

Salary and Wages in Malaysia

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Article abstract

This paper discusses the compensation practices in Malaysia against the backdrop of the legal framework for wage and salary determination. It also examines the Malaysian labour market situation and trends in salary and wage administration together with the role of unions in compensation determination.

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INTRODUCTION

Malaysia is a country of more than 20 million located at the southernmost tip of mainland Asia. Besides being a leading exporter of commodities such as natural rubber, tin, palm oil, timber, petroleum, and natural gas, Malaysia is also one of the world's leading exporters of electronic semiconductors, room air-conditioners, and audiovisual equipment. Prior to July 1997, Asia was seen as a region exemplifying success in economic growth and development. Between 1991 to 1996, the Malaysian economy grew at an average rate of more than 8%. However, Malaysia could not shield itself from being negatively impacted by the 1997 Asian Financial Crisis where the nation suffered a 7.5% contraction in its Gross Domestic Product (GDP) in 1998.

In 2000, Malaysia had a workforce (defined as persons between 15-64 years old) of slightly above 9 million. About 60% of the workforce were below 35 years of age. Union members accounted for about 8.15% of the labour force. Unemployment was reported at 3% of the labor force, and foreign workers accounted for one out of every seven jobs (Malaysia 1996-1998, 1996).

This scenario shapes the Malaysian labour market condition. Until 1997, the salary and wage rate in the country had experienced a significant growth. This was a result of the rapid economic growth and near perfect employment. This paper will discuss the salary and wage practice in Malaysia. It will begin by describing the legal framework for wage and salary determination. It will then describe the Malaysian labour market and trends in salary and wage administration in the country. An examination of the role of unions is also included.

LEGAL PROVISIONS ON WAGE AND SALARY DETERMINATION

The legal framework for salary and wage payment in Malaysia is governed by the Employment Act 1955. The Act defines wages as basic pay and all other cash payments made to employees for their contract of service. The following payments, however, are not included as part of wages:

- The value of any house accommodation, the supply of any food, fuel, light or water, and medical attendance.

- Contributions paid by employers on their own account to any fund or scheme established for employees' benefit or welfare including pension fund, provident fund, superannuation scheme, retrenchment scheme, termination scheme, layoff scheme, retirement scheme, and thrift scheme.
- Traveling allowance or the value of any traveling concession.
- Any sum payable to employees to defray special expenses entailed on them by the nature of their employment.

Under the Act, payment of wages must be made no later than the 7th day after the last day of a wage period. A wage period must not exceed one month, and unless this period is specified in a contract of service, it is deemed to be one month. That is, employees are paid at least once a month. Employers, however, may pay wages at shorter intervals, say once a week or once every two weeks.

The Act specifies that when an employer terminates an employee without notice, the wages owing to the employee must be paid no later than the day the service is terminated. If it is the employee who terminates the service without notice, payment must be made within 3 days from the day of such termination. If termination is with notice by either the employer or employee, wages must be paid by the end of the notice period.

The Employment Act does not govern every aspect of wages. For example, wage rates or levels are not regulated by the Act but are determined through negotiations between an employer and an employee or, in the case of unionized companies, between the representatives of the company and the trade union. However, wage determination for some employees, such as hotel and restaurant workers, are subject to the minimum wage requirements of the Wage Councils Ordinance 1947.

Malaysia's Industrial Court and Industrial Arbitration Tribunal, in some of their judgments, have indicated some factors that should be considered in determining wage rates and wage levels. In one Industrial Court case, the Court determined that in fixing wage levels, employers should (a) compare their wage levels with that of similar or related industries; (b) consider whether their wage levels are fair, giving due consideration to the cost of living; and (c) take into account their financial capacity to meet such wage levels. In another case, the Industrial Arbitration Tribunal stated that due consideration should be given to the following factors in determining wage and salary levels and increases: (a) the cost of living, (b) the wages and salaries paid by comparable establishments in the same region, (c) any inconsistencies in the wage and salary structure of the company itself, and (d) the financial capacity of the company to institute wage and salary increases. In addition, the Tribunal opined that employers should consider factors such as labor productivity, prevailing wage rates in similar industries in the same region and the present economic condition as well as the future prospects of the industry in determining wage levels (Ayadurai, 1985).

EMPLOYMENT TREND IN MALAYSIA: 1990-1999

The rapid economic growth in Malaysia between the period 1990-1999 was accompanied by a shift in labor force utilization in the country. One noticeable shift was the reduction in the percentage of the work force employed in the agriculture sector. Data published by The Labor Force Survey Report 1999 by the Department of Statistics shows that certain sectors experienced significant changes in their share of total employment between 1990-1999 (refer to Table 1).

The percentage of people employed in the agriculture, forestry, livestock and fishing industry dropped from 26% of the total national employment in 1990 to 18.4% by 1999. The biggest increase was experienced by the manufacturing sector, which saw its share of total employment rise from 19.9% in 1990 to 22.5% in 1999. Major increases were also experienced in the construction sector and the sectors classified as financial, insurance, real estate and business services. The property boom during this period led to the increase in the percentage of people employed in the construction sector. The growth in this sector needed to be supported by the financial service sector which explains the increase in the finance, insurance, real estate and business services sector.

Table 1: Percentage of Employment According to Sectors.

| Sector | 1990 | 1995 | 1999 |
|--|-------------|-------------|-------------|
| Agriculture, forestry, livestock and fishing | 26 | 20 | 18.4 |
| Mining and quarrying | 0.4 | 0.6 | 0.4 |
| Manufacturing | 19.9 | 23.3 | 22.5 |

| | | | |
|---|------|------|------|
| Electricity, gas and water | 0.7 | 0.6 | 0.6 |
| Construction | 6.3 | 8.0 | 8.2 |
| Wholesale, retail, restaurant and hotel | 18.2 | 17.9 | 18.8 |
| Transport, storage and communication | 4.5 | 4.7 | 4.8 |
| Finance, insurance, real estate and business services | 3.9 | 4.8 | 5.3 |
| Community, social and personal services | 19.9 | 20.3 | 21.1 |

THE MALAYSIAN LABOR MARKET.

The main labor markets in the country are located in the major industrial areas (refer to Table 2). The Klang Valley is the biggest industrial area in the country and covers Kuala Lumpur, the capital city, and the neighboring towns of Petaling Jaya, Shah Alam and the port town of Klang. These three towns are located in the state of Selangor.

The Klang Valley Periphery covers areas in Selangor outside the Klang Valley, as well as the neighboring states of Negri Sembilan and Melaka. The industrial areas in these states have been developed mainly in the last 10-15 years. At the southern tip of peninsula Malaysia is the JB industrial area. JB is the acronym for the town of Johore Baru which borders Singapore. Many Malaysians in Johore Baru work in Singapore. As such, the labor market condition here is affected by the conditions in Singapore.

In the northern part of the country are two major industrial areas. The first is Penang, which is one of the oldest industrial areas in the country. This covers the Penangisland and the adjacent area on the peninsula. The second industrial area is the Northern Plains, which covers the states of Perak, Kedah and Perlis which borders Thailand. Like the Klang Valley Periphery, this area was developed in the last 15 years. The last major labor market is the east coast of Malaysia. This is a new area and is expected to be the next growth area. This area is also a major oil producing area and is home to many petrochemical plants.

**Table 2: Areas in the Major Labor Markets.
Cities and states**

| Area | Cities and states |
|------------------------|--|
| Klang Valley | Kuala Lumpur and its suburbs |
| Klang Valley Periphery | Parts of Selangor and the states of Negri Sembilan and Melaka |
| JB | State of Johore |
| East Coast | States of Kelantan, Terengganu and Pahang |
| Northern Plain | States of Kedah, Perak and Perlis |
| Penang | Island of Penang and adjacent areas on the mainland. |

FACTORS AFFECTING SALARY LEVELS IN MALAYSIA

Several factors have been identified as contributing to the increase in pay offered to employees in Malaysia. The tight labor market is a major factor causing the increase in pay among occupations. In the JB area, the close proximity to Singapore and the increased mobility of workers create a condition whereby companies in the area have to compete with Singaporean companies for Malaysian workers.

Tight Labour Market

Malaysian employers compete for the same number of workers. As more foreign investments flow in, more jobs are being created. For instance, in the production related sector alone, an increase of 57.2% new jobs was reported in 1996 (Seventh Malaysia Plan, 1996). Foreign investment under the Sixth Malaysia Plan (1990-1995) was RM80 billion, and under the current Seventh Malaysia Plan (1995 – 2000) is expected to reach RM120 billion. Although the

government has encouraged the intensive use of modern technology in exchange for human labor, the dependence on labour still continues.

Table 3: Registered Job Seekers With the Manpower Department.

| Year | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Active Job Seeker | 54,387 | 50,199 | 42,344 | 31,617 | 26,445 | 25,546 | 21,688 | 23,762 |
| New Registrants | NA | 11,939 | 9,214 | 9,128 | 8,596 | 7,524 | 7,897 | 9,127 |

NA: Not available

An indication of the tight labour market is reflected in the consecutive reduction in the number of job seekers. The number of active job seekers registered with the Manpower Department dropped from 54,387 in 1990 to 23,762 in 1997 (Siaran Perangkaan, 1998: 27). The number of new job seekers also dropped from 11,939 to 7,524 in 1995 and increased slightly to 9,127 in 1997 (refer to Table 3).

Proximity to Singapore

Singapore offers comparatively higher salaries than its neighbors. The attractive salary offered has attracted a considerable number of Malaysians to work there. Malaysian employers in the JB are not only have to compete with their Malaysian counterparts for workers but also with Singaporean employers.

Singapore currently employs about 200,000 Malaysians of whom 50,000 commute daily to the island republic (New Straits Time, May 24, 1997). The figure represents about 13% of the total work force in Singapore. Those who commute daily to work in Singapore are able to gain the benefit of a higher pay in Singapore while at the same time enjoy the lower cost of living in Malaysia.

Most Malaysians work in the manufacturing, construction and service industry. In August 1996, the Singaporean government decided to exempt foreigners from contributing to the Central Provident Fund (CPF). The contribution is a compulsory deduction from the employee's pay, which is kept in a retirement fund. This decision will attract even more Malaysians to work in Singapore. This is because the exemption will give Malaysian workers in Singapore a bigger take home pay and make it more attractive to continue working there. However since the economic slowdown affecting the region has also affected Singapore, it is unlikely that more Malaysians will be able to seek employment in the republic. Given Singapore's emphasis on the high-tech sector, new job creation will be mainly for professionals and engineers.

Influx of Foreign Labor

Until 1997, Malaysia was a major importer of foreign workers. It was reported that the number of legal foreign workers was 750,000 in 1994 and the number of illegal workers was 500,000. In 1996, the number swelled to about 900,000 legal workers and one million illegal workers (Fernz, 1997). The economic slowdown has caused the country to review its policy of depending on foreign workers. Malaysia has pursued a more active policy of repatriating illegal workers since 1998.

Although the general perception is that foreign workers cost less, the Federation of Malaysian Manufacturers (FMM) disagrees (Yeow, 1997). Employers have to incur various costs such as preparing paper work before getting the required approvals from the relevant authorities and pay high levies to the government before they can hire foreign workers. The FMM explained that reliance on foreign workers does not in any way reduce the cost to employers.

The number of skilled foreign professionals and expatriates has also increased due to the increase in foreign investments and a shortage of Malaysians who can fill professional and managerial positions. According to the Director of Employment Pass and Foreign Labor Division of the Immigration Department, a total of 29,958 expatriate posts were approved in 1996 as compared to 14,991 posts in 1995 (The New Straits Times, March 7, 1997).

As mentioned earlier, the view that the use of foreign workers is less costly and may moderate salary level has limited truth. Among the blue collar laborers the cost of foreign workers is not necessarily lower. As for professional and managerial positions, the use of expatriates is more costly and provides a higher ceiling by which Malaysians compare their salary. Even then, this impact is limited to only certain employment categories.

Increased Mobility of Malaysian Workers

Workers in urban areas such as the Klang Valley, Penang, and the JB area are paid better than those working in the rural areas. As an example, a salary survey by the Malaysian Employers' Federation in 1996 showed that the average monthly salary of top executives in Penang is RM14,268. This is about the same as the average salary of top executives in JB (RM15,050). These amounts are far above the average salary of top executives in the East Coast who were paid RM9,400 or the Northern Plain who were paid RM11,034.

The salary differences between various parts of the country attract people to areas offering a higher rate. Malaysian workers have a tendency to move to those high-paying areas. According to a Department of Statistics report, Selangor, which borders the Klang Valley industrial area and where Klang Valley Periphery is located, recorded the highest number of internal migrants (Report on Migration 1995, 1996). Internal migrants refer to locals migrating within the country. The data also show a similar trend with most of the internal migration in Malaysia being from other areas to the major industrial areas. This has the effect of raising the salary of workers in the newer industrial areas. In the long term, one can expect salary differences between the industrial areas in Malaysia to become smaller.

COMPARISON OF MANAGERIAL SALARY FOR SELECTED AREAS FOR 1994-1996.

A survey by the Malaysian Employers Federation (MEF) found that on average the salary given to employees in managerial positions (i.e. from executives to the top managers) has increased substantially during the period of 1994-1996 (Malaysian Employer Federation Compensation and Salary Survey, 1996).¹

This salary increase was experienced by employees at all managerial levels during this period (refer to Table 4). A number of distinct trends can be noted from the data. It can be seen that the largest salary increase was experienced by positions in the JB and Klang Valley Periphery area. The Northern Plain area also saw large increases for top management positions. The large increase in JB can be attributed to the competition from Singapore. Many Malaysians are attracted by the higher pay in Singapore, which is only about a half an hour drive from JB. The Klang Valley Periphery and Northern Plain consist mainly of relatively new industrial areas and upward adjustments in the salaries are needed to attract experienced managers to move to these areas. It can also be due to the need to reduce the attraction of opportunities elsewhere for their senior and top managers.

Table 4: Percentage Salary Increase for Selected Positions According to Region Between 1994-1996

| | Top Managers | Senior Managers | Middle Managers | Executives |
|---------------------------|-----------------|--------------------|--------------------|------------|
| Klang Valley | 18.9% | 15.5% | 4.7% | 12.4% |
| Klang Valley Periphery | 50.3% | 62.3% | 26.9% | 26.2% |
| JB | 67.6% | 42.8% | 40.4% | 10.1% |
| East Coast | 6% | 45.5% | 2.2% | 0.9% |
| Northern Plain | 56% | 6.7% | 21% | 3.5% |
| Penang | 59% | 57.5% | 6.8% | 18.7% |

Source: Malaysian Employers Federation Compensation and Salary Survey 1996

**Table 5: Overall Percentage Salary Increase For Selected Positions
From 1994-1996**

| | Top Managers | Senior Managers | Middle Managers | Executives |
|--------------|-----------------|--------------------|--------------------|------------|
| 1994 to 1995 | 11% | 15% | 2.2% | 5.3% |
| 1995 to 1996 | 24.3% | 12.2% | 16.5% | 12.4% |

Source: Malaysian Employers Federation Compensation and Salary Survey 1996.

Table 5 shows that there has been an increase in the percentage average salary increase for 3 of the 4 levels of managerial positions for the 1995-1996 period compared to 1994-1995.

In addition to the comparison between regions for the selected occupations, data available indicate a shift in the breakdown of labour-related expenses in Malaysia. Data collected from 171 manufacturing and service firms in 1995 by Rozhan and Zakaria (1997) showed that the average labour cost of Malaysian companies is made up of 74% salary and wages, 11% incentives and 15% benefits. Another survey involving 108 manufacturing firms done at Universiti Kebangsaan Malaysia in 1998 showed that 69% of the labour cost is spent on salary and wages, 9.4% on benefits, 17.6% on incentives and 4.6% on other forms of compensation. This seems to suggest a greater emphasis on the use of incentives in the compensation practice of Malaysian firms. This may be due to the slower productivity increase experienced in 1996.

WAGE AND PRODUCTIVITY

Any attempt to understand the impact of the salary trend needs to take into account productivity growth. The Eighth Malaysia Plan reported that salary and wage increased by an average of 6.8% per year for the period of 1995-2000. Labour productivity based on sales increased at an average rate of 10.4% per year for the same period. This contributed to a decrease in per unit labour cost by 3.2% on the average. Labour productivity growth based on GDP per worker for the manufacturing sector during the period was 1.6% whereas for the agriculture sector it was a modest 1.5% per year during the same period (The Eighth Malaysia Plan, 2001).

In 1999 productivity in the manufacturing sector grew at 9.1% (1998: -9.4%), employment at 4.0% (1998: -4.7%) and output at 13.5% (1998: -13.7%). Increased in export and local demands are responsible for the growth. Meanwhile labour cost per employee grew at 6.5% and unit labour cost decreased by 6.7%. This reflects the increased productivity of the manufacturing sector. Table 6 shows the trends in the productivity growth, labour cost per employee and unit labour cost in the manufacturing sector for the period of 1995-1999. The trend shows that productivity on average lagged behind the growth of real labor cost per employee.

Table 6: Percentage growth in labor cost per employee, productivity, and labor cost per unit of manufacturing sector

| | 1995 | 1996 | 1997 | 1998 | 1999e |
|-------------------------|-------|------|------|------|-------|
| Labor cost per employee | 5.22 | 9.28 | 6.9 | 0.56 | 6.46 |
| Productivity | 2.2 | 9.7 | 2.6 | -9.4 | 9.1 |
| Unit Labor cost | -1.61 | 2.7 | 1.6 | 3.74 | -6.68 |

Source: National Productivity Report, 1999
e: estimates

Output and productivity growth in the service sector were on the average 6.44% and 3.2% respectively for the period 1995-1999. The service sector is a major contributor to employment and provided 47.2% of the overall total employment in 1999 (1998: 47.3%). The agriculture sector is facing a continuing shortage of manpower that causes the decreases in the growth rate of 5.6% for the period of 1991-98. Despite the shortage, the labour productivity has grown at a very encouraging rate of 4.18% on average since the last three decades (1961-1998).

The current wage system that is rigid and not based on productivity weakens firms' performance in facing the fluctuation in demand for output. This variation in demand translated to the fluctuation in employment. This was evident during the slow economic performance in the mid of 1980s and the economic crisis of 1997-1999 where employers laid off some of their workers in order to reduce their cost in respond to slow demand in output. The National Economic Recovery Plan of 1998 suggested the implementation of a wage system that is flexible and productivity-based. Table 7 shows the variation in employment that can be related to the fluctuation in GDP.

Table 7: Percentage Growth of GDP, Employment and Productivity

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999e |
|--------------|------|------|------|------|------|-------|
| GDP | 9.1 | 9.6 | 8.5 | 7.8 | -7.5 | 5.6 |
| Employment | 3.0 | 3.0 | 2.8 | 2.2 | -4.9 | 1.67 |
| Productivity | 6.1 | 6.6 | 5.7 | 5.6 | -1.8 | 3.86 |

Source: National Productivity Report, 1999
e: estimates

UNIONIZATION AND SALARY DETERMINATION

Any discussion about salary and wages will not be complete without examining the role of trade unions. As described earlier, union members constitute 15% of the workforce in 1996 but the number has decreased to only 8.15% in the year 2000 (Ministry of Human Resources, 2001). In Malaysia, the National Labor Advisory Council (NLAC) is the highest forum on labor affairs. The MEF represents the employers in this council. The Malaysian Trade Union Congress (MTUC) represents the unions. MTUC has 166 affiliates representing about 600,000 workers. Government employees are represented by the Congress of Unions of Employees in the Public and Civil Service (CUEPACS).

The number of wage agreements in the private sector had increased from 188 agreements in 1991 to 226 agreements in 1996. Table 8 shows the percentage average wage increment agreed upon between employers and unions during this period. The trend shows an increase in the percentage average increment agreed upon by both parties. This is reflective of the tight labour market discussed earlier, which leave employers with little choice but to accommodate to union demands.

Table 8: Private Sector Wage Agreements.

| Year | Wage Agreements | Percentage Average Wage Increase |
|------|-----------------|----------------------------------|
| 1991 | 188 | 7.9 |
| 1992 | 180 | 8.9 |
| 1993 | 161 | 8.3 |
| 1994 | 197 | 10.0 |
| 1995 | 257 | 11.7 |
| 1996 | 226 | 12.3 |

To moderate this situation, in August 1996 the NLAC formulated guidelines on wage reform. The purpose of the guideline is to provide principles for employers and unions in negotiating wages and other benefits. The most important part of the wages reform is that wage increment which commensurates with employee productivity and company performance.

Three specific issues are addressed in the guidelines. First, wages should consist of fixed and variable components. Fixed payments are paid on a monthly basis or a more frequent period. The variable components are yearly increment,

bonus or other infrequent payments. Second, changes in basic salary or fixed payment should consider relevant factors, such as cost of living, and reflect the value of the job. Third, the variable components, such as wage increase, must take into account a company's profitability and the performance of the individual employee or group of workers or organization. The wage increase should be less than productivity growth.

Although these moves were intended to bring wage increase to a more reasonable level, it is uncertain whether the guidelines had the intended effect. This is partly because the guidelines provided nothing new and practically all of the principles set forth have been defined by either legislation or court decisions. Another reason is that the Asian currency and economic crisis essentially reduced the need to worry about unreasonable wage increases. Unions are now more concerned about protecting what they have.

FUTURE TRENDS

July 1997 marked an important moment for many Asian countries. The Asian miracle was unraveled and became more like a debacle. Beginning with Thailand, one Asian country after another succumbed to the attack on their currency. Malaysia was no exception. The Malaysian ringgit fell from an exchange rate of RM2.5 to the US dollar to around RM3.7. The glut in the property market, which began as early as the end of 1996, caused a slowdown in the industry. Financial institutions found themselves saddled with non-performing loans. This led to a slowdown in the Malaysian economy. However, the present outlook of the economy, as indicated by the positive economic development of the country as well as the region, has allowed the Malaysian government to place a forecast of 5% growth in 2000 for its economy. Some analysts may be less optimistic.

The Ministry of Human Resource reported that 83,865 employees were retrenched in 1998 (Labour Market Report, June 2001). This is a major increase compared with 18,863 retrenched for 1997 (The Star, April 21, 1998). The hardest hit were companies in the manufacturing, construction and property sector. However, the market has improved and the Ministry reported that in the year 2000 retrenchment has lowered to 25,236 employees.

During the economic crisis and the period immediately following it, many of those still with jobs found themselves taking a salary cut or freeze. The government implemented a cut in the allowances given to civil servants. The merger of financial institutions that is still in progress, as directed by the country's central bank, is expected to cause around 10,000 people to lose their jobs. Export oriented manufacturing companies were the least affected by the economic slowdown in 1997-1998. The weaker ringgit made their products more attractive. Even if this did not translate in to higher orders, the payment in US dollar that these companies received gave them a bigger margin.

However, by early 2001 this began to change. The decline in the currencies of Malaysia's neighbours began affecting Malaysia's export performance. With the ringgit pegged to the dollar, Malaysian exports are now more expensive compared to her neighbours. Even though Malaysian businessmen are quietly urging the government to devalue the ringgit, the prime minister is stubbornly insisting on the current RM3.8:USD1.

In spite of the optimistic forecast of the Malaysian government, the quarterly data released by Malaysia's central bank continues to see lower than expected economic performance. Uncertainty is still a main concern. The slowing of the US economy in 2001 is already affecting the Malaysian electronics industry which is very dependent on the US market. Malaysia's Human Resource Minister reported that about 15,000 workers in Malaysia have lost their jobs between November 2000 and April 2001 as the US economic slowdown starts biting. Eighty percent of those laid off worked in the electronic and manufacturing sectors (AFP, 2001).

The currency control imposed by the Malaysian government in September 1998 has also reduced its attractiveness to foreign investors who wanted to have free flow of capital. Even when the government abolished restrictions on capital flow early this year to attract more funds into the stock market, foreign fund managers simply packed their bags and left. The Kuala Lumpur Stock Exchange composite index continues its yoyo movement at around half of its pre-July 1997 level (Shameen, 2001). Given the choice between Malaysia and her neighbors, investors are finding the neighbors to be more attractive investment destinations. For those seeking low costs, Thailand is the favorite destination. For those looking for a large pool of educated work force needed for high-tech and high value-added activities, Singapore and even the Philippines are seen to be more attractive. Malaysia is seen to be trapped in a no man's land. It cannot compete on cost and neither can it offer the kind of workforce needed to support a high-tech industry. Malaysia's much vaunted Multimedia Superhighway Corridor which was supposed to be an IT hub is deemed a failure

(Malaysia's "Super Corridor" Fails, 2001). Even the Malaysian Prime Minister admitted this (MSC's Contribution Still Low, 2001).

Equally important is the political turmoil that Malaysia is going through. Since the Prime Minister expelled and then persecuted Anwar Ibrahim, his expected successor, in 1998 there has been a steady erosion of support for the ruling coalition. While political change is itself natural and should not be cause for concern, the oppressive response of the current ruling coalition is causing worries about the possibility of turmoil. A survey of MNC executives conducted by Executive Intelligence Review found that Malaysia is one of two Asian countries expected to become a less attractive investment destination in the next 5 years. This uncertainty is also reflected in Standard and Poor's decision to downgrade Malaysia's rating last April (S&P Downgrade Malaysia, 2001).

The opening of the Asian Free Trade Area (AFTA) will reduced tariff and protected industries will find themselves having to compete with more efficient ones from neighbouring countries. In the short-term there'll be considerable effort to cut cost and salary rates in Malaysia may see a downward trend.

In the long-term, Malaysian companies will have to increase productivity and this will see an increase in demand for professional and technical workers. An upward trend can be expected in the salary of certain job categories. Given this scenario, there is considerable fear of what lies ahead. The approach of the Malaysian government is to fund economic growth through debt. While this may give a temporary boost, it does not address the issues relating to the decline in investors' confidence. The variables impacting future salary trend in Malaysia will be complex. This includes the local condition as well the expected changes resulting from the implementation of AFTA. The spectre of uncertainty and increased unemployment is something that is taken seriously by more Malaysians. The slowing down of the economy and rationalization of certain protected industries, such as the automobile industry, as AFTA is implemented is expected to lead to higher unemployment. We can expect considerable volatility in the Malaysian labor market in the next few years with salary trend behaving erratically.

ENDNOTES

1. Note that in Malaysia the term executives refers to entry level managers. Some companies have the position of senior executives as the next level, followed by the position of manager and senior manager. Top management usually refers to those holding the title of general manager, managing director, executive director and chief executive officer.
2. More recent data is not available at the time this paper was completed.

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