Chapter 3

Wage Trends and Wage Determination in Malaysia

3.1 Wage Trend: An Overview

In Malaysia, the growth of wages is closely linked to economic growth and labour market conditions. In the seventies, wages increased at a slower rate when there was surplus labour and relatively high unemployment. Wages started to rise from the beginning of the eighties as the country intensified its industrialization programs. In the 1990's, wage increases remained high owing to the increasingly tight labour market in certain sectors. The increasing inflationary pressure exerted by growing domestic demand has also contributed towards wage increases. Table 3.1 presents the average monthly wage for selected sectors in Malaysia for period between 1981 to 1997.[7]

Table 3.1: Average Monthly Wage by Sector (RM)

YEAR	MANUFACTURING	CONSTRUCTION	MINING	RUBBER ESTATES
1981	406	463	760	273
1983	537	560	978	309
1985	634	586	1393	303
1987	623	567	1892	334
1989	637	609	1706	356
1991	717	776	2495	370
1993	846	967	3633	411
1995	987	n.a.	4216	445
1997	1206	n.a.	n.a.	486

Source: Computed from *Malaysia Economic Statistics–Time Series 1999*, Department of Statistics, Malaysia.

[7] The selected sectors are limited to no availability of data in other sectors.

It is noticed that during the boom years between 1981 to 1985, the average monthly wages increased rapidly for most sectors. However, wages declined during the recession years of 1985 to 1987 for the manufacturing and construction sectors before they picked up towards the end of the eighties as the economy recovered. Wage levels in the rubber plantations however continued to improve in the second half of the eighties. For the mining sector, the average monthly wage increased rapidly during 1981 - 1987 but moderated towards the ends of eighties following the decline of prices. Average monthly wages remained high in 1990 for most of the sectors as the economy experienced rapid expansion.

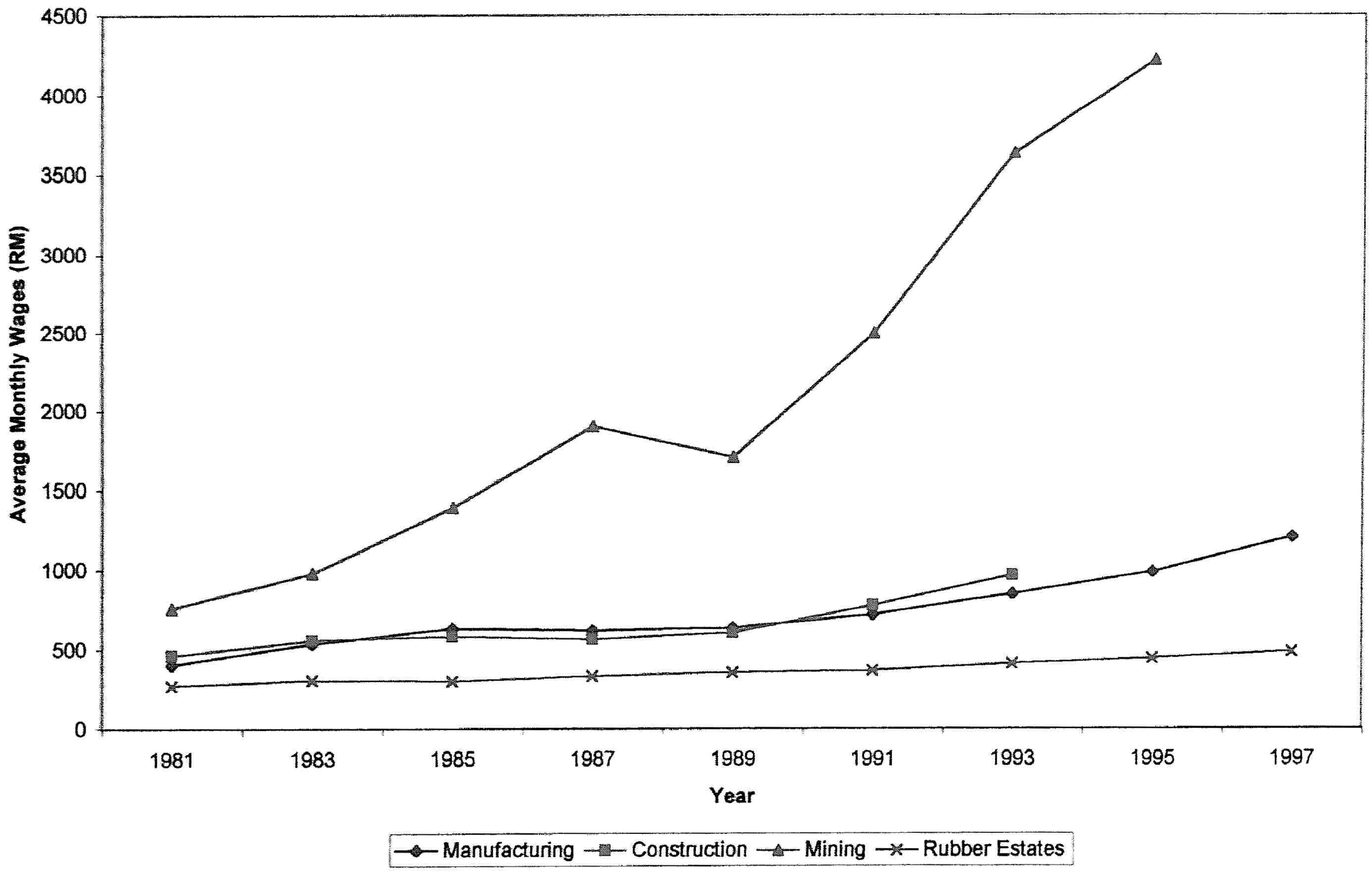
Table 3.2: Wage Growth by Sector (% change)

YEAR	MANUFACTURING	CONSTRUCTION	MINING	RUBBER ESTATE
1981-1984	13.1	7.7	18.3	4.4
1985-1987	-0.9	-1.6	16.8	5.1
1988-1990	3.4	6.8	-4.9	3.3
1991-1993	8.6	11.6	15.2	5.5
1994-1997	9.3	n.a.	n.a.	4.6
1981-1990	5.2	4.3	10.6	3.8
1991-1997	8.9	11.1[a]	13.8	4.5

[a] For period 1991-1996.
Source: Computed from *Malaysia Economic Statistic- Time Series 1999*, Department of Statistics, Malaysia.

As shown in Table 3.2, the average growth of wages in Malaysia during the period 1981 to 1990 ranges from the highest of 10.6 per cent for the mining sector to the lowest of 3.8 per cent for the rubber estates. Wage growth for other sectors are: manufacturing (5.2 per cent), and construction (4.3 per cent). Wages grew rapidly in the mining sector between 1981 to 1987 in the industry as tin prices were comparatively high during this period (see also figure 1).

Figure 1: Average Monthly Wages by Sector



Wage trends in Malaysia are associated with output growth. For the manufacturing sector, wages grew at an average of 13.1 per cent between 1981 to 1984 when the economy was growing at 6 to 8 per cent. However, wage growth declined by an average of 0.9 per cent between 1985 to 1987 due to less buoyant economic activities. A major factor influencing the decline in wage growth was the prevalence of unemployment during the period estimated between 7 to 8 per cent. However, wages started to pick up after 1988 with the recovery of the economy. When the economic growth picked up at around 9 per cent between 1988 to 1990, wages also increased at an average of 3.4 per cent per annum during the same period. Pressure for wage increases continued to be strong in view of the continuing strong economic growth. In the 1993-1997 periods, average monthly wages increased by 9.3 per cent per annum.

Wages in the construction sector grew at an average of 7.7 per cent per annum between 1981 to 1984 when the construction industry was booming. However, wages in the sector declined by an average of 1.6 per cent during the recession period before picking up again with yearly averages of 6.8 per cent and 11.6 per cent in 1988 -1990 and 1991-1993 periods respectively.

In the mining sector, wages grew significantly at an average of 18.3 per cent per annum during the 1981 to 1984 periods because of high tin prices but declined by 4.9 per cent between 1988 to 1990 when tin prices fell drastically. However, the average monthly wages grew at an annual average of 13.8 per cent during the period of 1991 to 1997.

For rubber estates, wages grew at an annual average of 4.8 per cent in the early years of the eighties but moderated to an average of 3.3 per cent per annum toward the end of the decade due to falling rubber prices. However, an average wage increase of 4.5 per cent in the period 1991 to 1997 is larger compared to average wage changes in the period of 1981 to 1990.

3.2 Major Factors that Influenced Wages Changes During the Period 1975-1997

3.2.1 Market Forces

The tightening labour market had a push effect on wage levels. In the period of rapid economic growth, employment was growing faster than either population or the labour force. Consequently, there were labour shortages in certain labour markets that were competing for the same workforce. In line with this, employers had to increase wages to attract and retain their workers.

3.2.2 Labour Productivity

Labour productivity is relatively important in influencing wage increases in the labour market. Labour productivity increase has generally led to increase in wages demanded by the labour group. Increases in labour productivity can arise from a combination of factors such as improvement in educational and skill of the workforce, adoption of new technologies and modern equipment as well as modernization of administrative services.

There are various measures of labour productivity. At the simplest level, labour productivity can be defined as output per worker. Alternatively, labour productivity also can be defined in terms of value-added per worker. Value added is the difference between the sales value of the output less the costs of all intermediate inputs which are not produced internally but used in the production of output. Table 3.3 shows the growth of labour productivity (as defined in second measurement) by sector between 1981 to 1997.

Table 3.3: Sectoral Labour Productivity (% Change)

	1981	1985	1990	1995	1996	1997	1998
Manufacturing	-0.6	-1.1	5.0	7.34	5.83	5.73	-7.01
Construction	-6.0	-5.6	7.7	5.59	2.05	1.88	-12.71
Mining	0.4	5.3	2.4	2.54	1.99	0.98	1.35
Commerce/Trade	1.4	-6.6	7.2	6.12	8.32	6.36	-0.24
Transport	3.8	4.4	6.9	4.71	8.27	8.42	0.97
Finance	-3.7	1.5	10.1	2.16	6.2	5.12	1.81

Source: National Productivity Corporation, Malaysia, *Annual Productivity Report*, various issues.

The productivity growth trends of selected sectors during 1981-98 show varying patterns. Most of the selected sectors registered a slowdown in productivity growth during the economic downturn of 1985-86 and 1998. The commerce/trade sector recorded a drop in productivity most badly compared with other sectors during the recession in 1985, whereas the construction sector recorded most badly productivity drop in 1998. Overall, manufacturing, commerce/trade, and transport were among the sectors which showed favourable productivity growth during 1981-97. The transport sector indicates a high labour productivity growth at 8.42 per cent in 1997. This is followed by the commerce/trade sector with growth at 6.36 per cent and manufacturing sector at 5.73 per cent in the same year. During the period 1990-97, the rapid

employment growth was accompanied by substantial increases in labour productivity. For the period 1990-1997, labour productivity in the manufacturing sector has increased at an average of 6.14 per cent per annum while for the transport and commerce/trade sectors, the increase was 6.26 per cent and 6.33 per cent respectively.

The change in labour productivity, however, was not matched by improvements in wages. There has been a tendency for labour cost per employee[8] to keep ahead of labour productivity, thereby causing an increase in unit labour costs[9]. Table 3.4 (see also figure 2) shows the growth trend of productivity, labour cost per employee and the impact of these changes on the labour cost per unit of output in the manufacturing sector.

Table 3.4: Growth of Labour Productivity, Labour Cost Per Employee and Unit Labour Cost of Manufacturing Sector (Annual % Rate of Change)

YEAR	LABOUR PRODUCTIVITY	LABOUR COST/EMPLOYEE	UNIT LABOUR COST
1990	5	4.12	6.23
1991	6.9	11.93	3.16
1992	4.9	10.71	3.64
1993	6.2	5.32	-0.11
1994	6.4	7.3	-7.98
1995	7.34	10.5	-1.61
1996	5.83	9.3	2.7
1997	5.73	6.9	1.6
1998	-7.01	0.6	3.7
1999	9.11	3.88	-8.2

Source: NPC, *Annual Productivity Report*, various issues.

[8] Labour cost per employee measures the average remuneration per employee. A high ratio means high returns to individual workers and vice-versa.

[9] Unit labour cost indicates the proportion of labour cost to total output. A high ratio indicates high labour cost. This could be due to labour shortage and lack of skilled labour, or poor labour mix. It could also be due to high labour turnover.

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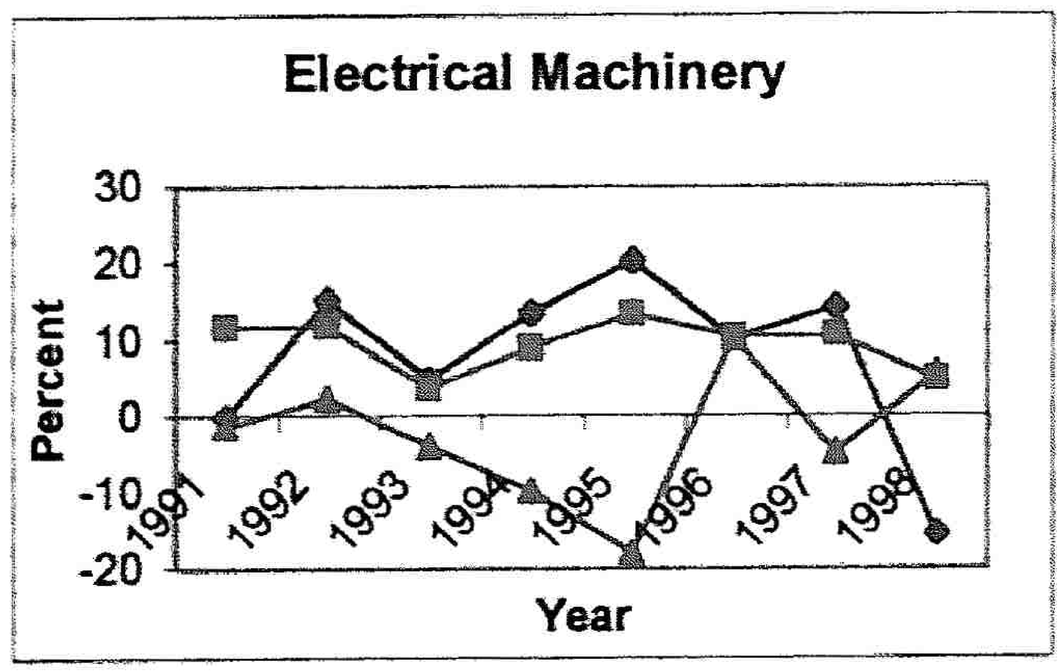
Figure 2: Growth of Labour Productivity, Labour Cost Per Employee and Unit Labour Cost of the Manufacturing Sector

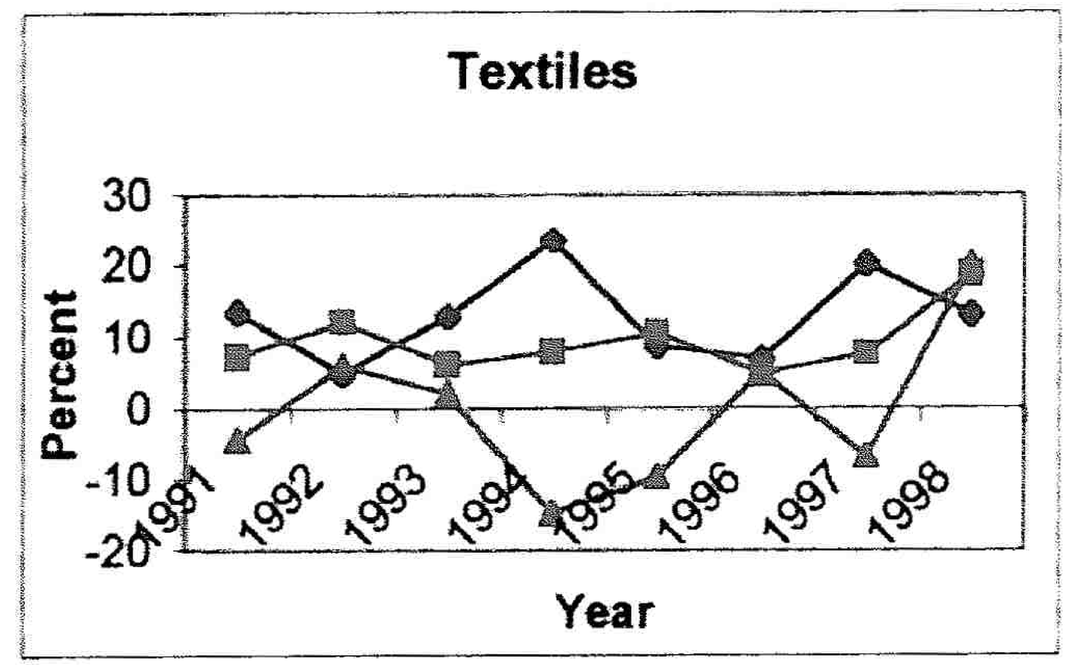
The trend shows that productivity has been growing steadily (1994:6.4%, 1995; 7.3%). However, labour cost per employee has grown faster (1994:7.3%; 1995: 10.5%). Therefore, increased total output due to higher productivity has led to increase in unit labour cost (1994: 7.98%; 1995: 1.61%).

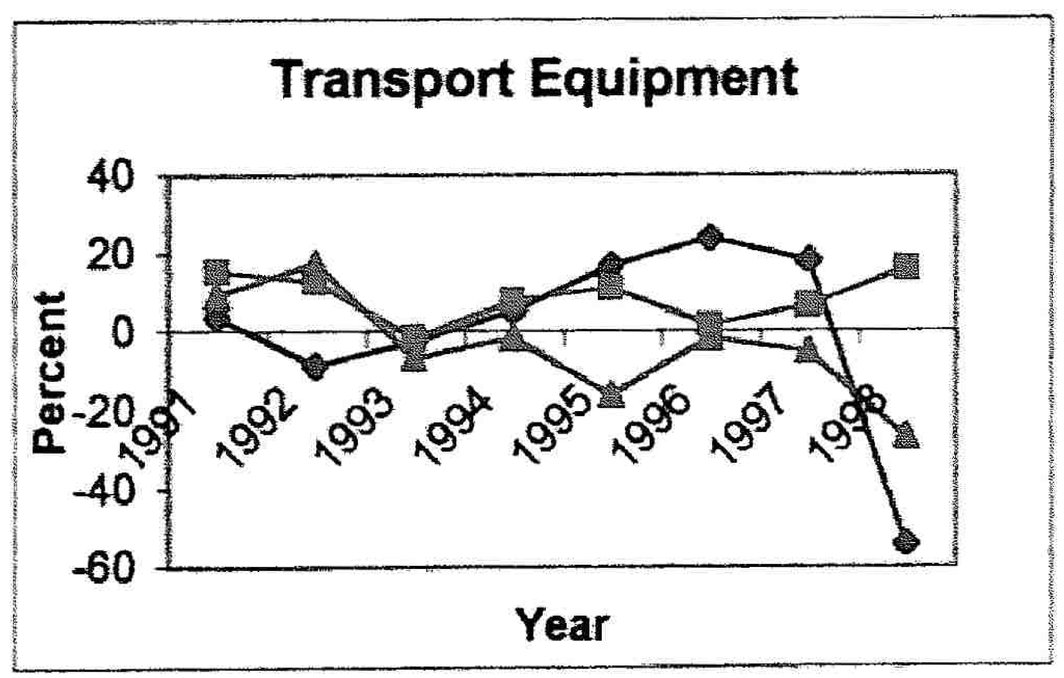
In 1996-1998, unit labour cost has been increasing attributed to labour cost per unit of employee increased at a faster rate than the increase in productivity. The lower rate of increase in real labour productivity during 1995-1996 is partly due to lower output growth in the electrical and electronics industry as a result of slower growth in overseas demand for electronic products. The manufacturing sector needs to further improve its productivity in order that increases in labour cost will commensurate with increases in productivity.

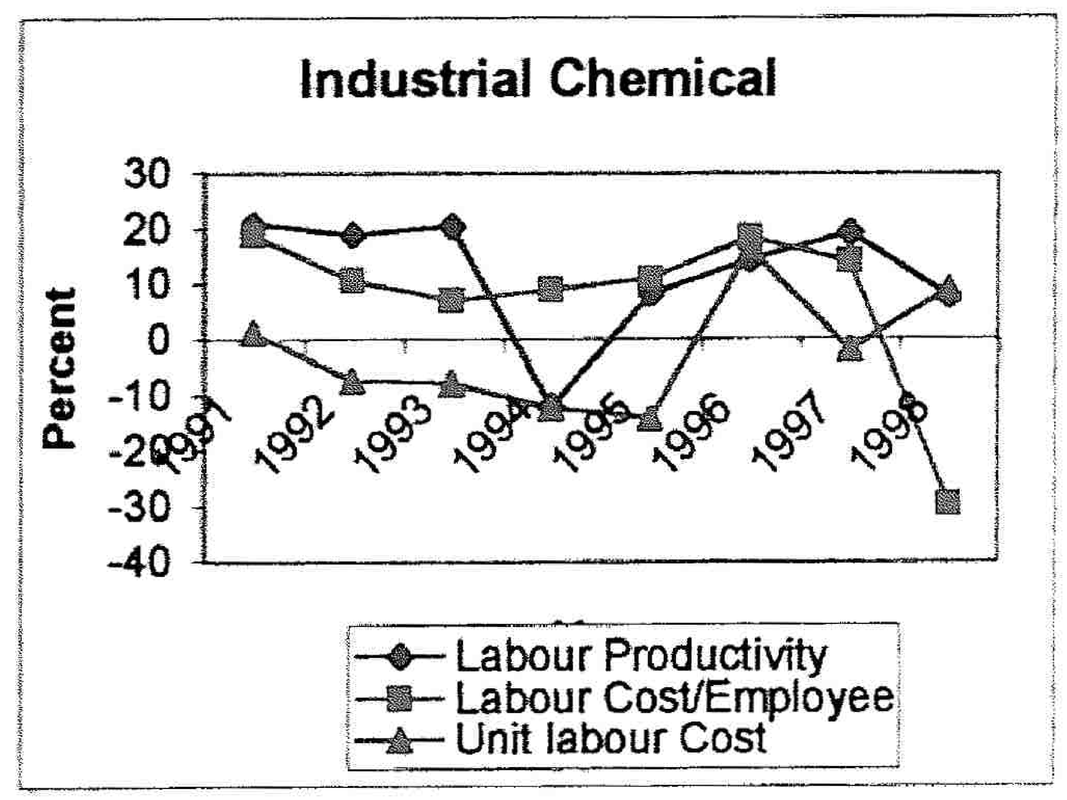
Figure 3 provides a comparison of labour productivity, labour cost and unit labour cost of selected key sectors in manufacturing sector; the electrical machinery sector; the textiles sector; the industrial chemical sector; and the transport equipment sector (NPC, *Annual Productivity Report,* 1998). The unit labour cost trend in electrical machinery and industrial chemical sub-sectors show a similar pattern. Labour productivity trend has been increasing faster than the rate of increase in labour cost or declining slower than the rate of decline in labour cost during the period 1991-1998 except for 1996 and 1998. As a result, the cost of labour per unit of output declined during the period (except for 1996 and 1998). The increased in unit labour cost in 1996 and 1998 was attributed to labor cost increased at a faster rate than the increase in labour productivity.

Figure 3: Labour Productivity, Average Wage and Unit Labour Cost in Key Sub-Sectors of Manufacturing Sector (Annual % Rate of Change)









For textiles sub-sector, the unit labour cost declined during the period 1992-1994 and increased gradually from 1994-1998.

3.2.3 Institutional Influences in the Labour Market

Institutional factors exerted an important impact in Malaysian wage setting system. Although its direct effect cannot be easily estimated quantitatively, its pervasive role in the labour market is felt. There are three important institutional factors that influence the labour market and earnings of the workers; namely, (1) the government or public sector, (2) the trade unions, and (3) the employers.

3.2.3.1 The Role of the Government

The government has a relative role in the wage setting process in the labour market. First, the government is the country's single largest employer. Taking the Malaysian economy as a whole, the public sector alone currently employs over 10 per cent of the total workforce in the country. As such, it shows that the public sector exerts a strong influence on the private sector at least in two ways. Firstly, the salary scale is widely followed in the formal private sector. Secondly, public sector entry wages have become a benchmark for what is considered the market minimum wage for various educational qualifications for a large category of workers in the private sector. Government also acts as an economic and social manager of the country through regulations and labour legislations. This would directly or indirectly determine and influence the labour market situation and the rate of changes in the country.

The three principal pieces of labour legislation that regulate and control wage labour in the economy are the Employment Act 1955, the Trade Union Act 1959 and the Industrial Relations Act 1967.

The Employment Act sets out terms and conditions of service, and the minimum benefits that have to be accorded in the private sector. These cover annual leave, maternity leave, sick leave, paid holidays and weekly rest days. The Act also stipulates overtime wage rates for work performed outside of regular work hours. The Trade Union Act 1959 allows most Malaysian workers to participate in trade union activities with some exceptions. The Industrial Relations Act 1967 accords workers the right to form, to join and to participate in lawful activities of trade unions, including the right to strike. Malaysia does not have a rational minimum wage, but the Wage council Act 1947 provides for minimum wages in those sectors on regions of the country where a need arises.

3.2.3.2 The Role of Trade Unions

Under the Malaysian trade union laws, employees or workmen may organize themselves into a trade union in order to advance and protect their interest by means of a greater bargaining strength. The trade union's major function has been the negotiation of members' wages and working conditions through the process known as collective bargaining with the employer. The successful outcome of this bargaining is put in writing and is called a collective agreement, which lays out the terms and conditions of labour offer to the workers over three years. Terms and condition of labour refers to the

improvement of wages and other benefits such as payment of medical bills, paid holidays and a share in company benefits, usually in the form of bonus.

In Malaysia, there are two types of trade unions. The first are national unions, which represent specific industries during negotiation with employers, and union officials are independent from the enterprises. The second type is in-house union where the union representatives are the representatives of management who represent workers during negotiation with management of the enterprise.

(a) The Growth of Trade Unions

The Malaysian economy experienced very significant employment growth with the rapid growth of the economy. However, while there has been a growth in the number of persons employed, there has not been a corresponding growth in union membership. The growth of union membership lagged behind the growth in the number of persons employed (see Table 3.5).

Table 3.5: Incidence of Unionized Labour

Year	1981	1986	1992	1998	% of growth 1981-86	% of growth 1992-98
No .of Workers Employed ('000)	5533.0	5568.0	7096.0	8563.3	0.63	20.7
Unionized Workers ('000)	549.0	565.6	680.0	739.6	3.02	8.1
Proportion of Unionized Workers (%)	9.9	10.2	9.6	8.6	3.03	-10.4

Source: *Yearbook of Statistics, Manpower and Labour Report*, various issues, Department of Statistics.

The overall extent of unionization of the total labor force is rather small. In 1998, the proportion of workers joining unions amounted to about a ninth of the total employed. Thus, it is concluded that the overall bargaining power of trade unions, as measured by the size of its membership in the country is not consistently strong (see Table 3.5).

Trade union bargaining power has generally weakened attributed to growing use of cheap immigrant labour, increasing labour flexibility as well as government encouragement of in house unions and weak trade union organization. Moreover, with the existing repressive legislations, Malaysian trade unions failed to obtain substantial benefits for their members to counter government restrictions on the labour market. Through legislative restrictions imposed in 1971 and again in 1980, the government succeeded in reducing strikes drastically compared to early decades.

(b) The Impact of Trade Union on Wage Increases

Table 3.6: Number of Collective Agreements, Workers Involved and Percentage Wage Increase in Manufacturing Sector.

Year	No. of Collective Agreement	No .of Workers Involved	Wage Increase (%)
1992	191	51,042	11
1993	199	54,940	11
1994	196	53,468	9
1995	216	58,656	28
1996	210	47,674	11
1997	241	64,485	15
1998	146	37,175	8
1999	134	27,596	7

Source: *Labour and Human Resource Statistics*, 1992-96, 1994-98, Department of Statistics.