



Minimum Wage Policy in Malaysia: Its Impact and the Readiness of Firms

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Abstract

The minimum wage policy in Malaysia was announced in 2012 and it is expected to be implemented in all stages by the year 2013. The implementation of this policy is postponed among small & medium enterprises (SMEs) with financial problems. There are many supporting factors for the government to implement this policy, partly because it is time for Malaysia to focus more on high quality products by using skilled workers. The purpose of this research is to investigate the potential impacts of this policy, both the positive and negative aspects. It is also to investigate the readiness of SMEs with regarding to this minimum wage policy; the challenges that might be faced by SMEs; and the potential opportunities and benefits gain from this policy. It is an exploratory research to have better comprehension of the nature of the issue.

Key words: Minimum wage policy, Malaysia, ASEAN, manufacturing sectors.

1. Introduction

The minimum wage policy in Malaysia was announced in 2012 and it is to be implemented in all stages by 2013. However, the implementation of this policy is postponed among those small & medium enterprises (SME) with financial problems. Currently there are 700 SMEs which request to extend this policy to the end of 2013 (The star, July 2013). There are many supporting factors to start this policy, partly because it is time for Malaysia to move on to focus on skilled workers and quality products. The basic argument of this policy is when firms raise the wage, they improve the quality of life of workers, which in the long run will raise the productivity as workers can spend on education or health products. A United Nation officer states that Asia can no longer rely on exploiting its cheap human capital (Deutsche Welle, 6 May 2013). The response from the employers and workers is totally extreme. Most SMEs express their objections towards this policy whereas this is most welcomed by the workers, especially foreign workers who have much lower salary scales.

The Ministry of Human Resource says this wage policy is to be fully enforced by December 2013. This grace period before the end of 2013 serves as a preparation time for employers to make appropriate adjustment for their operation costs and other price strategies. While some SMEs organizations are looking for ways to have further negotiation with the government, some foreign workers have taken initial actions, forcing their employers to increase their salary scales. Since

February 2013, a few strikes were taken place in the SMEs industries, particularly furniture manufacturing. Most of the workers involved in these strikes were foreign workers. These illegal strikes will definitely affect the production as well as the productivity.

Hence, there is a need to investigate this minimum wage policy. Is the minimum wage policy a strategic approach in strengthening our GDP at the national level? With this policy, are we able to achieve greater heights at the organizational level? The aim of this study is to investigate the suitability of this policy in a developing country like Malaysia; it also examine the readiness of firms with regards to the implementation of this policy.

Minimum wage is the minimum amount of pay an employee should receive, according to the governmental legislation. In most cases, minimum wage is used as an anti-poverty device. In 1998, President Clinton stated that “minimum wage will raise the living standards of 12 million hard working Americans”. While he was campaigning for presidency, Barak Obama also endorsed raising the minimum wage so that people who work fulltime should not live in poverty (Sabia & Burkhauser, 2008).

Furthermore, there are many reasons for the implementation of minimum wage. First of all, it is for better living standard for those in the poorest paid jobs and to overcome poverty. Through this minimum wage, those who earn less than RM900 in West Malaysia (and RM800 in East Malaysia) will enjoy a higher income. Moreover, their purchasing power will be enhanced and they are able to overcome the rise in inflation rate. In the rural areas, certain jobs are only paid at RM700. This will be tough for workers with children. The additional RM200 will definitely ease the burden of these workers.

Also, with this minimum wage, there is greater incentive to work. All motivation theories have highlighted the importance of monetary rewards, though intrinsic rewards are equally important. Minimum wage fulfills the basic physiological needs of a worker, as stated by Maslow’s hierarchy of needs. One of the strategies of MNCs in attracting and retaining good employees is to use a good remuneration package. It serves as an incentive for workers to have better performance, in terms of productivity, reduction of errors, less wastage etc.

There might be poverty related crime if the wages of certain low income groups are insufficient to sustain their basic needs. Thus, it is necessary to look into this issue as public safety is non-negotiable. Also, higher equality in terms of income distribution is a form of social justice.

2. Literature Review

Minimum wage started long ago in some countries. In America, minimum wage was implemented in 1800s with the concern about the social status of wage earners with the enactment of Fair Labor Standard Act 1937. With legitimacy, comes unions. However, most labor unions at that time focused more on the white male workers. Other groups like women, immigrants and African Americans were marginalized (Verner, 2009). Over the years, the minimum wage increases from time to time and its coverage has broadened. The goal of minimum wage is not to reduce employment but to redistribute earnings to low paid workers (Shelkova, 2009).

Till today, many developed countries have implemented minimum wage, such as United State, Canada, Australia, Japan, South Korea, France, New Zealand, Belgium, UK, Spain etc. Below is the table which shows the minimum hourly wage and the age of implementing this minimum wage.

Table-1. Comparison of minimum wage level, by countries, 2009

	In national currency (hourly rate)	In UK £	Age full minimum wage
Australia	AU\$14.31	7.55	21
Belgium	€ 8.41	7.50	21
Canada	C\$9.08	5.14	16
France	€8.82	7.87	18
Greece	€ 4.13	3.68	15
Ireland	€8.65	7.71	20
Japan	¥713	4.78	18

Netherlands	€8.07	7.20	23
New Zealand	NZ\$12.50	5.38	16
United Kingdom (UK)	£5.80	£5.80	22
United States (US)	US\$7.25	4.44	20

Source: British Embassies, High Commission and OECD Minimum Wage Database

The statistics above indicate the highest minimum wage among all countries is France, followed by Ireland and Australia. However, minimum wage alone does not have a direct correlation with overall welfare of workers, for example, the Workplace Relations Act 1996 in Australia gave exemption to all firms to be free from claim of unfair dismissal with termination up to 100 employees. Hence, this would cause workers to be less protected under the unfair dismissal law. This act was replaced by the Fair Work Act in 2009.

Another question which employers have the most interest about minimum wage is, “does high wage rate transfer into better work productivity?” According to the research done by the international labor organization (Global wage report, 2012/13), most countries do experience better productivity with better wage. For countries like Denmark, France, Finland and UK, there is close relationship between wage and productivity growth.

However, there are also many countries that have weak relation between these two variables. In some cases, data show that there is productivity growth in spite of the average decline in wage rate. This happen in US, Japan and specially Germany. These can be explained by the high competitiveness in the labor market, good work ethics in organizations’ culture or effective intrinsic rewards of firms. Take for example the unemployment rate in US is shooting high in recent years with 7.6% in July 2013. The issue of overcoming unemployment and providing more job opportunities have become the hot debate topic between Obama and Romney during the US presidency election in 2012.

On the other hand, another research done by Low Pay Commission, UK, finds that National Minimum wage in UK has a positive impact on aggregate productivity in the low-pay sectors, specially in large firms. One of the major reasons is the greater ability of large firms in making use of their monopoly power to pass on costs to their customers and reorganize their productive schedules (Low pay commission report, 2011).

3. Methodology

This is an exploratory research to have better comprehension of the implication of minimum wage. Secondary data is used for this research. Sources of secondary data included journals, relevant reports and news articles. Comparative analysis with neighboring countries has also been done in order to have a better understanding of this policy in various aspects.

4. Content of the minimum wage policy in Malaysia

The minimum wage policy in Malaysia is named as “Minimum Wage Order 2012”, the expected date of execution was January 2013. The initial proposal of the government is to implement this minimum wage in all firms with 5 workers and above; as well as firms which provide professional activities as classified under the Malaysia Standard Classification of Occupation. As for firms with less than 5 workers, they are expected to implement this policy by 1 July 2013.

The minimum wage policy has set the benchmark for minimum pay for a worker at RM900 for West Malaysia and RM800 in East Malaysia, it does not cover workers under probation. During the probation period, workers are allowed to be paid at a lower rate which is not 30% lesser than the minimum. RM900 with 30% less will be RM630, therefore the minimum wage during probation is RM630. Also, if an employer wishes to restructure the wage rate during probation, he/she may do so, as long as the pay is more than the current pay and it is above RM630 (Minimum wage gazette, 2012).

5. The challenges of SMEs & the readiness of firms

This policy has triggered a huge controversy among SMEs specially those firms that hire a large number of foreign workers. Employers through SMEs associations reflect strong opposition with regards to this legislation and they seek for participative platform for the formulation of this policy. One of their key arguments is about the increase of labor costs. The hiring costs of foreign workers vary in different industries. Besides the minimum wage, employers have to bear other costs as shown in the table below:

The cost of hiring a foreign worker	
Annual levy paid by employer (per worker)	
Services sector :	RM600 to RM1,850
Plantation sector:	RM590
Manufacturing & Construction sector:	RM1,250
Other costs	
Minimum wage:	RM900 for Peninsula Malaysia and RM800 for Sabah and Sarawak
Insurance:	Varies by sector. An annual premium of RM72-RM200 per foreign worker
Accommodation/ Transport:	(provided by employer)

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Source: The star, 31 Jan 2013

With its implementation, all workers, including foreigners, will get other benefits such as a higher amount of overtime pay, taking the overall income average to between RM1,200 and RM1,500 a month (The Star, 31 Jan 2013). Therefore, the government has made some adjustments in this policy to respond to employers' requests. One of them is to reinstate the annual levy, it is now putting this burden onto foreign workers, instead of their employers. Another adjustment is to postpone the implementation period up to end of 2013. This amendment covers all the SMEs and any large firms which are facing financial difficulties. Hence, minimum wage for large firms remain unchanged.

The Small & Medium Institute of Employers (SMI) highlights that 80% of the SMEs could be shut down if this minimum wage is implemented nationwide (The Star, 7 March 2012). Their argument is, the readiness of SMEs is low as they heavily rely on labor intensive industries. SMEs recruit about 59% of the workforce, with wage at about RM650, margins on average are about 3% to 5% (The Edge, 12 March 2012).

Indeed, the readiness of smaller firms is less compare to larger firms. Quah says an increase in salaries will have a tremendous effect on the operation costs. Other associations highlight that a blanket minimum wage would put 4 million jobs at risk (The Edge, 12 March 2012). Are these statements over-exaggerated or do they reflect reality? Indeed, in some cases, minimum wage policy has caused a big loss to firms which are not ready. For Top Glove Corporation Bhd, its second quarter of earning fell 5.8% due to the minimum wage policy (The Star, 14 March 2013).

6. The potential benefits of minimum wage: social justice

The initial intentions of minimum wage are to overcome poverty, increase the productivity and quality of goods and services. How is the poverty rate in Malaysia? The table below shows the percentage of poverty by comparing this figure with other countries in Asia.

Table-2. Income shared by the lowest 20%, (in %), 2010

Malaysia	4.5
Indonesia	7.6
Thailand	6.8
Philippines	6.0
China	4.7

Source: World Development Indicator, World Bank (various years)

These two tables indicate the effectiveness of Malaysia in overcoming poverty with low poverty gap (0.8% of the population). Only 4.5% of the population is earning income at the lowest 20%, which means 93.5% of the population is free from the bottom low income group. Nevertheless, the labor workforce in Malaysia includes foreign workers who are working in Malaysia. Currently, there are more than 1.5 million foreign workers in Malaysia (Malaysian Immigration Department, 2012). Their welfare shouldn't be neglected as they are part of the labor workforce in Malaysia.

6.1. Minimum wage in neighboring countries: its impact and challenges

How about the situation in our neighboring countries? Thailand has started to implement minimum wage at the beginning of 2013. In general, this is a great move as it will push the Thai workers to raise their skills and competencies for more intense labor competitions, with the opening of the ASEAN Economic Community in 2015 (The Asian Foundation, 30 Jan 2013). Under this policy, employers have to pay at least 300 baht a day.

The fear of employers in Thailand is quite similar with the case of Malaysia. With the increase labor costs, it might affect those SMEs which are currently struggling, which lead to workers' layoff or even force some SMEs to be out of business. Hence, the vulnerability of unskilled workers will be increased and further worsen the level of poverty in Thailand. Also, it hits specifically SMEs that are labor intensive, like agriculture, tourism and manufacturing. For them, this policy happens too fast. Undeniably, firms suffer for huge loss due to the minimum wage. Based on Thailand Development Research Institute, Thailand minimum wage caused the close down of 110,000 SMEs. Due to this, some SMEs employers turn to be employees in large firms. Unemployment rate has increased by 0.8% (Sin Chew Jit Poh, 5 March 2013). Apart from that, the difficulty in implementing this policy is due to widespread corruption and an estimated 1.5 million of migrant workers from neighboring countries (Deutsche Welle, 6 May 2013).

On the other hand, this policy has also brought a positive impact on productivity. According to the Ministry of Labor, since the minimum wage policy started in some provinces last year, workers' productivity has 12% growth, compared to an average of 2% growth without the policy (The Asian Foundation, 30 Jan 2013). Therefore the impact of minimum wage has to be evaluated from various aspects.

As for Indonesia, the local governments are given the authority to set their own minimum wage. Hence the minimum wage varies from region to region. Currently, the range is from USD226.50 per month in Jakarta to USD85.45 per month in Central Java (Asean Briefing, 16 April 2013). In the case of Vietnam, the minimum wage relies on the development of the workplace. Workers in urban areas like Hanoi, Ho Chi Minh enjoy a higher pay rate of USD 112.68 per month, whereas rural areas will have a lower rate at USD 79.12 per month (Asean Briefing, 16 April 2013). From all these data indicate that lower economic growth will lead to lesser negotiation power.

6.2. Wage schemes in Singapore

Not all developing countries in South East Asia encounter the same problem with minimum wage. Some neighboring countries which practices high wage rate had gain benefits from their wage policy, for example Singapore. Singapore government does not implement national minimum wage but the National Wage Council sought to increase wage rate through annual wage growth. Its high pay scheme has indeed attracted many foreign workers from other countries to boost the economy of Singapore. According to the research conducted by the Manpower Dept of Singapore (2013), findings reveal that the majority of the foreign workers give positive feedback, they are satisfied with good pay, good prospects, good living conditions, protection against abuse. Based on data, there are 1.46 million non-residents in Singapore (Department of Statistics, 2012), 94% of them are in the labor workforce.

Singapore is selected in this comparative analysis as the number of low skilled and skilled workers from Malaysia is huge. Datuk Dr K. Subramaniam, the former Ministry of Human Resource said that there were about 350,000 Malaysians work in Singapore in 2009, with 150,000 of them from Johor Baru (Asia One News, 18 Feb, 2009). Most secondary school leavers from Malaysia find Singapore an attractive place to work. It is due to the strong Singapore dollars, furthermore, it is close to Malaysia.

The following comparison analysis focuses on workers with secondary school level in the manufacturing industry, for both Singapore and Malaysia. Most of the salary for secondary school leavers in Singapore fall into 2 scales: within the range of S\$1,000-S\$1499, and between S\$1500-S1,999 (Ministry of Manpower, 2012).

The majority of the secondary school leavers who earn below S\$1000 work as low skilled labors e.g. cleaners & other related work; followed by service & sales work; clerical support work; lastly plant, machinery & assembly work. There are 41.4% of the workers who earn between S\$1000-S\$1499 work in the job scopes of plant, machinery and assembly. All these information will serve as a guideline for SMEs in Malaysia to reflect on the potential growth when they retain Malaysian semi-skill workers through attractive compensation scheme.

Table-3. Types of job scopes & salary scale

Industries	Salary scale (S\$)
Low skill labors	<1000
Services & sales	1000-1499 (which is 58.1%)
Plant, machinery & assembly	1000-1499 (41.4%)
Clerical support work	1500-1900 (52.9%)

Source: Ministry of manpower, 2012.





Manufacturing industry is selected as it has high demand for secondary school leavers, moreover, it plays a major role in the GDP of Singapore. In 2004, the statistics of the Economic Development Board reveal that the manufacturing sector itself contributes S\$15.8 billion to the GDP (Ministry of Trade & Industry, 2012).

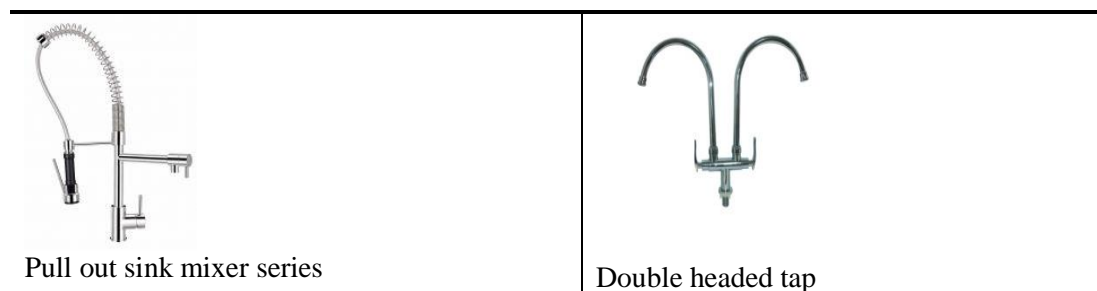
Two types of manufacturing products are selected, which comprise of one household product and one high quality product. As for household product, water tap is selected in this survey, as Singapore has good demand for its water tap products. There are various categories, such as: kitchen water tap, bathroom water tap, basin water tap, plastic tap etc. Various manufacturers for this product include Genova Industries, Hoe Kee Hardware, Damixa Singapore etc.

In Malaysia, manufacturing industry occupies 25% of GDP (Ministry of Finance, 2012). Labor workforce in the manufacturing sector is selected as the salary scales are close to the minimum wage policy. This is the group of workers who will benefit from this policy. Manufacturers of water tap productions in Malaysia include Dykas Industries, KHE Marketing Trading, Sin Yang Plastic Enterprise etc.

Below is the comparison of the same product line, different brands and the impact of higher quality labor workforce:

Table-4. Comparison of products

Products from Singapore	Products from Malaysia
 <p>Water fall series-1 Price:</p>	 <p>Angle hook series</p>
 <p>Water fall series-2</p>	 <p>Basin tap</p>



Above are a few selected products for comparison, it indicates quality differences in the form of materials, design and innovation. Feedback given by some housing developers state that products from Singapore have higher quality in terms of materials, design and innovation though they are at a higher price range. Compare to the products in Malaysia, products from Singapore are mostly made of high quality stainless steel, modern in design and widely utilized the concept of ergonomics. Hence, the market is willing to pay a higher price for these products.

It is difficult for Malaysian firms to continue to gain competitive advantage by offering low cost products as firms from China have taken over as one of the main suppliers, using red ocean strategy as their guide and direction. It is crucial for firms in Malaysia to transform into firms producing quality products, using better salary scale as an attraction point. Minimum wage is a starting point, followed by training and retaining workers in order to remain relevant in this industry. Change is crucial and inevitable, change is effective when firms can feel the pulse of the global market and spot opportunities. If Malaysian firms continue to ignore the competition from China and other neighboring countries, their sustainability are questionable in the long run.

As for high quality product, biomedical manufacturing devices are selected. According to the index in the Ministry of Trade and Industry, Singapore, biomedical manufacturing experiences an outstanding growth among other sub-sector in manufacturing since 2011. This might be due to the demand for the medical technology segment and pharmaceuticals segment. The Economic Development Board of Singapore has identified biomedical science industry as the fourth pillar of the manufacturing sector. Besides this, Singapore holds 30% of the world market share in the manufacturing of hearing aids (Ministry of Trade & Industry, 2012).

Hearing aids can be divided into normal hearing aids and digital hearing aids, the price of hearing aids varies, from as low as US\$9 as to as high as US\$6000. Hearing aids also consist of various designs: behind the ear, open fit, receiver in the canal etc. Similar to water tap products, most of the low cost hearing aids are from China, another major supplier is India. Brands of hearing aids include Siemens, Ratomas, Axon, Bayaudio, etc. Although the demand for this market is considered as a niche market which limits to people with hearing problems, yet it is still an industry which has potential for high revenue. Most of the firms involved in this industry in Singapore are MNCs. These firms are contributing significantly to the GDP of Singapore and to the needs of the global market. Singapore constantly enforces its blue ocean strategies in various industries, for example, the Economic Development Board of Singapore focuses on the setting up of high technology firms in Singapore through strategies to nurture innovation and talent.

As for Malaysia, though it has been transformed into a nation based on manufacturing and services, there are many industries that have yet to be involved. Till now, there are no manufacturers of hearing aids. With the level of knowledge and skills of labor workforce, it is important for Malaysia to tap into industries which have the potential to bring in good returns. Having said that, the government has put in effort through ETP (Economic Transformation Program) and continues to bring in more high technology and green industries into the country, for instant investment from France which produces aircraft components will be set up in Seremban (Invest KL, 30 July 2013).

6.3 Minimum wage policy in Malaysia: its potential impacts and suggested strategies

The comparative analysis of salary scale with Singapore has strongly indicated the potential impact of minimum wage in producing higher quality products. It will encourage workers to have higher productivity if it is implemented with proper training programs and effective quality control.

It is also for the purpose of social justice, so that firms which gain profits from the production will have more equal share with the workers who contribute to the success of the firms. Without these workers, a firm can never achieve what they have aimed for. Lower level of poverty will also reduce social problems. A better welfare system can promote the sense of belonging and job security of workers.

Apart from that, minimum wage can be used as a stepping stone to transform the SMEs into blue ocean strategies, focusing on quality products through semi-skilled or skilled workers. As a member of ASEAN, which will implement the agreement of ASEAN Economic Community in 2015, there will be less protection on trade among the members. Definitely, competition will be more intense in the international market. SMEs will face more intense competition from neighboring countries. Thus, we can no longer rely on low cost products as our competition advantage but to move on to higher quality product.

World Bank (2012) states that the brain drain could hurt Malaysia's ambition to become a high-income economy by 2020. Malaysia's secondary school leavers who work in Singapore contribute significantly to the GDP in Singapore yet Singapore's government does not need to bear any educational costs and other social costs to the primary and secondary school system of these workers. They reap the benefits of having semi-skilled workers who can be easily trained in high technology industry. Hence, minimum wage serves as a basic scheme for firms to be competitive in the long run by retaining more secondary school leavers. This labor force has a great potential to be transformed by firms as semi-skilled workers with technical expertise. There are still a huge number of secondary schools leavers available in Malaysia who receive the same form of education system, have similar knowledge and language skills, if they are given the opportunity to be involved in high technology products, it will bring huge benefits to the country as a whole.

In addition, firms should also consider the arrangement of intrinsic rewards as it is impactful if well implemented, such as tapping into the issues of job satisfaction, self-esteem, more empowerment in the work place etc. One of the reasons of successful manufacturing system in Japan is by using quality circle where workers form small groups and they are free to discuss about problem solving methods or more productive ideas.

With minimum wage policy together with other strategic planning, sectors which are heavily rely on foreign workers can reduce their dependencies on foreign workers. Currently there are 1.6 million foreign workers in Malaysia, which consist of Indonesian (48.5%), Nepal (17.7%), Myanmar (8.7%) & Bangladesh (8.7%). The industries which recruit foreign workers include manufacturing (37.7%), plantations (19.4%), construction (17.9%) & agriculture (9.1%). The reasons of using foreign workers are because they can cope with long hours and tough jobs (Sin Chew Jit Poh, July 2013). However, research also reveals that firms which recruit foreign workers are less willing to conduct training programs. Apart from that, the productivity of foreign workers is lower compare to domestic workers.

According to the Deputy Minister of Women, Family & Community, with 1% increase in the domestic workers, productivity can be increased to 1.11% whereas productivity for foreign workers only increase 0.13% , this is due to the higher educational level of domestic workers (Sin Chew Jit Poh, July 2013). No doubt, foreign workers have given huge contributions to the development of this nation, but firms which suffer for declining competitive advantage have to considerate using more semi-skilled labor to ensure sustainability and growth in the global market. Innovation can be the key for firms to be outstanding.

7. Conclusion

In conclusion, small firms have less readiness in implementing this minimum wage policy compare to larger firms. Nevertheless, looking of the potential benefits this policy brings in, it is urgent to be implemented. Besides the issue of pay and money, there are other factors that will affect the performance and the level of commitment of workers that firms need to take into consideration. Take for example Branham (2005) mentions a few factors that will determine workers' engagement in their work, namely: the need for trust, the need to have hope, the need to feel a sense of worth and the need to feel competent. Workers are expecting the management to deliver its promises, treat them

fairly, to have opportunity to develop their skills and fair performance management which will reward them accordingly.

While all workers want trust, hope, worth and competency, firms need to keep in mind that they are ranked differently by workers. Younger workers probably have a higher need for hope and career growth whereas older workers may be more concerned about health care benefits. Hence, effective management together with attractive compensation packages are predetermined factors of a firm's effectiveness and efficiency in achieving its goals.

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