In a fix over foreign labour

By LYDIA NATHAN
lydia.sheena@thestar.com.my

THE new monthly minimum wage of RM1,700 from Feb 1 has been mostly welcomed, but some remain concerned about its broader impact on various industries.

The Malaysian Plastics Manufacturers Association (MPMA) says the revised wage will significantly increase costs for manufacturers.

President C.C. Cheah tells *StarBiz 7* that wages take up a substantial 11% to 20% of total manufacturing costs. Any increase will add to financial pressures at a time when businesses are already navigating higher energy costs, raw material price fluctuations and supply chain disruptions.

"It is crucial for manufacturers, particularly those in the plastics industry, to maintain price competitiveness in both domestic and export markets. Many companies may have no choice but to pass these additional costs on to customers, potentially impacting demand," Cheah says.

He says it is worse for smaller businesses which typically operate on tighter profit margins.

Master Builders Association Malaysia president Oliver Wee Hiang Chyn says the minimum wage ruling is a double-edged sword.

According to the Statistics Department, the number of jobs in construction in the fourth quarter of 2024 grew to 1.2 million, or 0.6%, year-on-year from the same quarter a year ago.

"While the higher minimum wage ensures fair compensation for workers and improves their livelihood, it also presents challenges for businesses, particularly in industries like construction, where labour costs form a significant portion of overall expenses," he explains.

Similar to the plastics industry, Wee says there is an indirect labour cost from the manufacturing side which will have a knock-on impact on the supply chain, thus passing this cost on to the construction and building sector.

The minimum wage issue is not the only concern for businesses.

The mandatory 2% contribution to the Employees Provident Fund (EPF) for foreign workers is another cause for concern if it's implemented.

Malaysia's dependency on foreign labour for jobs that locals shun has been increasing since the 1980s.

This has left the door wide open for foreign labour to fill the gaps in essential industries.

The Statistics Department says that up until 2022, there were 2.2 million documented foreign workers in the country.

Cheah says about 50% of the manufacturing workforce comprises foreigners.

He adds that high turnover and absenteeism among local hires have compounded the issue, as businesses deem foreign labour to be more reliable.

"Mandatory contributions even at a rate of 2% are an additional burden," he says.

Cheah says if implemented, it is likely to push businesses to invest more in automation and digitalisation.

While many applaud the efforts to digitalise, he says transition has been very slow due to high implementation costs and the need for skilled operators.

■ Higher wage limit will significantly increase costs for manufacturers

■ It is worse for smaller businesses which typically operate on tighter profit margins

■ Proposed 2% contribution to the EPF for foreign workers is another cause for concern

Wee: We believe contractors have to upgrade or else this issue will plague them.

Ng: It would be better to remove all middlemen in the hiring process.

Cheah: Many companies may have no choice but to pass on these additional costs.

Small and medium enterprises (SMEs), which form more than 80% of MPMA, have said they struggle to pay for investment in advanced manufacturing technologies, leading them to continue relying on foreign labour.

"This shift requires both time and significant financial resources, making immediate large-scale adoption unrealistic for many businesses. Government support in the form of targeted automation incentives, reskilling programmes and financial assistance for SMEs would be essential for such a transition," he says.

As for the construction sector, Wee says labour costs have consistently gone up, and combined with an unskilled labour force, he has not seen the engagement of technology widely.

"We believe contractors have to upgrade or else this issue will plague them for a long time.

"There will be a bigger gap as those who do not begin the journey may not even survive in the construction business," he says.

On whether the EPF contribution should be made mandatory, Wee says it isn't for him to decide.

He explains that for construction workers, most are paid a daily wage rate, which means it amounts to more than RM1,700 monthly.

"Many have understood that the 2% contribution is coming off the RM1,700 but for these workers, the costs will be more.

"If the government intends to make EPF contributions compulsory for foreign workers, it should be done with clear guidelines and support mechanisms for employers to adapt to the additional cost," he says.

Wee also rightfully questions how the foreign workers may feel about this policy.

"Are the foreign workers happy with it or do they want their full monthly salary? Others may not have plans or in fact cannot stay in the country for the long term due to visas, and all this incurs extra costs to employers.

"The EPF is responsible to declare a dividend for such savings yearly. This initiative seems to be positive for any party whatsoever," he says.

Small and Medium Enterprises Association president Datuk William Ng says as SMEs operate in an ultra-slim margin environment, any cost increase is unnecessary and will dilute profits.

He opines there is no good reason at all to implement a minimum wage, given that foreign workers are taking up jobs that locals shun.

He agrees that wage equity is a crucial aspect and a basic human right, but the 2% EPF contribution is not beneficial as the quantum is so small.

"It would be better to remove all middlemen in the hiring process and to put the onus on employees to pay salaries on time and in full, free of all deductions," Ng says.

"The upcoming multi-tier levy system will help to reprioritise local hires, and we should wait for that to see the impact in a year or two before making hasty decisions that increase costs for employers," he says.

"It will be another challenging year for our SMEs. We can really do without additional costs at this juncture. Incremental profits will also benefit the country and our economy, so why kill the golden goose with unnecessary policies?"