused on establishing the relationship between Malaysian wages, productivity and equity vis-à-vis selected benchmark economies. This section seeks to analyse two trends observed in the Malaysian labour market in recent years.

I. The Rising Labour Income Share: Driven by Disquieting Factors?

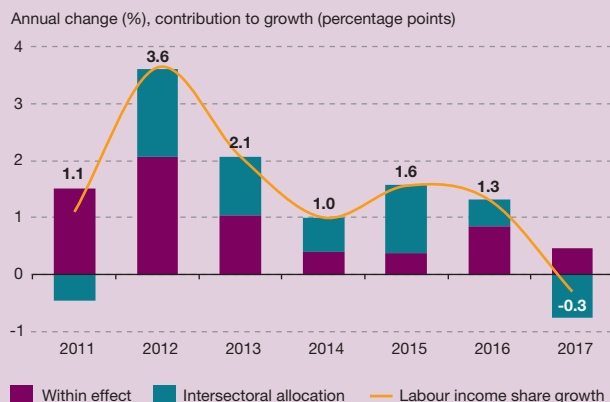
Overall, Malaysia's labour income share has been on an upward trend. While this is a positive step in ensuring better income distribution, it masks some unsettling developments. A shift-share analysis¹⁴ reveals that 36% of the improvements in Malaysia's labour income share between 2010 and 2017 was driven by the reallocation of economic activity into more labour-intensive sectors rather than gains in labour income share within each sector¹⁵ (Chart 10).

Specifically, between 2010 and 2017, the share of income accounted for by low- and mid- skilled workers has increased¹⁶ (Chart 11) due to stronger expansion and employment growth in the wholesale and retail trade, food, beverage and accommodation as well as construction industries. While faster growth in these labour-intensive industries has contributed towards improvements in the headline labour income share, these industries continue to provide lower wages (Chart 12), negating ongoing efforts to achieve the "high-income nation" status.

This development highlights that higher labour income share does not necessarily imply higher incomes for workers. Therefore, it is critical that the Eleventh Malaysia Plan target for a labour income share of 38% by 2020 be achieved through higher wages instead of the creation of more low paid, labour-intensive jobs. This would require a transition away from its labour-intensive structure through increased capital¹⁷ and knowledge-based investments that will result in a much needed demand for highly educated and skilled workers who can command high wages.

Chart 10: Sectoral Shift-Share Analysis on Labour Income Share Growth (2011 – 2017)

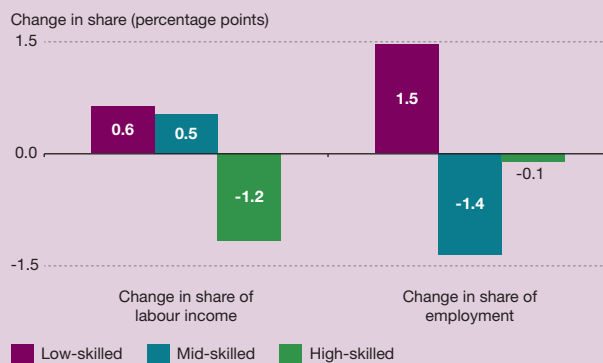
Movement of workers into more labour-intensive industries drove growth in labour income share



Source: Bank Negara Malaysia estimates using data from Gross Domestic Product Income Approach published by Department of Statistics, Malaysia

Chart 11: Changes in Share of Employees Compensation and Employment by Skill-Level (2010 – 2017)

Larger share of labour income accounted by low- and mid-skilled workers



Source: Bank Negara Malaysia estimates using data from Gross Domestic Product Income Approach, Labour Force Survey Report and Salaries and Wages Survey Report published by Department of Statistics, Malaysia

¹⁴ The rise in labour income share is analysed to disaggregate the impact of inherent labour share gains within each sector (known as 'within effect') and the movement of economic activity (and presumably employment) across sectors (known as 'intersectoral allocation').

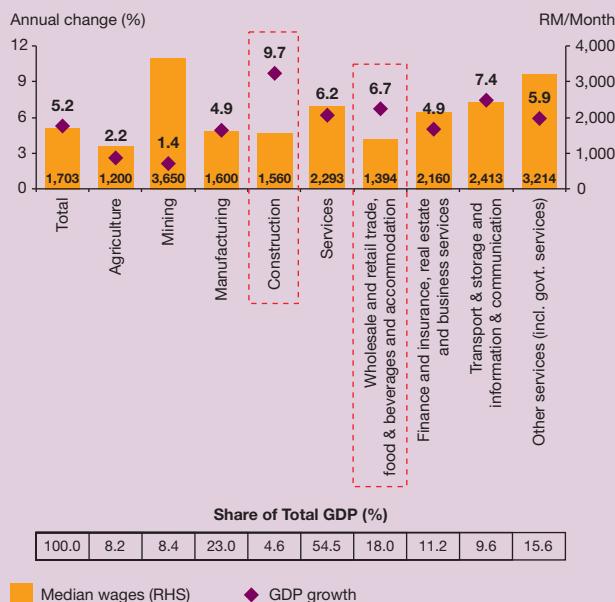
¹⁵ This corroborates with findings from "What Explains the Increase in Labour Income Share in Malaysia?" published by Khazanah Research Institute in 2017.

¹⁶ Despite the rise in share of low- and mid-skilled workers since 2010, it was partially offset by a decline in share of both low- and mid-skilled workers since 2016.

¹⁷ While this may reduce the labour income share in the short run due to the higher capital intensity, it will lead to higher skilled occupations and higher per capita income levels in the longer run.

Chart 12: Sectoral GDP Growth and Median Wage Levels (2011 – 2017)

The construction and wholesale retail trade, food and beverage and accommodation industries expanded faster than most other sectors. However, they provide workers with lower wage levels



Note: Data for median wage levels are as at 2016 as Malaysia's 2017 salaries and wage data only represents citizens (instead of both citizens and non-citizens as per previous years)

Source: Bank Negara Malaysia estimates using data from National Accounts Gross Domestic Product by Economic Activity, Salaries and Wages Survey Report published by Department of Statistics, Malaysia

II. Rising Share of Graduates in the Workforce: Is the Education Premium Narrowing?

Over the past decades, there have been concerted efforts to raise the quality and skills of the nation's workforce. The proportion of graduates¹⁸ in the labour force increased from 23.5% in 2010 to 28.3% in 2017 (Chart 13), a level comparable to a number of developed economies. However, a salary survey published by the Malaysian Employers Federation suggests that nominal starting salaries for graduates remain at modest levels. In fact, after adjusting for inflation, real starting monthly salaries for most fresh graduates has declined since 2010. A fresh graduate with a diploma earned a real salary of only RM1,376 in 2018 (2010: RM1,458) while a Masters degree holder earned a real salary of RM2,707, a significant decline from RM2,923 in 2010 (Chart 14).

Evidence suggests that the lack of high-skilled job creation could have played an integral role in this. Between 2010 and 2017, the number of diploma and degree holders in the labour force increased by an average of 173,457 persons per annum, much higher than the net employment gains in high-skilled jobs of 98,514 persons per annum.¹⁹ This suggests that the economy has not created sufficient high-skilled jobs to absorb the number of graduates entering the labour force. In addition, a study by Khazanah Research Institute also found that 95% of young workers in unskilled jobs and 50% of those in low-skilled manual jobs are over-qualified for these occupations.²⁰

¹⁸ Graduates refer to diploma and degree holders derived from the variable 'highest certificate obtained' within the Labour Force Survey published by the Department of Statistics, Malaysia.

¹⁹ Net employment gains are estimated as changes in the number of high-skilled persons employed as reported in the Labour Force Survey (LFS) published by the Department of Statistics, Malaysia. While job creation data are available in the Quarterly Employment Statistics (QES), the LFS data are utilised instead due to availability of longer time series and to allow for comparability with the graduate statistics which are also derived from the LFS.

²⁰ The School-to-Work Transition of Young Malaysians published by Khazanah Research Institute (2018).

Chart 13: Labour Force with Tertiary Education (2010 – 2017)

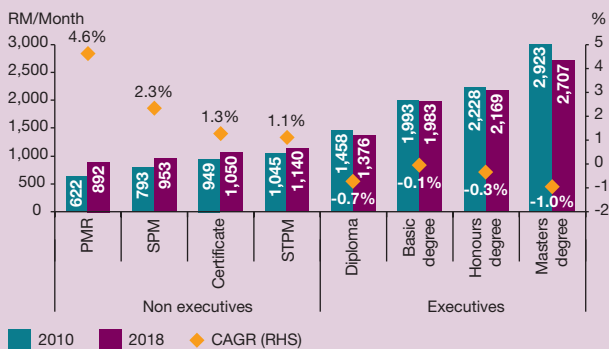
Number of graduates in the Malaysian labour force continue to increase



Source: Bank Negara Malaysia estimates using data from Labour Force Survey Report published by Department of Statistics, Malaysia

Chart 14: Real Minimum Monthly Basic Salary for Employees Recruited Without Prior Working Experience (2010 and 2018)

However, real starting salaries for graduates have declined



Source: Bank Negara Malaysia estimates using data from MEF Salary Survey for Non Executives and Executives 2010 and 2018 published by Malaysian Employers Federation

Thus, despite obtaining a high level of education, employees had to settle for jobs that typically do not require such education levels. Consequently, with an ample supply of graduates and limited demand for them by firms, graduate salaries have faced downward pressures.

Interestingly, this is in stark contrast to their peers without a tertiary education. The implementation of the minimum wage has supported increases in the salaries of lower-skilled workers in recent years, allowing for starting salaries for those at the bottom-end of the education attainment spectrum to catch up. While starting salaries of graduates have declined in real terms, the real starting salaries of PMR and SPM educated employees have risen by 4.6% and 2.3% respectively (Chart 14). This divergence in growth trends across education levels alludes to a more serious phenomenon – the income premium for education has narrowed in Malaysia. If left unaddressed, this could reduce the incentive for the younger population to pursue higher levels of education and potentially exacerbate the “brain drain” issue in Malaysia.

E. Enhancing Policy Potency and Efficacy

Malaysia has made significant progress in transforming the economy from that of a low-income agrarian country to an upper-middle-income country. Significant reduction in poverty was achieved while big strides were made in improving living standards across the population.

Notwithstanding these achievements, more can be done to build on the progress made to ensure sustainable increases in income. This entails generating quality labour demand, reducing labour mismatches, reinforcing wage-productivity links and creating a conducive labour market through regulatory and legislative interventions (Diagram 1).

First, there is an urgent need to generate higher demand for quality labour through the creation of high-skilled jobs. In this regard, it is vital to attract new quality investments from both foreign and domestic firms, pivoting away from the low-cost business model. Among existing firms, this can be generated through automation and moving up the value-chain, with higher reliance on knowledge and technology. Doing so requires coherent investment policies, which likely involves reviewing and enhancing existing investment incentives.

The Government has recognised the need to enhance the investment incentives framework to attract quality investments and spur automation. However, most incentives are largely confined to the manufacturing and manufacturing-related services industries. Importantly, given the overall significance of the services sector to

Diagram 1: Labour Market Reforms to Raise Incomes

Comprehensive labour market reforms necessary to raise incomes

the economy,²¹ the coverage should be extended into new modern services. Amid rising labour costs and the high proportion of low-skilled positions in the services sector (20%; total economy: 13%), targeted investment policies can transform the services sector into a knowledge-led and technology-driven industry. Policy considerations should also involve a critical review of incentive instruments.²²

Second, it is critical to reduce clear mismatches between labour demand and supply. Policies could include reducing labour recruitment costs and skill mismatches, as well as increasing the employability of the incoming and existing workforce. The proposed addition of one-stop job centres at Urban Transformation Centres (UTCs) and Rural Transformation Centres (RTCs)²³ is a welcome development and could be further supported by linking them with existing career services in higher education institutions.

Greater collaborations between the industry and educational institutions have proven successful in easing the transition of students into the workforce. Models similar to the Collaborative Research in Engineering, Science and Technology (CREST) in Penang could be emulated for other sectors throughout the nation. Concerted efforts should also be channelled towards upskilling and reskilling initiatives for the existing workforce. The Human Resources Development Fund (HRDF) should expand its coverage of sectors and through more targeted use of the funds to address critical skills gaps. Studies have also shown that 74% of Malaysian firms do not allocate internal funds for education and training of staff.²⁴ There is a need for employer organisations, trade unions and respective chambers of commerce to urge, nudge and persuade businesses to invest more in enhancing the capacities and capabilities of their workforce.

Third, the relationship between wage and productivity must be reinforced to ensure that workers' wages are commensurate with their respective productivity levels and growth. While this has been advocated by the Productivity Linked Wage System (PLWS) since 1996, its outreach remains suboptimal (Chart 15), hampered by the lack of legislative power, low transparency on the part of employers and resistance by trade unions.²⁵

Going forward, several key initiatives can strengthen the role of PLWS. These include strengthening its legislative and enforcement capabilities, actively publicising successful case studies and promoting PLWS among Government-Linked Corporations (GLCs), including their suppliers and vendors. Components of PLWS could also include mandatory disclosure of factors underpinning employees' compensation and increment, allowing for more open and direct discourse on compensation packages.

²¹ The services sector accounted for 55% of economic activity (GDP) and 62% of total employment in 2017.

²² Rethinking Investment Incentives, 3Q 2017 BNM Quarterly Bulletin.

²³ This was outlined in the Mid-Term Review of the Eleventh Malaysia Plan.

²⁴ The School-to-Work Transition of Young Malaysians published by Khazanah Research Institute (2018).

²⁵ The resistance could stem from the uncertainty in income prospects, once wages are linked with productivity. Based on news flows, trade unions want contractual bonuses and annual increments in collective agreements to remain the same. Source: http://www.mef.org.my/news/mefitn_article.aspx?ID=160&article=nst070321a [Accessed 14 February 2019].

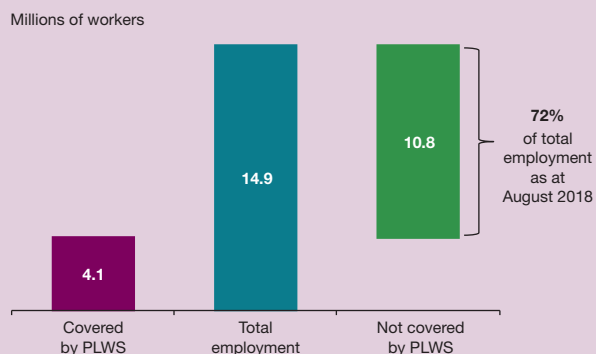
Beyond PLWS, the link between productivity and wages could be enhanced through closer collaboration between the National Productivity Council (NPC)²⁶ and the National Wage Consultative Council, with the mandate to strengthen the link between productivity and wages in Malaysia, in both level and growth terms. There is also scope to further engage small and medium enterprises (SMEs) on micro-level productivity enhancements, involving changes to work processes and automation. Leveraging on the WayUp portal and the ezBE Assessment Tool developed by the Malaysia Productivity Corporation, more relatable measures of productivity could be introduced to improve outreach and encourage the adoption of accessible productivity enhancement approaches among SMEs (e.g. number of plates washed by staff per hour).

Lastly, a concerted effort is necessary to advance regulatory and legislative labour reforms. There remains ample room to promote better treatment of workers. This may include the freedom of association and elimination of forced labour and discrimination. Some key labour market legislations in Malaysia have yet to undergo comprehensive review in recent decades. For instance, the Industrial Relations Act was first enacted in 1967 and last revised in 1976. The on-going effort by the Ministry of Human Resources to review nine labour-related acts²⁷ is timely.

The growing sharing economy, the advent of technologies and increasing demand for flexible working arrangements are transforming the intrinsic nature of Malaysia's labour market. Own-account workers²⁸ in urban areas as a share of total employment rose from 10.9% in 2010 to 15.4% in 2017 (Chart 16). Public discourse and legislative action are necessary to ensure that all types of workers are accorded the protection they deserve. For example, the United Kingdom, New Zealand and Singapore have already launched formal reviews into their existing legal structures to accord self-employed workers greater protection. In Malaysia, the passing of the Self Employment Social Security Act in 2017 was a right step forward and should be expanded to other self-employment sectors, beyond taxi drivers and e-hailing service providers.

Chart 15: PLWS Coverage Gap (as at August 2018)

Large proportion of workers in Malaysia still not covered by PLWS



Source: Bank Negara Malaysia estimates using data from the Ministry of Human Resources* and the Labour Force Survey Report published by Department of Statistics, Malaysia

* The Edge Markets. 2018. Productivity Linked Wage System to lure overseas-based skilled Malaysians. Available at: <http://www.theedgemarkets.com/article/productivity-linked-wage-system-lure-overseasbased-skilled-malaysians>. [Accessed 22 December 2018].

Chart 16: Share of Own Account Workers in Urban Areas (% of total employment)

Share of own-account workers have risen in urban areas



Source: Bank Negara Malaysia estimates using data from Labour Force Survey Report published by Department of Statistics, Malaysia

²⁶ In its current iteration, the main mandate of the NPC is to provide leadership, set the strategic direction and drive the national productivity agenda – this includes the implementation of initiatives proposed in the Malaysia Productivity Blueprint. However, its mandate is limited to advancing initiatives to raise national productivity, rather than linking it with wages.

²⁷ The nine acts refer to the *Employment Act 1955 (amended 2012)*, *Sabah Labour Ordinance 1950*, *Sarawak Labour Ordinance 1952*, *Industrial Relations Act 1967 (revised 1976)*, *Trade Unions Act 1959 (amended 2008)*, *Children and Young Persons Act (Employment) Act 1966 (amended 2011)*, *Occupational Safety & Health Act 1994*, *Workers' Minimum Standards of Housing & Amenities Act 1990*, and *Private Employment Agencies Act 1981 (amended 2018)*.

²⁸ Refers to a person operating his own business without employing any paid workers.

Conclusion: Preserving and Enhancing the Welfare of Workers for the Future

In the current environment, income levels in Malaysia remain a highly contentious subject. Workers face significant pressures due to the rise in living costs while firms continue to contend that the level of incomes remains appropriate and reflective of productivity.

This article has highlighted that Malaysian workers receive lower compensations relative to their contribution to national income from productivity and equity perspectives. First, Malaysians are paid a lower wage compared to benchmark countries, even after taking into account productivity differences. Second, Malaysia has a lower labour share of income despite its labour-intensive nature. This suggests workers are not adequately compensated for their contributions.

While employers need to be fairly compensated for their respective factor inputs, the question remains, why is the share of compensation accrued to employers instead of employees higher relative to our aspirational peers? How can Malaysia's taxation and distributive policies positively impact and enhance the division of incomes? These are hard questions that require judicious deliberation and committed action.

In totality, while these policy challenges seem daunting, the responsibility of advocating for a more equitable distribution of incomes among all economic agents remains. Over the past decades, the nation has successfully navigated its passage from a factor-driven to an efficiency-driven economy.²⁹ In its next evolutionary step towards an innovation-driven economy, it is important that the welfare of Malaysia's labour force is well preserved, if not enhanced. This will ensure that workers continue to be properly incentivised to raise their productivity, thus achieving greater value creation in the economy.

References

- Bank Negara Malaysia (2017). "Rethinking Investment Incentives". Box article in 3Q 2017 BNM Quarterly Bulletin. Kuala Lumpur.
- Bank Negara Malaysia (2018). "Divergence of Economics Performance and Public Sentiments". Box article in 2Q 2018 BNM Quarterly Bulletin. Kuala Lumpur.
- Bank Negara Malaysia (2018). "The Living Wage: Beyond Making Ends Meet". Box article in Annual Report 2017. Kuala Lumpur.
- International Federation of Robotic (2017). "World Robotics Report 2017". Germany.
- Khazanah Research Institute (2018). "The School-to-Work Transition of Young Malaysians". Kuala Lumpur.
- Khazanah Research Institute (2017). "What Explains the Increase in Labour Income Share in Malaysia?". Kuala Lumpur.
- Malaysian Employers Federation (2010). "MEF Salary Survey for Executives 2010". Kuala Lumpur.
- Malaysian Employers Federation (2010). "MEF Salary Survey for Non Executives 2010". Kuala Lumpur.
- Malaysian Employers Federation (2018). "MEF Salary Survey for Executives 2018". Kuala Lumpur.
- Malaysian Employers Federation (2018). "MEF Salary Survey for Non Executives 2018". Kuala Lumpur.

²⁹ Factor-driven economies are dominated by subsistence agriculture and extraction businesses, reliant on natural resources; Efficiency-driven economies are increasingly competitive, with more efficient production processes and increased product quality. Innovation-driven economies are the most developed. In this phase, businesses are more knowledge-intensive, and the service sector expands. According to the World Economic Forum (WEF), Malaysia is currently transitioning from an efficiency-driven to an innovation-driven economy.

Ministry of Economic Affairs, Malaysia (2018). "Mid-Term Review of the Eleventh Malaysia Plan 2016 - 2020". Putrajaya.

New Straits Times (2007). MTUC 'agreed to productivity wage system in 1996'. Available at: www.mef.org.my/news/mefitn_article.aspx?ID=160&article=nst070321a. [Accessed 14 February 2019].

The Edge Markets (2018). Productivity Linked Wage System to lure overseas-based skilled Malaysians. Available at: <http://www.theedgemarkets.com/article/productivity-linked-wage-system-lure-overseasbased-skilled-malaysians>. [Accessed 22 December 2018].

Tun Dr. Mahathir Mohamad (1991), "Malaysia: The Way Forward (*Vision 2020*)". Kuala Lumpur.

World Bank (2018). "Malaysian Economic Monitor: Realising Human Potential".