

## NAVIGATING THE SOCIOECONOMIC IMPACT BY EVALUATING THE MINIMUM WAGE POLICY ON SABAH'S WORKFORCE

Caroline Geetha, Roslinah Mahmud, James Alin  
Faculty of Business, Economics and Accountancy  
Universiti Malaysia Sabah

\*Corresponding author's email:  
caroline@ums.edu.my

Date Received: 18 March 2024

Date Reviewed: 24 April 2024

Date Accepted: 16 May 2024

Date Published: 30 September 2024

DOI: <https://10.51200/mjbe.v11i1.5633>

**Keywords:** Minimum wage, Sabah, income inequality, employment, poverty reduction.

### ABSTRACT

*The implementation of the minimum wage policy in Malaysia has yielded significant benefits for low-income workers, notably in reducing poverty and lifting many above the poverty line especially in Sabah. While the policy has faced criticism, its positive effects on the economy are evident through increased consumer spending and overall economic growth. Importantly, in Sabah, the policy did not result in significant adverse effects on employment, as initially feared. Instead, it contributed to higher wages and an improved standard of living for low-income workers in the state. However, the policy's impact has not been uniformly positive across all sectors, with some experiencing challenges that may require a more nuanced approach. Moving forward, a targeted strategy in setting minimum wage rates could be crucial to ensuring the policy's long-term success, balancing the needs of workers with the unique conditions of different industries.*

### INTRODUCTION

Almost 90% of the nations in the world implements minimum wage policy. Australia has implemented minimum wage since 1903 meanwhile United States of America began enforcing minimum wage since 1987. (Rob Bray, J, 2013). Wages or some refers them as salary under the Employment Act 1955 is define as basic wages and all payment in cash payment to all employees for work done

in respect for his contract or service. It has certain exclusion like housing allowances, travelling allowances, bonuses, gratuity etc. The minimum wage policy is generally aimed to increase the standard of living especially for those who belong to the lower income bracket. By increasing their purchasing power, the lower income group would be able to fulfil their basic needs, eventually decreasing income inequality in the nation. But some researchers believe otherwise. They claim that setting a minimum wage policy imposes financial burden to the firms and reduces the demand for labour. This results in high unemployment. Therefore, it can be concluded that whether the minimum wage policy creates positive or negative externality depends highly on the economic conditions as well as how it is being implemented. (Bossavie, Laurent et al., February, 2019)

From the macroeconomic perspective, before minimum wage was implemented Malaysia was the destination for inflow of foreign direct investment. Wage was the driving force on the inflow of foreign direct investment into Malaysia. Malaysia became a destination always sought out for foreign direct investment due to low wages. The median salary in Malaysia is RM5,790 per month. This indicates that 50% of the population is earning less than RM5,790 meanwhile another 50% earns more than RM5,790. The average salary and the median salary can differ based on locations (states, urban and rural areas), experience, education, and industry. As for Sabah, the average salary earned per month is RM6,458 per month or RM37.42 per hour. Unfortunately, the minimum wage given is only RM1,500 which comprise only 23.33% of the average basic salary (Household Expenditure Survey, 2022).

The policy has resulted in positive effects on the economy overall through aggregate demand. The minimum wage policy has increased aggregate demand and promoted consumer spending, as workers have more money to spend on goods and services. This,

in turn, has led to increased economic growth and development. However, the policy has also faced criticism from some who argue that it has led to job losses and increased inflation. A study by the World Bank (Bossavie, Laurent et al., February, 2019) found that the minimum wage policy had a negative impact on the employment of low-skilled workers in the informal sector. However, the study also found that the policy had a positive impact on the formal sector, where there was a slight increase in employment.

The National Wages Consultative Council is a tripartite advisory body that was established based on the National Wage Consultative Act 2011. Before the recommendation, the council should have a meeting with the public to discuss the rate and coverage, collect and analyse data and do research on wages and socioeconomic factors. The council meets at least 4 times in a year for the above-mentioned discussion. The council sits to discuss the rate, coverage, how it is implemented, the sectors it covers and the non-applicable sectors. The government makes the final decision in the formation of the minimum wage after the recommendation of the National Wages Consultative Council in addition to the consultation from various stakeholders in Malaysia. The council has set criteria and formulas for the adjustment of the minimum wage over time. The government could either agree or disagree to the recommendation where the council will be directed to make new recommendation. The council consists of an independent chairperson, deputy chairperson and a public officer who acts as a secretary. The council members consist of at least 5 members of public office, at least 5 employees, at least 5 members representing employers and at least 5 members of other members.

The minimum wage policy has resulted in significant benefits for low-income workers in Malaysia. A study by the Department of Statistics Malaysia found that the proportion of households with income below the poverty

line decreased from 0.6% in 2014 to 0.4% in 2016, indicating a significant improvement in income distribution. Furthermore, the study found that the implementation of the minimum wage policy led to an increase in the number of workers earning above the poverty line. (Household Expenditure Survey, 2022)

Effective from January 2023, the regular working hours in Malaysia is 8 hours a day and 45 hours a week. If the employees need to work extra hours on a normal working day, they are required to be paid 1.5 times the hourly wage rate. The average salary in Malaysia is RM6,590 per month. This is significantly lower than the average salary of all the other developed nations like Singapore, United Kingdom, United States, South Korea and Hong Kong. But Malaysia's minimum wage of RM1,500 (USD\$347 per month) is slightly higher than many of the countries that surround it. Vietnam and Cambodia have a minimum wage is around USD 200 per month, Thailand (USD 225 per month, Indonesia (USD 323 per month). Malaysia's closest neighbour, Singapore does not have a national minimum wage. However, with the higher cost of living wages in Singapore are, on average, much higher than those in surrounding countries.

### **PROBLEM STATEMENT**

The minimum wage policy in Malaysia has been in effect since 2013, with the objective of improving the standard of living of low-income workers. There were two rates applied, one for Peninsular Malaysia and another for Sabah, Sarawak and the Federal Territory of Labuan. The policy sets a minimum wage level that employers must pay their workers, with different rates based on the location and industry. The first minimum wage rate was set at RM900 per month for Peninsular Malaysia and RM800 per month for East Malaysia. In 2016, the rate was revised to RM1,000 per month for Peninsular Malaysia and RM920 per month for East Malaysia. The minimum wage rate was further increased in 2019 to RM1,100 per month for Peninsular Malaysia

and RM920 per month for East Malaysia. In 2020, the minimum wage was increased to RM1,200. Malaysia has increased its minimum wage policy further in May 2022 by 25% from RM1,200 to RM1,500. Exemptions were given to employers who have less than 5 employees until 1st January, 2023. Unfortunately, the policy was fully effective from July, 2023. The purpose of implementing the law was to ensure all who are employed were protected from unduly low wages.

An investigation carried out on 60 employees confirmed that many employees in Sabah are yet to comply to the imposition of minimum wage. They do not only comply to the Minimum Wage Order 2022, but they also have the tendency to perform indiscriminate pay cuts without getting approval from the Labour Department Director's office. A joint operation between the Labour Department, the Occupational Safety and Health Department, the Social Security Department and the HRD Corp was carried to create awareness on the minimum wage policy for the employers. The authorities have decided to take a diplomatic and developmental approach in handling or investigating the cases. A grace period of 14 days was given to as here to the law. In addition to these offences, the employers were also found to be failing in providing offer letters as well as payslips to the employee (Jason Santos, March 8, 2023).

Thus a comparative analysis needs to be carried out on the impact of minimum wage on the socioeconomic development of Malaysia. This is because the policy makers fails to realize that not one policy fits all the states in Malaysia. The minimum wage policy as expected does not necessarily create a positive impact to the local economy at state level.

### **RESEARCH OBJECTIVE**

The study aims to analyse the socioeconomic impact on the minimum wage policy towards employment in Sabah.

## **LITERATURE REVIEW**

Minimum wage policies are a common tool used by governments worldwide to improve the living standards of low-wage workers. The socioeconomic impact of such policies affects employment, income distribution, poverty alleviation, and overall economic growth. This literature review explores the various dimensions of minimum wage policy impacts in developing economies, drawing from empirical studies and theoretical analyses. Overall minimum wage policy can create both positive as well as negative impact in terms of employment.

Some studies suggest that minimum wage increases can have a neutral or even positive impact on employment levels. Card and Krueger (1995) found that moderate increases in the minimum wage did not lead to job losses in the U.S. fast-food industry, a finding that has been supported by similar studies in developing countries. In Brazil, Lemos (2009) found that minimum wage hikes led to increased earnings without significant negative effects on employment. However, the traditional economic theory posits that higher minimum wages can lead to unemployment, particularly among low-skilled workers. Research by Neumark (2023) supports this view, showing that minimum wage increases can reduce employment opportunities for younger and less experienced workers. In Indonesia, for example, studies have shown that minimum wage hikes led to a decrease in formal employment, pushing some workers into the informal sector (SMERU, 2001).

Minimum wage policies are often justified on the grounds of reducing income inequality. In countries like South Africa and Argentina, studies have shown that minimum wage increases contribute to a more equitable distribution of income (Bhorat et al., 2013; Gindling and Terrell, 2007). These policies can help lift the income levels of the poorest workers, thereby reducing the wage gap. Empirical evidence on the impact of minimum

wage on poverty is mixed. While some studies indicate that higher minimum wages can reduce poverty rates, others suggest the effects are minimal or even counterproductive. For example, in Mexico, higher minimum wages have been associated with a reduction in poverty levels among wage earners (Fiszbein, 2005). Conversely, in Honduras, increases in the minimum wage did not significantly reduce poverty due to the small proportion of workers earning the minimum wage (Gindling and Terrell, 2010).

In many developing economies, a significant portion of the workforce is employed informally. Studies suggest that increases in the minimum wage can push employers to hire more workers informally to avoid compliance costs. For instance, in Kenya and Ghana, minimum wage hikes led to an increase in informal employment, undermining the policy's intended benefits (Jones, 1998; Baah-Boateng, 2012). Compliance with minimum wage laws is a significant challenge in developing countries. In countries like India and Bangladesh, enforcement mechanisms are often weak, leading to widespread non-compliance (Belser and Sobeck, 2012). This lack of enforcement diminishes the effectiveness of minimum wage policies in improving worker welfare.

From the macroeconomic perspective, minimum wage can create inflationary pressure as well as economic growth. Minimum wage increases can contribute to inflationary pressures, particularly in developing economies with less elastic labour markets. Research in Latin American countries like Venezuela and Colombia indicates that higher minimum wages can lead to higher overall wage levels, subsequently driving up prices (Maloney and Mendez, 2004). The impact of minimum wage policies on economic growth is complex and context-dependent. Some studies argue that by increasing the purchasing power of low-wage workers, minimum wage hikes can stimulate demand and economic growth (Keynesian perspective).

However, others suggest that the increased labour costs can reduce competitiveness and hinder growth, particularly in export-oriented industries (Neoclassical perspective).

Brazil's experience with minimum wage policy provides a nuanced view. Research indicates that while minimum wage increases have helped reduce poverty and income inequality, they have also led to higher unemployment rates among the least skilled workers (Lemos, 2009). The informal sector has absorbed some of the displaced workers, mitigating the negative employment effects to some extent. Meanwhile in South Africa, the introduction of sectorial minimum wages has had mixed outcomes. Bhorat et al. (2013) found that minimum wage laws improved wages and working conditions in sectors like agriculture and domestic work. However, compliance remains an issue, and the impact on overall employment has been modest. Indonesia's minimum wage policy has been widely studied, with findings indicating both positive and negative effects. While wage increase have improved living standards for some workers, they have also led to significant job losses in the formal sector, pushing many workers into informal employment (SMERU, 2001)

The impact of minimum wage policies in developing economies is complex and varies depending on the context. While these policies can improve income distribution and reduce poverty, they also pose risks such as increased unemployment, especially among low-skilled workers, and growth in informal employment. Effective enforcement and complementary policies are crucial to maximizing the benefits and minimizing the drawbacks of minimum wage regulations.

### METHODOLOGY

The methodology for reviewing and observing the socioeconomic impact of minimum wage policies involved selection of sources where a comprehensive literature review was conducted by identifying relevant

academic journals, policy reports, and case studies focusing on minimum wage policies in Malaysia as a whole and Sabah specifically. The literature included empirical studies, theoretical analyses, and country-specific case studies. Studies were selected based on their relevance to the socioeconomic impacts of minimum wage policies, such as employment effects, income distribution, poverty reduction, and informal sector dynamics. A comparative analysis on the public policy was carried out where comparison were made between states in West Malaysia with states in East Malaysia.

### FINDINGS

#### Reduce the unemployment rate in Sabah.

There has been an ongoing debate over the impact of the minimum wage policy on employment in Sabah, Malaysia. The Sabah state government implemented a minimum wage policy in 2016, which set the minimum wage rate at RM920 for East Malaysia. The investigation on the impact of the minimum wage policy on the employment situation in Sabah, the unemployment rate in Sabah decreased from 5.2% in 2015 to 4.7% in 2016 after the implementation of the minimum wage policy. This suggests that the policy did not result in significant job losses in the state, contrary to some concerns raised by critics of the policy.

Implementing a minimum wage policy in Sabah could potentially reduce unemployment by improving the income of low-wage workers, leading to increased consumer spending. This can stimulate economic activity, encouraging businesses to hire more workers to meet the rising demand for goods and services. Additionally, higher wages may enhance employee productivity and satisfaction, contributing to a more stable and motivated workforce. However, the success of such a policy depends on various factors, including economic conditions and the specific dynamics of the labour market in Sabah.

### *Increased Consumer Spending.*

A higher minimum wage in Sabah can lead to increased disposable income for low-wage workers, boosting their purchasing power. This, in turn, stimulates consumer spending, which is a key driver of economic growth. In Sabah, indeed the average for consumer spending was RM2,601 (2016), the value increased to an average of RM2,799 in 2019 and eventually to an average of RM3,342. The evidence was found to be in line with the country's that implemented minimum wage. (Household Expenditure Survey, 2022). Empirical evidence from various studies, such as those conducted in the United States and the United Kingdom, suggests that raising the minimum wage positively correlates with higher consumer spending.

### *Reduced Income Inequality.*

Implementing a minimum wage policy in Sabah help reduce income inequality by lifting the earnings of the lowest-paid workers. The Gini coefficient measures the distribution of total wealth or income by population. It measures income inequality and ranges from 0 to 1, where 0 indicates that income is shared equally among all people, and 1 indicates that one-person accounts for all income.

The Gini was calculated using the head of household's income in Malaysia. This study derived state-level data for 2014, 2016, and 2019 from the Department of Statistics, Malaysia (DOSM) Household Income Survey. The trend measurement was conducted for 2016 (between 2014 and 2016) and 2019 (between 2016-2019). Among the 13 states and three federal territories in Malaysia, Pahang performed best at a Gini value of 0.33, followed by Labuan (0.333) and Perlis (0.334) in 2019. The poorest performing states were Sabah (0.397), followed by Selangor (0.393) and Negeri Sembilan (0.393). The trend results are mixed. Labuan, one of the states with the lowest Gini, was on track or maintaining its performance between 2014 and 2019.

However, the other three best-rated states showed decreasing trends of performance during the same interval. While Sabah showed a stagnating trend, Selangor and Negeri Sembilan was noted with decreasing performances. Nevertheless, Putrajaya and Kelantan have steadily improved their performance. Between 2014 and 2019, the Gini dropped from 0.374 to 0.361 in Putrajaya, and 0.393 to 0.378 in Kelantan.

Sabah, located on the island of Borneo, is one of the less economically developed states in Malaysia. Despite efforts to improve living standards and reduce poverty, income inequality remains a challenge. From 2014 to 2019, Sabah's Gini coefficient fluctuated slightly but generally showed a trend towards decreasing inequality. In 2014, Sabah's Gini coefficient was approximately 0.405. The Gini coefficient slightly decreased to 0.399 in 2016 indicating a modest improvement in income distribution. By 2019, the Gini coefficient further decreased to about 0.391, reflecting ongoing efforts to reduce inequality through targeted economic policies and social programs. These figures suggest that while income inequality in Sabah remains significant, there has been a gradual reduction over the years, driven by initiatives to promote inclusive growth and reduce poverty.

Pahang, a state located on the Malaysian Peninsula, has a relatively diverse economy, with strong agricultural, industrial, and tourism sectors. However, Pahang has also faced challenges in balancing economic growth with equitable income distribution. In 2014, Pahang's Gini coefficient was around 0.414, reflecting higher income inequality compared to the national average. The Gini coefficient in Pahang remained relatively stable, at approximately 0.411 in 2016. By 2019, Pahang's Gini coefficient had slightly improved to 0.406, indicating some progress in addressing income disparities, although inequality remained higher than in some other states. The data from Pahang suggests that while there have been efforts to reduce

income inequality, the state still experiences significant disparities in income distribution, particularly between rural and urban areas.

Both Sabah and Pahang have shown some improvement in income inequality from 2014 to 2019, as indicated by the gradual decrease in their Gini coefficients. However, these states still face challenges in achieving more equitable income distribution. Continued efforts to support inclusive economic growth, improve access to education and healthcare, and strengthen social safety nets will be essential for further reducing inequality in these regions.

Although the Gini provides a helpful reference on income inequalities, the measurement alone does not represent the complete picture of social inequalities (Osberg, 2016). Every state gets access to different resources and prioritises different economic sectors. People working in different economic sectors also get unequal access to institutional support and incentives (e.g., tax exemption) (Gale, Kearney, & Orszag, 2015). Notably, the best-performed states have less diverse economies than other states in Malaysia. Rural areas (often presumably less economically diverse) have also recorded lower Gini than urban areas. A possible scenario is that rural dwellers tend to work in similar sectors and get similar (also often limited) incomes and incentives, leading to a lower Gini score. In such a scenario, a lower Gini score does not necessarily signify adequate income to all; instead, it could be a poor majority in the rural area. This could apply to states too. According to Imran Ariff (2021), poor infrastructure mobility leads to limited opportunity for upward mobility especially for the rural community. It is difficult for those in the rural areas to find jobs in the urban area due to lack of transportation and communication. Restricted internet access also hinders their efforts. Thus, minimum wage does not significantly improve income inequality in Sabah. Addressing state-level

income inequality requires multidisciplinary strategies tailored to different needs and limitations of various social groups within states.

In addition, numerous studies claim that Sabah has a large income gap between urban and rural households. The median household income for Sabah in 2019 was RM2500-RM3000 (RM5000 in urban areas while RM2500 in rural areas), far higher than in other states, where the median household income gap is between RM1500-RM2000. Regarding the hardcore poverty at 19.5%, and relative poverty at 14.7% in 2019. No doubt, the index for hardcore poverty in Sabah is improving from 23.97% in 2016 to 19.5% in 2019, poverty and the income gap remain serious issues in Sabah that need proper remedial solutions.

#### *Improved Employee Productivity and Job Satisfaction.*

A higher minimum wage may motivate workers to be more productive and satisfied in their jobs. Research conducted in the United States has found that higher wages correlate with increased employee morale, reduced turnover, and improved overall job satisfaction. (Emanuel and Harrington, 2020). This is in line with the supply of labour. For a worker, the substitution effect of a wage increase always reduces the amount of leisure time consumed and increases the amount of time spent working. A higher wage thus produces a positive substitution effect on labour supply. But the higher wage also has an income effect. Furthermore, a study by the Sabah Economic Development and Investment Authority (SEDA, 2022) found that the implementation of the minimum wage policy had a positive effect on the wages of workers in the state. The study found that the average monthly wage increased from RM1,865 in 2015 to RM2,109 in 2016, representing an increase of 12.9%. This indicates that the minimum wage policy had a positive impact on the income distribution and wellbeing of workers in Sabah. However,

the same SEDIA (2022) study also identified sectors that were negatively impacted by the minimum wage policy, such as the plantation and agriculture sectors. The study found that some employers in these sectors had to lay off workers or reduce their working hours to cope with the increased wage costs. This highlights the need for careful consideration of the specific industry and location when setting the minimum wage rate.

Regarding the unemployment rate, tertiary graduates and underemployed remains high in Malaysia. Compared to its neighbour, Sarawak, labour entry in Sabah is stagnant and experienced a downward slop from 1982-2020. In 2019, Sabah recorded an unemployment rate of 5.8%, with labour entry of 70.0%. The absence of outside investors is a major source of unemployment in Sabah. The lack of interest outside is due to the lack of facilities and basic infrastructures like water, electricity and good roads in Sabah. Plus, local employees face competition from foreign labour because employees tend to choose foreign labour based on their preference to receive daily wages. Low wages and opportunities exacerbate the lack of employment for tertiary graduates in Sabah. The lack of employment opportunities for graduates compels them to seek employment in Peninsular Malaysia, the dense industrial areas, to find jobs that suit their credentials and skill sets. Another prominent reason for low labour entry in Sabah is the stateless group, people who do not have proper documentation. These people are not allowed to work, yet they are among the majority of the Sabahan population. It was estimated that 800,000 from 3.9 million people in Sabah are stateless and highly likely to be working in undesignated areas and exposed to dangerous and exploitative working conditions. These people also did not have access to education, health services and banking, burdening their daily lives. Therefore, their contribution to social and economic growth is not counted in assessing Sabah's growth.

In the case of Sabah, it has the highest unemployment rate compared to other states in Malaysia. Question arises what are the factors that contribute to high unemployment rate. To remain competitive and viable in today's market, competition for the best talents among Sabah companies will remain strong. The Sabah graduates considers job satisfaction, objective and purpose as the main reason. Next, they look at industries or jobs that may offer long-term job stability, followed by other factors such as location, flexibility of the job; then the salary and job and finally the industry. Although salary can be an important factor for most of the experienced hires/jobseekers, that said, only 8.4% of the graduates would consider salary to be very important during their job search. This shows that most graduates who are from Gen Z (usually born after 1994) had unprecedented access to abundance of information through technology and are known for being realistic.

#### *Enhanced Recruitment and Retention.*

With a higher minimum wage, businesses in Sabah may find it easier to attract and retain skilled workers. National Statistics Department for the First Quarter 2023 Worker Wage Statistics Report (Formal Sector), the median income in Sabah was still low; at RM1,782 compared to Kuala Lumpur's RM3,927. The median income indicates that it is insufficient to meet the high cost of living in Sabah. No doubt most of the business that employs these low-income workers are small and medium scale industries, and raising their salary could add to the cost of production. But higher salary could be a solution to retain workers and reduce turnover. This can also reduce the mobility of workers from state to state finding for jobs with higher pay. In addition, the employers need not employ foreign labour to meet the demand for low-income jobs. The Human Resource Minister also stresses on the employer to supply adequate facilities to reduce the burden of the workers. (Olivia Miwil, August 21, 2023). This is particularly crucial

in sectors facing labour shortages. Studies in regions with higher minimum wages, like parts of Canada, show that businesses may experience improved recruitment outcomes and lower turnover rates.

### ***Health and Well-being Impact.***

A higher minimum wage can positively impact the health and well-being of workers. Research conducted in the United States has linked higher minimum wages to improvements in mental health outcomes for low-wage workers. This is attributed to reduced financial stress and increased access to resources. Economic research and policy debates on the outcome of minimum wage always refers to economic outcome like higher employment, increase in purchasing power as well as higher standard of living. Studies (Neumark, 2023) have indicated that minimum wage has a mixed effect in its outcome, from the perspective of economics as well as health. Minimum wage has reduced suicides, increase birthweight, obesity and smoking, improving diet, reduce child neglect and lower depression. A study was conducted on the factors that influence happiness in Sabah (Shee et al., 2017). The study revealed that relationship with family and friends were the most important variable that influence happiness in Sabah. Even though the study included, financial conditions as one of the variables of study together with work environment, health and government policy, but it revealed that it was not the most important factor. The least influential factor was government policy.

### ***Job cuts.***

The business environment is changing rapidly, and new ideas are constantly formed and challenged. Companies need constantly innovate in order to stay at the forefront of their industry, this goes the same in attracting talents from the new generation. Numerous studies across different countries have explored the impact of minimum wage increases on

various sectors, with some indicate potential job cuts. One example is the United States, where empirical evidence suggests that the restaurant and retail sectors, which often employ a significant number of low-wage workers, have experienced job reductions in response to minimum wage hikes. Similarly, the percentage of unemployment increased in Sabah from 4.7% in 2014 to 5.6% in 2017. (SEDIA, 2022).

A comprehensive study by economists (Gaskell, 2023) analysed the effects of minimum wage increases in the United States and found a correlation between higher minimum wages and job cuts in the restaurant industry. The study argued that businesses in this sector, characterized by thin profit margins, responded to increased labour costs by reducing staff levels or cutting working hours. He concludes that minimum wage does not reduce jobs, it just reduces vacancy. Similarly, the retail sector has also been highlighted in empirical research as susceptible to job cuts following minimum wage increases. Neumark et al.(2000) examined the impact of minimum wage policies on retail employment and found that certain subsectors within retail experienced reductions in staffing levels as a result of increased labour costs.

These findings align with the theoretical perspective that industries relying heavily on low-skilled labour and facing tight profit margins are more likely to adjust to minimum wage hikes by reducing their workforce. However, it's important to note that the impact can vary across countries, and factors such as the overall economic conditions, labour market structure, and policy implementation play crucial roles in determining the outcomes. *Minimum wage not in line with education level.* The National Wage Consultative Act 2011 protects workers against unduly low pay. This will make some people think that education is not important because minimum wage can be obtained without a degree. This is because many news' reports confirm that

many graduates with college degree earns the same wage as those without a degree. This will decrease the quality and the productivity. Thus, the intention to enrol in tertiary education will reduce resulting in lower high skilled human capital. Since skilled human capital is the driver for high knowledge-based economy, minimum wage can hinder the economic growth and innovation in the future.

#### *Black Market.*

The National Wages Consultative Act 2011 protects workers from receiving excessively low wages because its primary objective is to ensure that employers do not exploit their employees. But this policy to some firms increases its cost of production. Companies may resort to avoid paying the legal minimum wage by hiring some people to work on the black market with a wage lower than the minimum wage. This due to companies who are highly dependent on low skilled workers or those who make marginal profit could leave the business if they are unable to bear the cost of paying wages with minimum wage.

#### *Challenges in the Sabah due to minimum wage.*

Sabah is a state with diverse economic conditions. Urban areas might afford a higher minimum wage compared to rural or less developed regions. Implementing a uniform minimum wage might exacerbate inequalities between urban and rural areas. The issue of regional disparities may occur in this situation. The cost of living in Sabah varies significantly across different districts. With the cost-of-living differences, by setting a minimum wage that adequately addresses the cost of living in all regions can be challenging. Sabah economy shows huge growth in informal sector business. A significant portion of Sabah's economy operates in the informal sector, where businesses might not adhere to minimum wage regulations. Enforcing compliance in such sectors can be difficult. Minimum wage may have impact on

small businesses. Small and medium-sized enterprises (SMEs) might struggle to afford higher wage costs. This could lead to potential job losses or business closures, particularly for those operating on thin profit margins. As a response from labour market, there's a concern that setting a minimum wage could lead to a reduction in hiring or increased automation as businesses try to offset higher labour costs. This might particularly affect industries with low-profit margins, such as agriculture and hospitality.

Ensuring compliance with minimum wage laws requires effective monitoring and enforcement mechanisms. This may be challenging in Sabah due to its geographical size and diverse economic landscape. If the minimum wage is set too high relative to the skills required for certain jobs, it could lead to unemployment or underemployment as employers seek more skilled workers to justify the increased wage costs. There's a risk that implementing a minimum wage could lead to inflationary pressures, as businesses pass on increased labour costs to consumers through higher prices in Sabah. In a way to ensuring buy-in from all stakeholders, including employers, employees, and government representatives, is crucial for successful implementation. Lack of consensus or consultation might lead to resistance or non-compliance. Addressing these challenges requires careful planning, stakeholder engagement, and tailored policies that consider Sabah's unique economic and social conditions.

## **CONCLUSION**

In conclusion, the minimum wage policy in Malaysia has had significant benefits for low-income workers, reducing poverty and increasing the number of workers earning above the poverty line. While the policy has faced some criticism, it has also had positive effects on the economy overall, with increased consumer spending and economic growth. Overall, it appears that the minimum

wage policy implementation did not have a significant negative impact on the employment situation in Sabah. Instead, the policy led to an increase in wages and improved the standard of living for low-income workers in the state. However, there were also negative impacts in some sectors, suggesting that a targeted approach to the minimum wage rate-setting may be needed to ensure the policy's success in the long term.

## REFERENCES

Baah-Boateng, William. (January, 2012). *Labour Market Discrimination in Ghana: A Gender Dimension*, LAP LAMBERT Academic Publishing.

Belser, P., & Sobeck, K. (2012). At what level should countries set their minimum wage?, *International Journal of Labour Economics*.

Bhorat, H., Kanbur, R. & Mayet, N. (2013). The impact of sectoral minimum wage laws on employment, wages, and hours of work in South Africa. *IZA J Labor Develop* 2, <https://doi.org/10.1186/2193-9020-2-1>.

Bossavie, Laurent, Erdogan, Aysenur Acar & Makover, Mattia. (February, 2019). The Impact of the Minimum Wage on Firm Destruction, Employment and Informality, *Policy Research Working Paper 8749*, Social Protection and Job Global Practice, World Bank Group.

Card, David & Krueger, B. Alan. (1995). Time-Series Minimum Wage Studies: A Meta Analysis, Papers and Proceedings of the Hundredth and Seventh Annual Meeting of the American Economic Association Washington DC, *American Economic Review*, 8(2), 238-243.

Cugat, G., & Narita, F. (2020, October 29). How COVID-19 Will Increase Inequality in Emerging Markets and Developing Economies. Retrieved December 13, 2021, from International Monetary Fund: <https://blogs.imf.org/2020/10/29/how-covid-19-will-increase- inequality-in-emerging-markets-and-developing-economies/>

Emanuel, Natalia & Harrington, Emma. (2020). The Payoffs of higher pay: Elasticities of productivity and labour supply with respective to wages. [https://scholar.harvard.edu/files/nataliaemanuel/files/emanuel\\_jmp.pdf](https://scholar.harvard.edu/files/nataliaemanuel/files/emanuel_jmp.pdf)

Fiszbein, Ariel. (2005). Citizens, Politicians and Providers: The Latin American Experience with Service Delivery Reforms, World Bank Publication.

Gale, W. G., Kearney, M. S., & Orszag, P. R. (2015, September). Would a significant increase in the top income tax rate substantially alter income inequality? *Economic Studies*. Retrieved December 13, 2021, from <https://www.brookings.edu/wp-content/uploads/2016/06/would-top-income-tax-alter-income-inequality.pdf>

Gaskell, Adi. (May, 20. 2023). Does Raising the Minimum Wage Results in Job losses in Small Firms?, Forbes. <https://www.forbes.com/sites/adigaskell/2023/05/20/does-raising-the-minimum-wage-result-in-job-losses-in-small-firms/?sh=e3636897e1ee>

Gindling, T.H. & Terrell, Katherine. (2007). The effects of multiple minimum wages throughout the labor market: The case of Costa Rica, *Labour Economics*, 14(3), 485-511. <https://doi.org/10.1016/j.labeco.2006.01.004>.

Gindling, T.H. & Terrell, Katherine. (2010). Minimum Wages, Globalization, and Poverty in Honduras, *World Development*, 38(6), 908-918 <https://doi.org/10.1016/j.worlddev.2010.02.013>.

Household Expenditure Survey. (2022). Median and Mean monthly Household consumption expenditure by state, Malaysia from 2016 to 2022, Equity Development Division, Ministry of Economics. <https://www.ekonomi.gov.my/en/socio-economic-statistics/household-income-poverty-and-household-expenditure>

Imran Ariff. (2021, 27 December). Poor development causing Sabah wealth gap to widen. <https://www.freemalaysiatoday.com/category/nation/2021/12/27/poor-development-causing-sabah-wealth-gap-to-widen>.

Jason Santos. (March 8, 2023). Many Sabah employers still not complying with minimum wage: authorities. <https://www.thevibes.com/articles/news/87233/many-sabah-employers-still-not-complying-with-minimum-wage-authorities>

Jones, P. (1998). "The Impact of Minimum Wage Legislation in Developing Countries, CSAE Working Paper Series 1998-02, Centre for the Study of African Economies, University of Oxford.

Lemos, Sara. (2009). Minimum wage effects in a developing country, *Labour Economics*, 16(2), 224-237. <https://doi.org/10.1016/j.labeco.2008.07.003>.

Maloney, W. & Mendez, J. (2004). Measuring the Impact of Minimum Wages: Evidence from Latin America, *NBER Working Paper Series 9800*, National Bureau of Economic Research.

Mohd Huda, Mohd Ikbil, Ridzwan, Abdul Rahim, Ridzwan, Mohd & Madan, Marfunizah. (2022). Analysis of Sustainable Development Progress in the State of Sabah, Malaysia. *Business and Economic Research*. 12. <http://10.5296/ber.v12i4.20337>

Neumark, David. (June 19, 2023). Higher minimum wages and mixed effects on health. <https://cepr.org/voxeu/columns/higher-minimum-wages-and-mixed-effects-health>.

Neumark, David & Wascher, William. (2000). Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania, *The American Economic Review*, 90(5), 1362-1396.

Olivia Miwil. (August 21, 2023). Sivakumar: Sabah employers should pay higher salary to retain local workforce. <https://www.nst.com.my/news/nation/2023/08/945655/sivakumar-sabah-employers-should-pay-higher-salary-retain-local-workforce>

Osberg, L. (2016, September 28). On the Limitations of Some Current Usages of the Gini Index. *The Review of Income and Wealth*, 63(3), 574-584. <https://doi.org/10.1111/roiw.12256>.

Rob Bray, J. (October, 2013). Reflections on the Evolution of the Minimum Wage in Australia: Options for the Future, Social Policy Institute, Crawford School of Public Policy, Australian National University.

Sabah Economic Development and Investment Authority. (2022). Sabah Development Corridor. [https://sedia.com.my/wp-content/uploads/2022/04/SEDIA\\_AR2017-1.pdf](https://sedia.com.my/wp-content/uploads/2022/04/SEDIA_AR2017-1.pdf)

Shee, Siew Yap & Caroline Geetha. (2017). Factors that influence happiness in Sabah. Proceeding International Conference in Economics, 300 to 323.

SMERU (2001). *Wage and Employment Effects of Minimum Wage Policy In Indonesian Urban Labour Markets*, SMERU Research Institute.