

As GST kicks in, call to rescue Malaysia from low-wage rut
The Malaysian Insider
March 30, 2015
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As wage earners brace for higher spending under the goods and services tax (GST) that takes effect on Wednesday, they will feel the brunt of decades of Malaysia's economic policies which have kept wages low and local industries uncompetitive.

Low wages have not helped the government improve its revenue, as only 1.7 million Malaysians pay income tax out of a workforce of 12 million, and Putrajaya is seeking to increase earnings with the broad-based consumption tax.

But low wages are the legacy of Malaysia's industrialisation policy, which has long focused on making the country a low-cost, low value manufacturing hub.

Although this helped transform the economy in the early 1990s, experts are now warning that a new industrialisation policy is needed, as there are worrying signs that the government's push for developed status in five years is not raising the incomes of the majority of people.

The call to reform the manufacturing sector is the key to solving the problem of low wages, said Yin Shao Loong, executive director of the think-tank Institut Rakyat.

The sector sets a benchmark which, with the exception of oil, gas and utilities, the services sector also followed, he said.

"Manufacturing enjoys a high ratio of sales per worker, whereas service industries such as retail, food, and administration tend to earn lower amounts.

"But if manufacturing wages are low due to lower sales value, then service wages will follow," Yin said.

The problem, said economist Tan Sri Kamal Salih (pic, right), was that the manufacturing sector was mostly involved in low-value assembly, which required little skill and, therefore, paid low wages.

"We produce components which get shipped to China, for instance, which, in turn, uses those components to produce the finished product that then gets exported to the United States."

And because it relies on foreign workers from poorer countries who will settle for low wages in order to keep their costs low, the industry is not motivated to offer higher pay to attract Malaysians.

The Employees Provident Fund (EPF) recently revealed that 75% of its 14 million contributors still earned less than RM2,000 a month and about 15% earned between RM2,000 and RM5,000 a month. Those earning more than RM5,000 are in the top

10%.

The chief reason is that these people started working on low salaries but even wage earners now are not comparatively better off.

Stuck in low

The call to move Malaysian industries up the value chain is not new. It's something that the Najib administration has said needs to be done.

But the experts interviewed by The Malaysian Insider said that realisation was not being matched by policies that were aggressive enough to steer industries away from the low-value model to being high-value producers.

Also, the government's push to hinge the economy on the services sector, as stated in the Economic Transformation Plan, takes the attention away from reforming the manufacturing sector.

At the same time, government agencies, said Kamal, were still pursuing policies which encouraged more low-skill industries to come to Malaysia to set up shop.

"You see agencies opening up more industrial parks to bring in more foreign companies. There is little push in domestic industries to re-invest into up-skilling, 'teching up' and research.

"Instead, when a company makes profits, they go and buy property overseas," said Kamal, who is adjunct professor of Economics and Development Studies at Universiti Malaya.

This was the opposite with what new industrial powers such as South Korea, Japan and Germany have done to grow their manufacturing base, said Yin.

"They nurtured home-grown and owned industries. Sometimes they partnered with foreign firms which had strategic technology.

"However, over-reliance on foreign firms would not give local firms the space to develop. This is part of Malaysia's problem.

"We relied too much on FDI (foreign direct investment) to push manufacturing with technology and R&D that we didn't own or do.

"So we just ended up making stuff for other people."

Little incentive to move up

The incentives, Yin said, remained the same and targeted towards attracting investment rather than making companies perform and upgrade themselves.

"Investors get long tax holidays, cheap water, cheap electricity, cheap fuel and an oppressed labour market," he said, referring to government subsidies on utilities.

"Aside from the 30% local ownership requirement, they are not expected to transfer technology, hit production targets, scale up their industries to higher value-added (products)."

Kamal uses the RM42 billion Mass Rapid Transit project as an example of a lost opportunity to nurture local firms.

"We have firms that can manufacturer the cars and the engines for them, and the rails also. But instead we decided to import the engines and cars."

A new industrialisation policy, Kamal said, must reverse this process.

Instead of baiting more foreign firms to come to Malaysia to set up low-cost assembly centres, local firms have to be pushed to put more money into R&D and to produce higher value products, Kamal said.

"Instead of buying property overseas, they should be encouraged to invest in R&D which is riskier but better in the long run."

Malaysian Trades Union Congress (MTUC) secretary-general N. Gopal Kishnam (pic, left) echoed this, claiming that companies often put too much emphasis in pushing workers rather than upgrading machinery.

"Generally, most of the machines in our factories are decades old and were even bought second-hand to begin with. They are unwilling to spend to upgrade their machinery.

"In any given factory, workers actually contribute about 20% to production rates.

"Yet the World Bank reports that production rates in Malaysia went up by 6.7% of the last 10 years. But wages only increased by 2.1%," said Gopal.

Yin said another way to do it was to give subsidies, whether in utilities or land, to companies meeting specific production targets.

This method was used in South Korea, where subsidies would only be given to companies which manufactured products good enough to export to the world market.

But industrial incentives were only part of the picture, said Yin, who argued that Malaysia's education system also has to be upgraded to produce higher-skilled workers who could make more valuable products.

Breaking out of the low-value chain rut and moving up would demand more skilled labour and this would also mean better pay and incomes for Malaysians.

The blame should not lie solely on industry, which was hooked on the low-cost model, said Yin.

“It is the policymakers who are unable to bring greater discipline to bear on industry. This is partly a lack of vision and a lack of guts.”– March 30, 2015.

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