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RESPONSE TO MINIMUM WAGE SHOCK IN MALAYSIA: SMEs' CHANNEL OF ADJUSTMENT

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ABSTRACT

On 1st May 2022, the Malaysian government raised the minimum wage (MW) to RM1,500, with a 25% increase. Even though there seem to be some signs of economic recovery, the Malaysian economy has yet to crawl out of a downturn. MW has been one of the most debated and controversial topics in economic literature due to mixed results on employment. While it may be too early for any empirical study on the impact of this recent hike, we are not completely clueless about what to expect. This paper aims to offer valuable insights into the potential implications of the new minimum wage policy (MWP) through a narrative literature review approach. Although no conclusive prediction can be made, the literature on developing countries with high MW increases seems to suggest that higher disemployment, reduced foreign worker dependency, formal sector (FS) migration to the informal sector (IS), and higher non-compliance are likely to be expected. This paper contributes to the understanding of MW in developing countries. Based on the channel of adjustment (CoA) model, alternate suggestions are offered to small and medium enterprises (SMEs) to better cope with the financial stress caused by MWP.

Keywords: Minimum wage, competitive model, monopsonistic model, competitive dual-sector model, channel of adjustment.

INTRODUCTION

Minimum wage policy (MWP) is a strategy under Keynesian Economics to address income inequality, increase worker supply, and alleviate poverty (Vandekerckhove et al., 2018). MWP started in the late 1800s in New Zealand and Australia as a measure to battle sweatshop employment and resolve industrial

disputes (Siregar, 2020). Minimum wage (MW) can enable workers to afford the basic cost of living and pushes wages and employment closer to the competitive equilibrium (Dube & Lindner, 2021). The effectiveness of MWP is highly dependent on coverage and compliance effectiveness, the set wage floor, and the beneficiaries' characteristics (ILO, 2020). ILO (2020) estimates that 266 million out of 327 million wage earners earn below the MW due to non-compliance or beyond the legal coverage of MWP, especially agricultural and domestic workers. In Vietnam, MW fails to meet the minimum standard of living despite many adjustments (Dang & Hien, 2015). In Malaysia, MWP improves poverty among ethnic Indians more than the Malays and Chinese, and this could be due to non-coverage of the informal sector (IS), which consists of 10.6% of the total workforce (Ponggot, 2020; Saari et al., 2016). Thus, the benefits of MWP can only be reaped when the MWP is tailor-made according to the country's economic characteristics.

The Minimum Wage Order (MWO) 2022 came into force on 1st May 2022, raising the national monthly MW from RM1,200 (revised in February 2020) to RM1,500. Aim to move into a high-income economy by 2020 (Saari et al., 2016), MWP was introduced in 2013 to meet basic needs and enhance the social security of workers, improve productivity via moving from labor-intensive to capital-intensive structure, and reduce dependency on unskilled foreign labors (Ghee et al., 2015). MWP successfully encouraged higher labor participation in Malaysia (Nordin et al., 2020) and reduced reliance on foreign workers (Tajuddin et al., 2021). The National Wage Consultative Council Act 2011 provides that MW be revised bi-annually, and this is the fourth and the highest upward revision (MBLS, 2022). The recent rise of MW is mooted to improve the income and well-being of workers and positively stimulate Malaysia's economy by increasing purchasing power (MHRM, 2022).

The pandemic severely hampered the Malaysian economy. Malaysia's gross domestic product (GDP) contracted by 5.5% in 2020 but recovered in 2021 with a growth of 3.1%, and the GDP is expected to grow at 5.3%–6.3% in 2022 (MFM, 2022) and 5.7% in 2023 (IMF, 2022). Even though there is growth in GDP, there is a high unemployment rate of 4.1% (Salim et al., 2022). Malaysia's core inflation and consumer price index were at 2.1% and 2.3%, respectively, in April 2022, but the food price inflation was at 4.1% (DOSM, 2022). As we move into the endemic phase (Veldhoen & Simas, 2021), the Malaysian economy is working hard on its recovery mission. Bank Negara Malaysia (BNM) comments that the new MWP implementation should be progressive to avoid disruption to the economy and supported by other reforms (Yee, 2022). Uncertainty in the economic processes and their results make the analysis of economic policy difficult. Even though MWP has a wide range of effects, a rise in MW will increase labor costs for firms. This paper provides a critical analysis of the implications of MWP through a narrative literature review. A review of theoretical models and empirical evidence can provide insights into the potential impacts of MW in developing countries, and these insights can enhance the preparedness of small and medium enterprises (SMEs) in dealing with this MW hike. Besides disemployment, SMEs have alternate channels of adjustment (CoA) to deal with the increased labor cost.

LITERATURE REVIEW

Minimum Wage (MW)

Scholarly attention to the MWP effect on the labor market started from the pivotal literature by Stigler (1946) (Yuen & Wang, 2019). The theoretical discussion on MW has largely been focused on two labor market theories, the competitive model and the monopsonistic model (Neumark & Wascher, 2007). The former predicts a negative impact on employment, but the latter predicts a positive impact on employment (Soundararajan, 2019). The competitive model in Figure 1 assumes workers are homogenous with a downward sloping labor demand because of the decreasing marginal product of labor (Kreiner et al., 2020). When MW is introduced above the equilibrium wage (W1), the model

predicts disemployment (E1) because there will be a surplus of labor as a result of an increase in labor supply, but a decrease in labor demand (Mitsis, 2019).

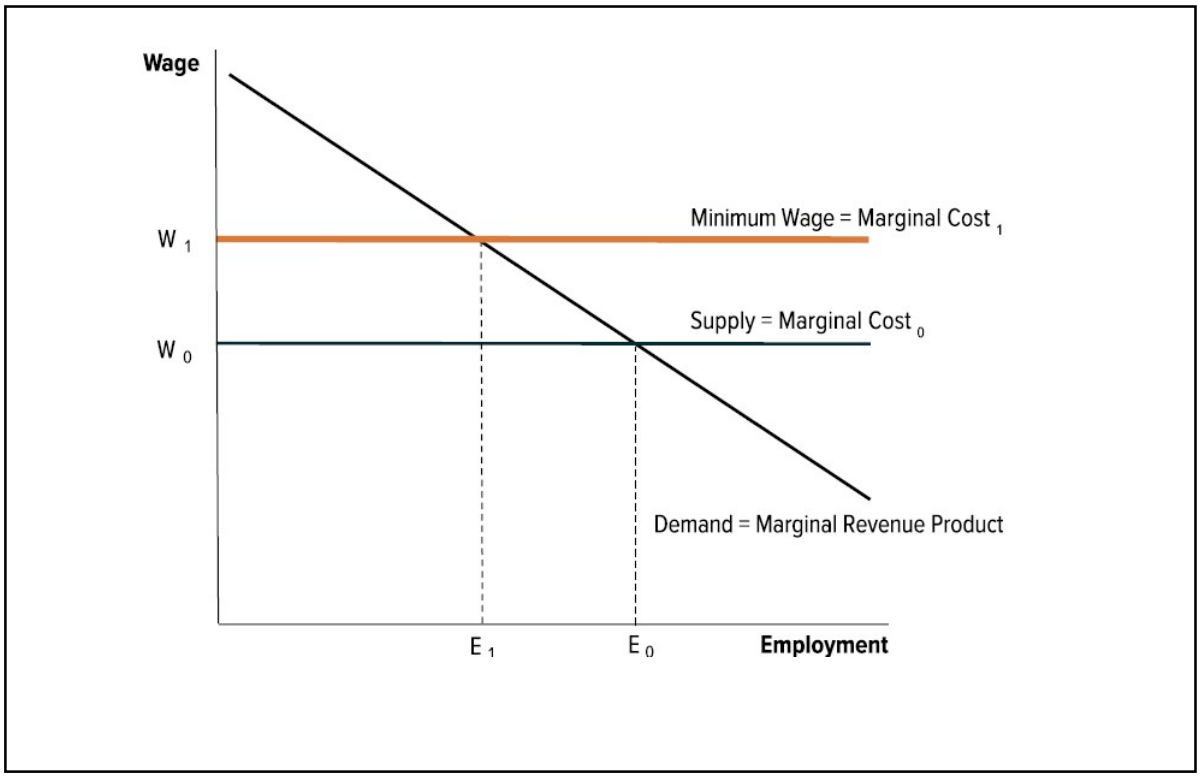

Figure 1. *The effect of minimum wage in a competitive model*
Source: Author's creation

On the contrary, the monopsonistic model developed by Robinson (1969) explains the potential positive employment impact of MW in Figure 2. In this model, the employer can set wages below the marginal revenue product (WMP) if he/she hires fewer workers (EMP). The upper slop between WMP and WMRP represents the additional increased cost for additional hires (Yang & Gunderson, 2020). Labor supply is not fully elastic due to monopsony power. The degree of monopsonistic competition is determined by the slope of the labor supply curve, and the flatter this curve, the more competitive the labor market (Bachmann & Frings, 2016).

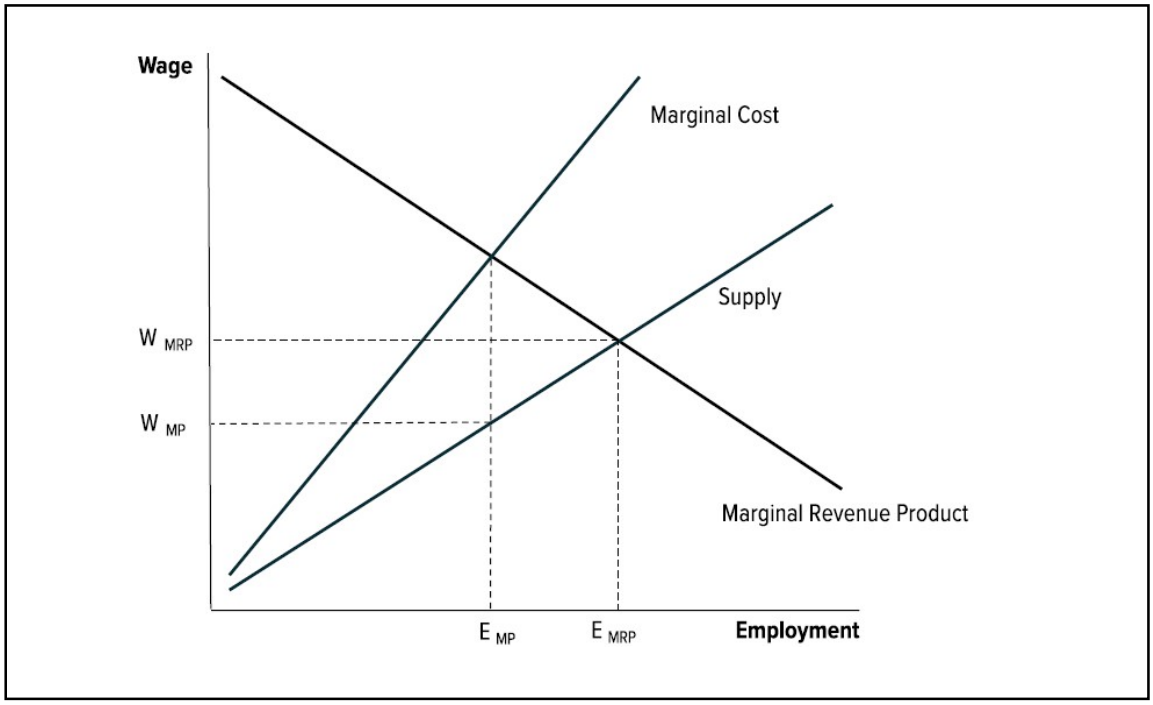

Figure 2. *Employment and wage in a monopsonistic model*
Source: Author's creation

In a monopsonistic market, a relatively low MW can lead to higher employment (from E0 to E1), but a significantly high MW above the competitive wage can cause disemployment (from E0 to E1), as shown in Figure 3 (Manning, 2016). Economists explain that since employers have incurred additional labor costs to meet MW, they are less likely to resist additional hiring (Yang & Gunderson, 2020).

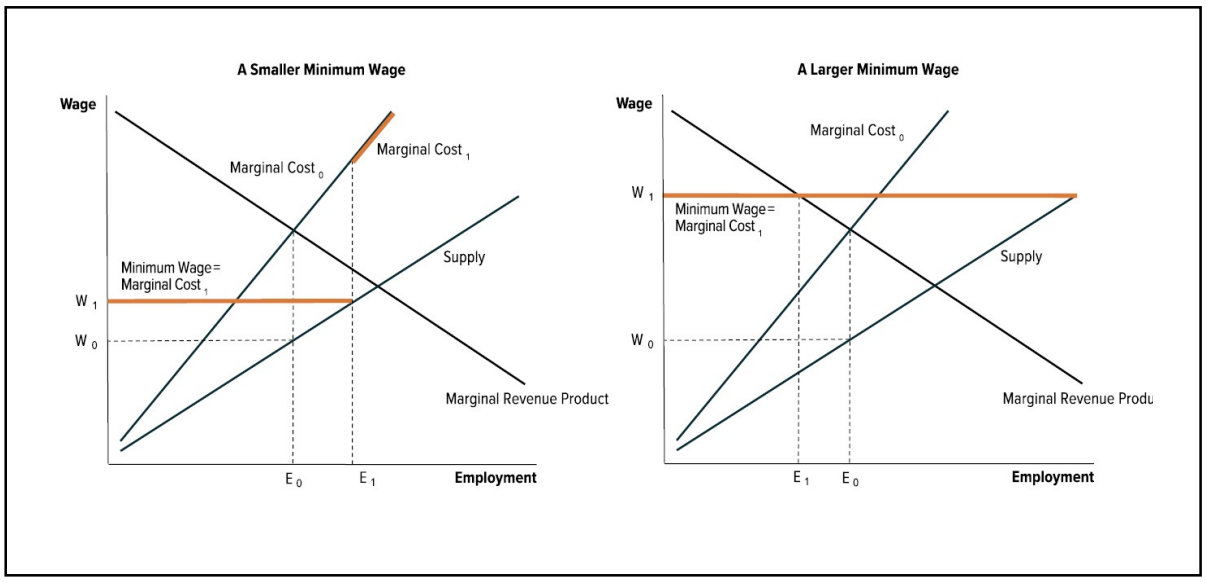

Figure 3. *The effect of minimum wage in a monopsonistic model*
Source: Author's creation

The competitive dual-sector model is commonly used for MW studies in developing countries, where there are the formal sector (FS) and the informal sector (IS). MWP covers the FS, but not the IS. Each sector has its labor supply and demand and equilibrium wages (W0), as shown in Figure 4 (Ham, 2017). In a competitive market, MW lowers FS employment and causes labor to move into the IS (Siregar, 2020). This movement lowered the unemployment rate in the FS by reducing labor participation. The labor inflow from the FS creates higher employment in the IS (from L0 to L2), even at a lower wage (Garnero, 2018). The size of the IS determines the extent of the employment shift. Smaller IS accommodates lesser employment alternatives (Ehrenberg et al., 2021). The absence of unemployment benefits motivates labor to shift over to the IS (Siregar, 2020).

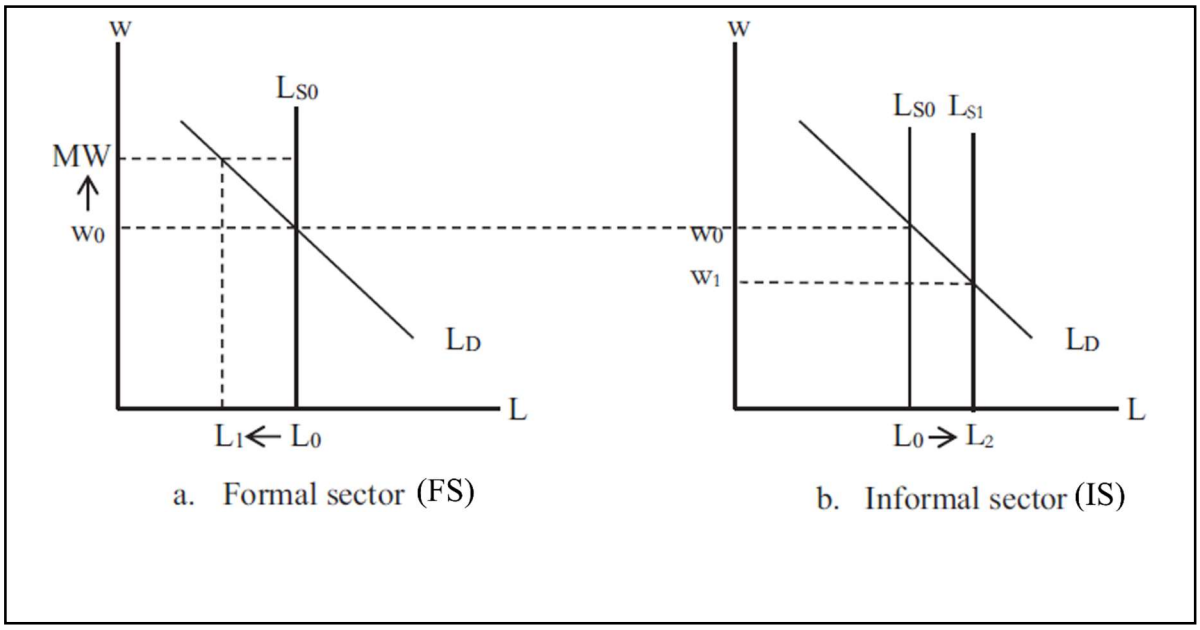

Figure 4. *Impacts of a minimum wage hike in the formal and informal sectors*
Source: Siregar (2020)

Malaysian Small and Medium Enterprises (SMEs)

SMEs are a cardinal economic pillar in Malaysia, as they make up 98.5% of establishments (MEDAC, 2020). SMEs contribute more than one-third of the GDP and employ more than four million workers in Malaysia (BNM, 2022). The service and manufacturing sectors comprise 89.2% and 5.3% of all SMEs (DOSM, 2017). Among registered SMEs, 76.5% are micro-enterprises, 21.2% are small enterprises, and 2.3% are medium enterprises (DOSM, 2017). 7.3 million people are employed in SMEs, and this constitutes 48.4% of employment in Malaysia (MEDAC, 2020). The recent increase in MW is likely to affect SMEs because they are more labor-intensive (MBLS, 2022). In the past three years, when Malaysia was hit by the COVID-19 pandemic, many SMEs suffered greatly during the pandemic (Yaacob & Radzi, 2022). Most SMEs had to supplement the operating costs and working capital with their savings, loans, and capital injections (DOSM, 2020). SMEs have yet to recover from the pandemic, and now they are faced with higher labor cost due to the 25% hike in MW.

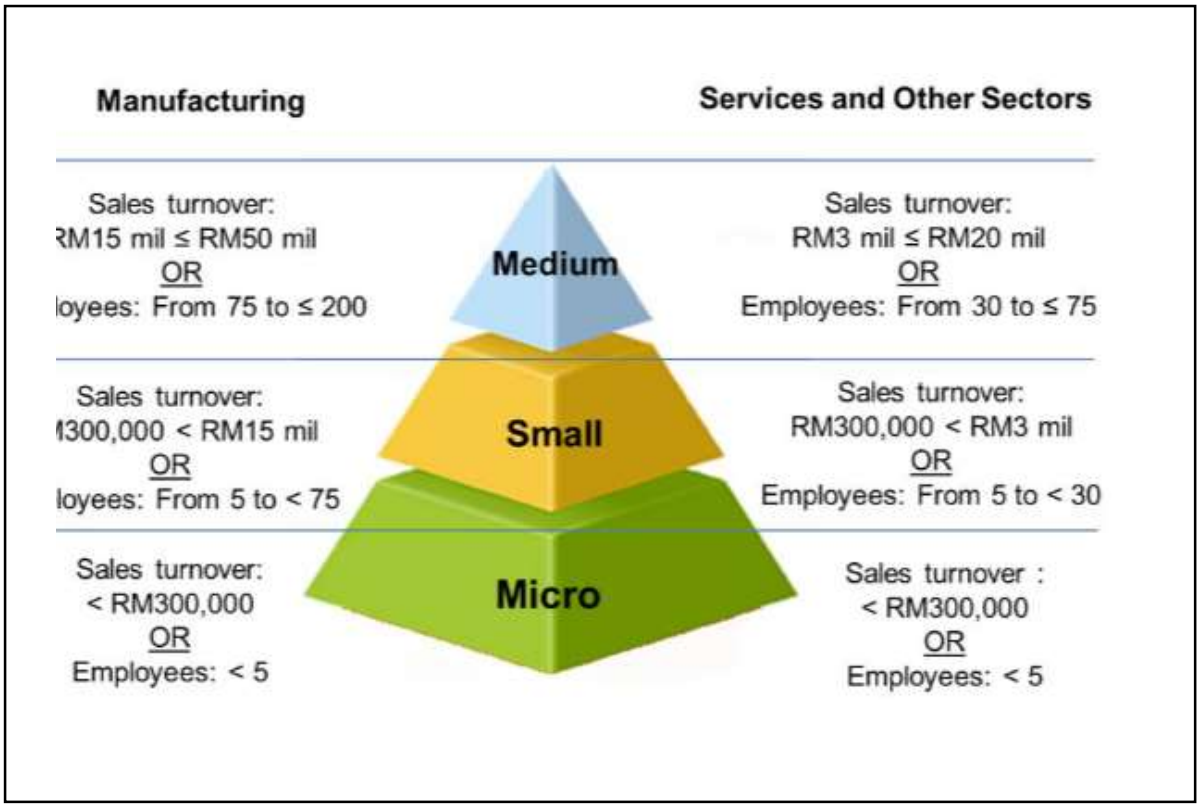

Figure 5. *Small and Medium Enterprises (SMEs)*
Source: SME Corp (2022)

RESEARCH METHODOLOGY

This paper aims to provide valuable insights into the potential effects of the MW hike by adopting a narrative literature review (NLR) approach (Baumeister & Leary, 1997). NRL enables scholars to obtain a reasonably good understanding of MW by critically examining the related literature. This fuels the building of a theoretical framework and a research agenda (Baker, 2016). As the new MWP has been recently enacted, empirical ex-post research may be too early. However, this paper surveyed the most related, significant, and critical elements of current knowledge on MW (Onwuegbuzie & Frels, 2016). NLR offers useful instructional resources by compressing a lot of information into a single and comprehensible document.

RESULTS AND FINDINGS

Economists believe that MW has an impact on the earnings of low-income workers and the employment rate (Tjong & Schmillen, 2019; Vandekerckhove et al., 2018). The debate on negative employment effects caused by MW (Bossler et al., 2020) is one of the most discussed and controversial topics in economic literature (Neumark & Shirley, 2021). The mixed findings of empirical studies include no employment effect (Baek & Park, 2016; Belman et al., 2015; Cengiz et al., 2019; Dolton et al., 2015; Hirsch et al., 2015; Hoffman, 2016; Schmitt, 2015), nominal effect (Abdullah et al., 2018), and noticeable disemployment effect (Cengiz et al., 2019; Dickens et al., 2015; Harasztosi & Lindner, 2019; Meer & West, 2016; Neumark et al., 2004; Sabia et al., 2012). There is evidence pointing to a drop in automatable jobs (Lordan & Neumark, 2017) and routine cognitive jobs (Aaronson & Phelan, 2019)

because of the MW increase. Such mixed results could be due to several factors. Concentrated studies on the possible affected group will show clearer disemployment evidence (Neumark & Wascher, 2007). A wider study group may show a neutral effect on overall employment because of compression effects in the higher tail of the wage distribution, even though there is a beneficial impact on the quantity and pay level of low-paid employees (Vandekerckhove et al., 2018). The degree of MW increase also has significant importance to the disemployment effect (Belman & Wolfson, 2014; Cengiz et al., 2019). Period of study is another factor where it was discovered that MW increase does not impact low-wage jobs over five years, even when there is a significant MW hike (Cengiz et al., 2019). Other influencing factors include publication bias (Neumark & Shirley, 2021), methodologies, research scope (Mayneris et al., 2018), and institutional characteristics (Chletsos & Giotis, 2015). Despite these mixed results, there is high scholarly consensus that teens, young adults, females, the less skilled, and the less educated have higher employment elasticity when MW increases (Addison & Ozturk, 2012; Clemens, 2019; Clemens & Strain, 2018; Neumark & Shirley, 2021; Neumark & Wascher, 2004, 2007, 2008; Wolfson & Belman, 2019; Yang & Gunderson, 2020). However, contradicting findings were found in OECD countries' studies, showing no adverse impact on youth and low-skilled employment (Bassanini & Duval, 2006; Elmeskov et al., 1998; Sturn, 2018). A further comparative study is required for a greater understanding of these different phenomena.

MW increase can also negatively affect the employment growth rate (Meer & West, 2016). Negative employment growth implies that impacted workers are trading short-term earnings increases with long-term wage decreases (Rinz & Voorheis, 2018). Surprisingly, vom Berge and Frings (2020) found opposite employment growth results in East and West Germany, where there is a relatively high bite of MW. Further study on the labor structure in Germany is required to understand the contradictions fully. MW increase may affect local job composition (Dube & Lindner, 2021). Firms may hire additional more-skilled workers to substitute less-skilled MW workers for optimizing labor costs (Neumark et al., 2004). This is witnessed in Lordan and Neumark (2017). MW increase can create a hedonic-based labor supply substitution effect where workers will move away from more undesirable occupations and force firms to incur higher labor costs to retain employees (Phelan, 2019).

From the labor income perceptive, Peng et al. (2019) submit that MW changes can bring more rapid wage growth among affected workers if they remain in employment. MWP can only bring a positive income impact on the labor market if the aggregate increase is higher than the aggregate disemployment. An increase in MW can effectively reduce the gender wage gap (Joe & Moon, 2020), and hourly wage inequality and improve the income of low-paid workers (Redmond et al., 2021). Moreover, MW increase can positively affect household income distribution (Dube, 2019), but there will be a limited impact when MW workers are spread throughout the distribution (Redmond et al., 2021). Nevertheless, there is evidence of reduced total debt among affected households (Cooper et al., 2020). Some firms may opt to reduce working hours (Neumark et al., 2004), extend working hours (Yang & Gunderson, 2020), or incorporate service charges as part of the basic salary (Gan, 2016) to maintain cost and this may offset income increase.

Notably, developed countries and developing countries display different MW dynamics on employment opportunities due to the differences in labor market structures and enforcement effectiveness. Further scientistic investigation can shed more light on their fundamental differences. Neumark and Corella (2019) submit that there are heterogeneous estimates of employment effects in developing countries, and MWP connotes a trade-off between higher income and disemployment. Luo et al. (2011) claim that MW had positive employment effects in wholesale, retail, catering, and construction sectors but an adverse effect on the manufacturing sector in China. Huang et al. (2014) found that MW has a negative effect on employment, especially in companies with low-wage earners. Geng et al. (2022) submit that manufacturing firms in China end up increasing capital investment in response to MW increase. In Brazil, the reallocation of employees toward more productive enterprises reduces the impact of the

minimum wage on employment and production (Engbom & Moser, 2022). Minimal disemployment effect was observed with a huge MW increase in Hungary (Harasztosi & Lindner, 2019), while nil employment effects and nominal income effects in Chile (Grau et al., 2018). On the contrary, there are empirical studies that display a negative employment effect, especially in small enterprises and unskilled, younger, and MW workers in countries like the Czech Republic and Slovakia (Fialová, 2009), Slovenia (Vodopivec, 2015), Hungary (Kertesi & Köll, 2002), Latvia (Zepa, 2006), and Estonia (Hinnosaar & Rõõm, 2003). Yang and Gunderson (2020) found that longer working hours have offset the disemployment effect. Employment effect results in developing countries are highly dependent on the selection of the studied group, the sector analyzed, enforcement effectiveness, and the period of study (Neumark & Corella, 2019).

The review of the burgeoning literature on MW reveals that there have been extensive studies in the United States (US) and other countries but limited literature on the Malaysian context (Senasi, 2020). The manufacturing industry (Jia & Leu, 2015; Senasi & Khalil, 2015; Tajuddin et al., 2021; Ung et al., 2016), electrical and electronic (E&E) industry (Eng et al., 2019; Senasi, 2020; Senasi et al., 2021), hotel industry (Ahmad et al., 2016; Balasingam et al., 2020; Che Ahmat et al., 2019b; Che Ahmat & Arendt, 2019), hospitality industry (Gan, 2016), and childcare industry (Rusly et al., 2017) were studied in Malaysia thus far. Abdullah et al. (2018) observe a nominal negative employment impact on Sarawak's service sector when there is a 15% MW increase. Ahmad et al. (2016) submit that Malaysian hotel operators experience low workers' productivity, higher labor costs, non-inclusive of service charges, and firms' low revenue when implementing MWP, whereas Malaysia's E&E industry experienced labor cost increase, lower profitability, reduced competitiveness, and business operations disruption when MW increased (Eng et al., 2019). There was no obvious productivity improvement (Jia & Leu, 2015). Jia and Leu (2015) explain that this could be caused by the production capacity of capital-intensive firms is generally dependent on machines' capacity and demand, and for firms that produce high-quality products, skills are the determining factor. The lower awareness and readiness to improve productivity make Malaysian SMEs less agile in implementing MWP (Ung et al., 2016). Rusly et al. (2017) discover that many firms exit due to the increased labor costs caused by MWP. MWP brings mixed impacts to both managers and employees in the Malaysian hotel industry (Balasingam et al., 2020). MW increase enhances compensation satisfaction (Balasingam et al., 2020; Che Ahmat & Arendt, 2019) and employee satisfaction (Che Ahmat et al., 2019a, 2019b) which eventually leads to improved productivity (Senasi, 2020). Malaysian workers also experienced a reduction in training provisions (Senasi et al., 2021), employer-sponsored health insurance, and workers' allowance rate (Senasi & Khalil, 2015).

DISCUSSION AND RECOMMENDATIONS

Discussion

Even though it is nearly impossible to predict employment effects precisely from the mixed empirical evidence in the literature (Bossler et al., 2020), literature on developing countries implementing a huge increase of MW can offer some insights on what to expect from this recent 25% MW hike. Significant disemployment in small firms and high non-compliance are observed where MW increases by 57% in Hungary (Kertesi & Kollo, 2003). When Turkey implemented a 30% MW increase, Akgündüz et al. (2019) found that employment, exports, and related firms were significantly affected. Bossler et al. (2020) submit that the degree of disemployment is associated with the degree of MW increase. As the Malaysian economy is experiencing a downturn, youth unemployment is likely to happen (Dolton & Bondibene, 2012). Therefore, it is reasonable to anticipate a higher disemployment in Malaysia either when firms choose to reduce headcounts as a direct response or at a later stage after exhausting other means.

Before MWP, foreign workers constitute 70% of Malaysia's low-skilled workers (Elangkovan, 2013). Levy policy was not effective in reducing this dependency (Devadason, 2021), but MWP successfully

reduced 48% of foreign labor in 2016 (Tajuddin et al., 2021). This is likely due to the costs of hiring foreign labor being higher than local workers after adding MW and levies imposed, and the higher pay can attract more local workers to enter employment. With the recent 25% hike, it is reasonable to anticipate a reduction of foreign low-skilled workers and a higher attraction to locals (Tajuddin et al., 2021). The disemployment of foreign low-skilled workers creates job opportunities for locals. However, if there is an insufficient influx of local labor, firms are likely to face labor shortages (Eng et al., 2019), which can cause operations and production disruptions.

According to the dual-sector model, unemployed workers are likely to move from FS to IS, especially when Malaysia does not offer any unemployment benefits. IS in Malaysia has been growing in recent years (Tumin, 2020), absorbing 1.36 million or 10.6% Malaysian workforce (Ponggot, 2020). The disemployment caused by the 25% MW hike is likely to magnify the labor movement to IS, resulting in further expansion of IS (Tumin, 2020). The unemployment rate may decline because of low labor participation in FS. Nonetheless, since MWP does not cover IS, the overall effectiveness of MWP may be diminished to a certain extent.

Past studies showed that there would be non-compliant firms with MW in both developing countries (Bhorat et al., 2015) and developed countries (Garnero, 2018). A low enforcement rate deters the fulfilment of MWP's goals (Soundararajan, 2019). Furthermore, a higher MW rate tends to result in a lower compliance rate (Ham, 2017; Klaveren, 2015; Rani et al., 2013). During an economic downturn, firms may have challenges executing the new MW rate (Ahmad et al., 2016), and this may induce a higher non-compliance rate. Some firms may reduce the number of formal workers and increase the number of informal workers to avoid incurring additional labor costs (Garnero, 2018). MW enforcement is also hindered by firms' capabilities in implementing MW (Dang & Hien, 2015). Malaysian SMEs may face similar challenges (Balasingam et al., 2020).

Firms need to initiate responsive measures to reduce the cost impact caused by MW increases (Giupponi & Machin, 2018). Firms' response to MW is heterogeneous, depending on product market competition, business expectations, and local labor market conditions (Link, 2019). Due to liquidity constraints and lower marginal products of labor, SMEs are more susceptible to rises in wage floors (Cabral & Mata, 2003). Some firms may opt for disemployment. Akgündüz et al. (2019) discovered that exporters brief up productivity to compensate for the employment shrinkage caused by the MW increase. While some firms can make substantial productivity adjustments in the situation of labor supply shocks (Dustmann & Glitz, 2015), others may not have the luxury to do so without compromising productivity. MW hike will lead to higher labor cost (Ahmad et al., 2016) and labor cost represents a significant fraction of total operating cost for SMEs (Biswas, 2012), especially for labor-intensive firms. For those firms that have challenges attracting talents for undesirable jobs, this MW hike will further increase their labor cost (Rosen, 1972). All these will result in reduced profitability (Draca et al., 2008). If firms choose price increase, not only they may lose competitiveness, but it will also aggravate inflation further and push the long-run aggregate supply (LRAS) curve further left, fueling a spiral of increases. It is noted that price increases during high inflation may substantially reduce a firm's competitiveness and drive a higher exit rate. SMEs that are not able to bear this financial stress are likely to exit (Chava et al., 2019; Rusly et al., 2017). The market gaps left by these firms will be filled by surviving firms as the latter is more resilient to the negative cost impact caused by the MW hike. The firm number will reduce over the long run until the profitability norm is restored (Hirsch et al., 2015). Mayneris et al. (2018) argue that firms with greater capital investment and better inventory management can gain productivity improvement to increase their survival rate. In the mid to long term, the remaining firms are those with higher resilience and can attain healthier growth.

Recommendations

While reducing employment is an obvious response, there is no discernible conclusive approach (Schmitt, 2013). Price increases, improving productivity and operational efficiency, delaying business expansion, and adjusting labor cost structure are some of the CoA available for SMEs (Hirsch et al., 2015).

Cost and price: Firms can have increased cost passed through to consumers (Belman & Wolfson, 2014; Harasztosi & Lindner, 2019). The study by Harasztosi et al. (2019) reveals that 75 percent of the cost increase caused by MW is absorbed by consumers. Allegretto and Reich (2018) argue that restaurant operators can effectively pass through the cost to customers with relatively small price increases. The price increase can occur across sectors (Bossler & Gerner, 2020; Link, 2019). Bodnár et al. (2018) submit that price increase is popular among Central and Easter Europe firms. This may reduce the competitiveness of firms, especially when demand is elastic to price. This may not be a feasible option for many SMEs due to the already higher operating and production costs.

Internal wage structure: Firms can manage the overall labor costs by reducing paid working hours (Neumark et al., 2004). Some firms may give lower pay raises to non-affected workers to manage labor costs (Dube et al., 2007; Hirsch et al., 2015). Workers can also extend working hours voluntarily. Bruttel et al. (2018) submit that the review of international evidence in this aspect demonstrates mixed results (Belman & Wolfson, 2014; LPC, 2016; Neumark & Wascher, 2008; Schmitt, 2015).

Turnover: Compensation satisfaction leads to lower turnover (Balasingam et al., 2020; Che Ahmat & Arendt, 2019). Multiple studies find that MW increase can reduce turnover (Allegretto & Reich, 2018; Dube et al., 2007), especially for low-tenure workers (Dube et al., 2016). Germany witnessed a 2.9 percentage points reduction in the churning rate (the employment neutral turnover rate) (Bossler & Gerner, 2020). Firms can use the savings in hiring, separation, and training to partially offset the higher MW cost (Arrowsmith et al., 2003) and the profit effect (Card & Krueger, 1995).

Operational and human resource efficiencies: Improved productivity can offset the additional cost from the MW increase (Hirsch et al., 2015; Long & Yang, 2016; Wang & Gunderson, 2018). Bodnár et al. (2018) found that firms prefer improving productivity over disemployment. Hirsch et al. (2015) submit that managers are under pressure to boost labor productivity from the workforce through cross-training, multitasking, and shorter workdays when minimum wages are raised. Senasi (2020) argues that the wage received is positively correlated with workers' productivity. Che Ahmat et al. (2019b) explain higher productivity is due to the motivation from higher MW.

Non-labor inputs and customer service improvements: Firms can offset labor cost increases with savings in non-labor input such as fringe benefits, staff welfare costs, and utility costs (Hirsch et al., 2015). Most firms in Central and Eastern Europe opt for this channel of adjustment (Bodnár et al., 2018). A reduction in training provision (Senasi et al., 2021), employer-sponsored health insurance, and workers' allowance rate (Clemens et al., 2018; Senasi & Khalil, 2015) was found after an increase in MW. Customer service improvements (Che Ahmat & Arendt, 2019) can lead to higher retention and, thus, increase customers' lifetime value.

Profit: Firms can opt to absorb the increased labor cost by reduced profitability (Card & Krueger, 1995; Hirsch et al., 2015). Kadir et al. (2019) argue that a significant MW hike can lead to a significant reduction in firm profitability, particularly MW-intensive firms (Harasztosi & Lindner, 2019). This adjustment may not be appropriate for all SMEs.

Technology and digitalization adoption: Economists believe that improved productivity can offset the additional cost resulting from MWP. Productivity improvement can be made through technology adoption (MFM, 2022) and digitalization. It is noted that SMEs generally have digitalization challenges

in strategic planning, technology adoption, financial constraints, competency lacking, and related legal knowledge (SMEC & HT, 2018). SMEs are inelastic in technology adoption due to limited capital (Adam et al., 2021). For firms that can initiate this transformation, leverage the government initiatives and support under industrial 4.0 as a mid-to-long-term strategy.

CONCLUSION

The Malaysian government enacted the MWO 2022 to raise MW by 25% to RM1,500 effective from 1st May 2022. While MWP can reduce income inequality, increase worker supply, and alleviate poverty, instituting an MW hike during an economic downturn with a high unemployment rate and inflation rate may give rise to mixed outcomes. An NLR uncovered valuable insights into the diverse implications of MWP. Even if there can be no conclusive predictive statements on the new MWP, these insights enhance the preparedness of SMEs. The literature on developing countries with high MW increases seems to suggest that higher disemployment, reduced foreign worker dependency, FS migration to IS, and high non-compliance are likely to be expected. Future scientific studies are welcome to validate these predictions. SMEs can explore the six CoA besides reducing employment to cope with the increased labor cost. For the mid to long term, SMEs can leverage technology and digitalization adoption to transform their businesses.

This paper has several limitations. Although economic theories are explored, due to the selection of literature, the implications of other theories are not considered. The limited literature on Malaysia's MWP and developing countries have somehow curtailed the multidimensional analysis of MWP. Economic scholars are invited to investigate the phenomenon effects of MWP in Malaysia as there were five different MWPs implemented in the past ten years under different stages in the business cycle.

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