Hate it or love it, minimum wage is good [1]

By Quah Boon Huat

There is potential positive impact from both a domestic and regional perspective.

Asian nations are introducing or raising minimum pay to tackle wealth gaps in a region that is leading global growth.

On the eve of Labour Day 2012, Malaysia jumped on the bandwagon, announcing its first national minimum wage. Private sector workers in peninsular Malaysia will receive a minimum monthly pay of RM900 while those in Sabah (including Labuan) and Sarawak will get RM800.

The minimum wage rates will take effect six months from the date the Minimum Wage Order is gazetted. The effective date for small-time employers or micro enterprises is extended by another six months, effectively giving them a 12-month grace period.

Some 3.2 million workers working in small and medium-sized enterprises (SMEs) who earn an average of less than RM700 a month are expected to benefit from the policy. They represent about 33 per cent of the workforce who live below the poverty line of RM763.

Some detractors have charged that there is a political element to the announcement. But whatever the motivation, the intention of any minimum wage policy, which is to remove the problem of low pay, is noble.

Low pay can result from a number of labour market failures. They include: a) lack of skills leading to very elastic demand for labour, so that a 'higher' wage could reduce labour demand substantially; and, b) migrant workers who are prepared to accept extremely low wages, which thus drive down the wages for indigenous employees.

Not surprisingly, there is employer opposition to minimum wage.

Some Malaysian business groups have complained that minimum wage would increase the cost of doing business, thus hurting competitiveness. One industry association claimed that a minimum wage set at RM800 would totally kill off 80 per cent of small firms. Another association meanwhile warned that a blanket minimum wage would put four million jobs at risk as some 200,000 companies could fold.

In Thailand, industry associations are, not surprisingly, also making similar claims. Thailand had in April increased its minimum wage to 300 baht a day in Bangkok and six provinces. In the rest of the country, minimum wage increased by an average of 40 per cent.

The Thai Chamber of Commerce said that its survey results showed that some 10 per cent of the two million SMEs in Thailand feared they might have to close down. The Federation of Thai Industries meanwhile said that labour-intensive industries were likely to shift their manufacturing bases to neighbouring low-cost countries like Cambodai, Laos and Myanmar.

These sorts of potential developments have understandably set some alarm bells ringing.

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[1] This article appeared in the forum section of The Edge Malaysia on 21st May 2012 under the title “Minimum wage brings positive domestic, regional impact”.

SMEs provide an important source of domestic employment creation and a mechanism for local capacity-building. They also provide the crucial industrial linkages needed to set off a chain reaction of broad-based industrial development.

But must we be worried about a potential exodus of low-wage low-tech labour-intensive Malaysian SMEs to a low-cost ASEAN member country? Is it possible that such an exodus is actually a positive development?

There are two reasons why an exodus of labour-intensive Malaysian SMEs to a low-cost ASEAN member country would be a positive development.

The economic restructuring required to transform Malaysia into a high-income nation will require the re-allocation of scarce resources. Any exodus of low-wage low-tech labour-intensive SMEs from Malaysia would in effect free up scarce resources for use by sectors more capable of pushing outward the production possibility frontier. Specifically, technology-driven high-skill capital-intensive sectors that are sub-sets of the National Key Economic Areas (NKEAs). NKEAs are the engines of growth the government hopes will take Malaysia to high-income status.

The freeing up of scarce resources for use by more productive industries or sectors, whether a policy intention or not, will obviously have a positive economic impact.

Minimum wage, which will not be a turnoff for technology-driven high-skill capital-intensive investments, thus does not contradict ongoing economic restructuring efforts.

Seen from the ASEAN perspective, an exodus of non-NKEA related SMEs to the less developed ASEAN member countries is also a good thing.

One of ASEAN's greatest challenges is the integration of its new member countries, viz. Cambodia, Laos, Myanmar and Vietnam. And a key constraint for ASEAN to work together to achieve an ASEAN community by 2015 is the development gap that exists between the old and new member countries.

Any Malaysian SME exodus to the ASEAN new member countries would certainly contribute, to a certain degree, towards ASEAN's efforts to narrow the development gap and therefore assist in speeding up regional integration.

Are the aforementioned potential developments desirable from the perspective of a Malaysian SME making such an exodus?

Definitely.

The idea of labour-intensive Malaysian SMEs relocating to less developed ASEAN member countries where the labour cost is still low and raw materials easily available has been around for years. A safer and easier alternative was and is for Malaysian SMEs to establish joint ventures with local partners.

Either way, that strategic move would open up multiple business opportunities in the host country for the Malaysian SME.