

COVER STORY

LOW YEN YEING/THE EDGE

Closing the gap between productivity and wages

STORIES BY ESTHER LEE

Malaysia's workforce is often labelled as less productive than those in other countries — a perception that continues to spark debate among workers and employers. But is this perception accurate?

"As a developing nation, Malaysia's labour productivity has scope to improve, but it does not lag regional and global benchmarks to the extent often suggested," says MARC Ratings Bhd chief economist Ray Choy.

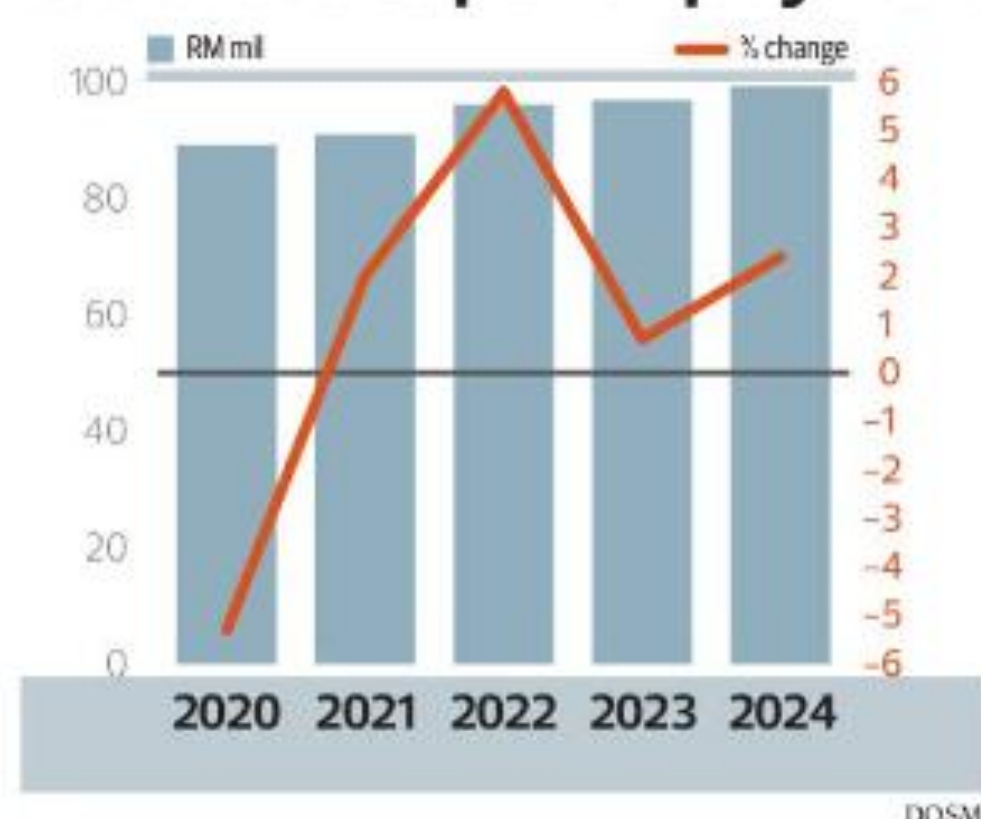
Labour productivity is typically measured as gross domestic product (GDP) per person employed or per hour worked, according to the International Labour Organization (ILO). This metric is significant, as it often serves as a reference for wage setting.

Simply put, the slower the increase in labour productivity, the slower the wage increase. This in turn affects an employee's propensity to consume, which then affects the economic growth of the nation.

On the labour productivity scoreboard, measured in constant international dollars at purchasing power parity in 2025, Malaysia sits above the middle point among 186 countries, at int-\$30.40 per hour worked in 2025, according to ILO. Compared with countries that top the list by the same measure — Ireland (int-\$164.70), Luxembourg (int-\$159.50), Norway (int-\$125.60) and even Singapore (int-\$100.40) — Malaysia does seem to be lagging far behind in labour productivity. (An international dollar [int-\$] is a hypothetical currency equal to US\$1, with the same purchasing power anywhere in the world and adjusted for differences in living costs and price changes over time.)

This vast disparity between Malaysia and the countries ranked among the highest in

Annual labour productivity, value-added per employment



labour productivity globally has more to do with structural differences rather than a behavioural trait, experts say.

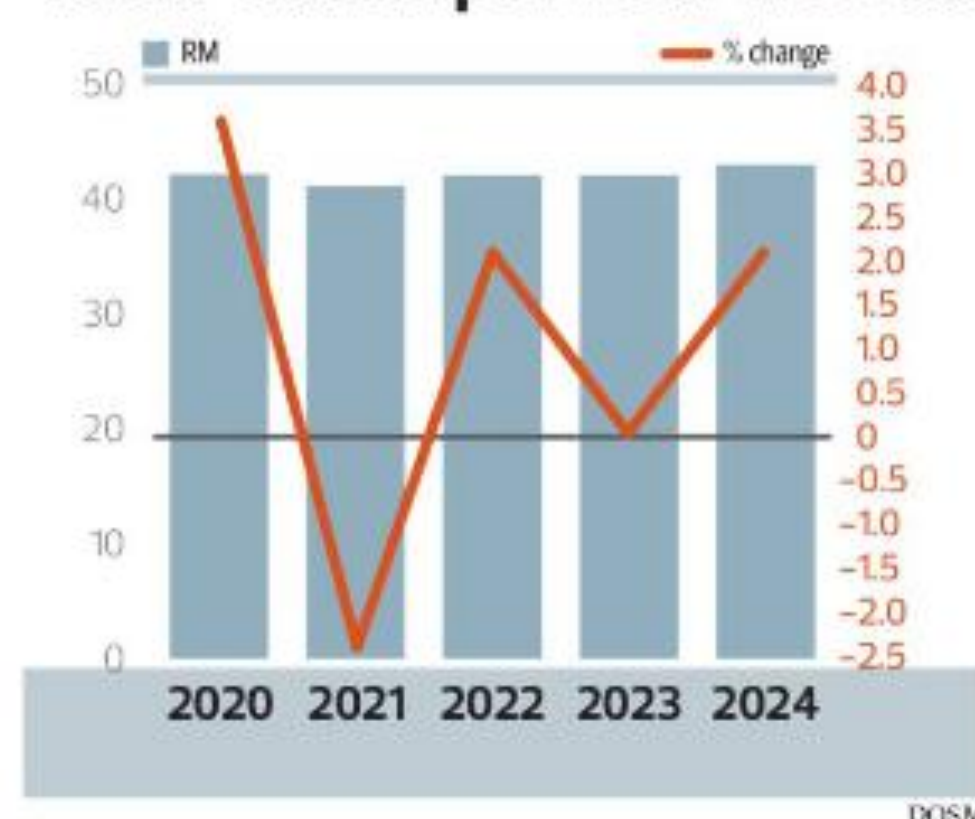
"It is not primarily about Malaysian workers being less efficient; rather, it is about the composition of the economy and the types of firms that are in these spaces," says Khazanah Research Institute (KRI) research associate Wan Amirah Wan Usamah.

Take Singapore, the neighbouring country Malaysians most often compare themselves to. PwC Malaysia director of workforce management Mohammad Iesa Morshidi notes that its economy is more capital- and technology-intensive, with higher capital per worker and total factor productivity (TFP) lift output per hour.

"The nature of Singapore's concentration of business activities, which are located in proximity to each other, enables it to benefit from agglomeration in terms of skill density, research and development, and intellectual property," he explains.

Common denominators of countries with high productivity notably rest on capital in-

Annual labour productivity, value-added per hour worked



tensity, technology adoption, human capital quality and competitiveness of the industry structure, MARC's Choy points out.

"Countries with the highest productivity levels, such as Ireland, Norway, Singapore and the Netherlands, also tend to combine strong education systems with high workforce internationalisation, often including high English proficiency. The onshoring of multinational corporations in these countries has also contributed to higher measured productivity, notwithstanding statistical distortions in some cases due to smaller population bases," he adds.

Meanwhile, Malaysia's economy remains concentrated in mid-value manufacturing, commodities and low-value-added services.

Some 40% of the country's GDP is notably derived from small and medium enterprises (SMEs), which would naturally have lower capital intensity and output per hour compared to Singapore's high-value sectors, says Ernst & Young Consulting Sdn Bhd Malaysia (EY) people consulting leader Low Choy Huat. PwC's Mohammad Iesa adds that the cur-

rent employment base in Malaysia is larger in roles where many hours are logged but value-added per hour is moderate, particularly in parts of services and agriculture. This means the GDP per hour remains low, even when the GDP per worker improves.

"Fundamentally, labour productivity does not actually measure whether the workers are 'hardworking', but whether the quality of skills, machines and processes used is improving," he says.

Experts say that owing to the structurally different economies, Singapore would not be an apple-to-apple comparison for Malaysia. For benchmarking purposes, it would be more useful to compare Malaysia with other upper-middle-income, export-oriented countries, suggests Wan Amirah.

On that note, ILO statistics show that Malaysia's labour productivity of int-\$30.40 per hour worked measured in constant international dollars at purchasing power parity in 2025 is almost double the Asean region's int-\$15.60, above the upper-middle-income country average of int-\$21.20 and above the global median of int-\$22.10.

Experts also suggest looking at sectoral- or industrial-level productivity as a means of comparison, rather than the national averages, as aggregate comparisons can be misleading.

"Overall, aggregate comparisons can be misleading, as other factors are at play, such as differences in industrial structure, technology adoption, skill composition, and price and exchange rate effects," says Wan Amirah, adding that comparing headline numbers can be instead used as an aspirational reference point, especially for skill policy, wage structures and the innovation ecosystem.

According to data from the Department of Statistics Malaysia, labour productivity defined as value-added per hour worked grew 3.8% in the third quarter of 2025 (3Q2025), to-

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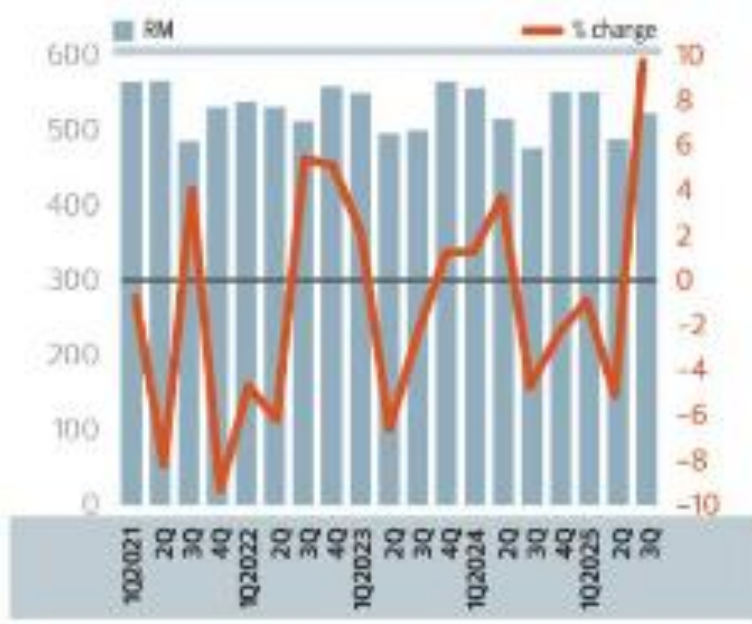
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Labour productivity by sector (value-added per hour worked)

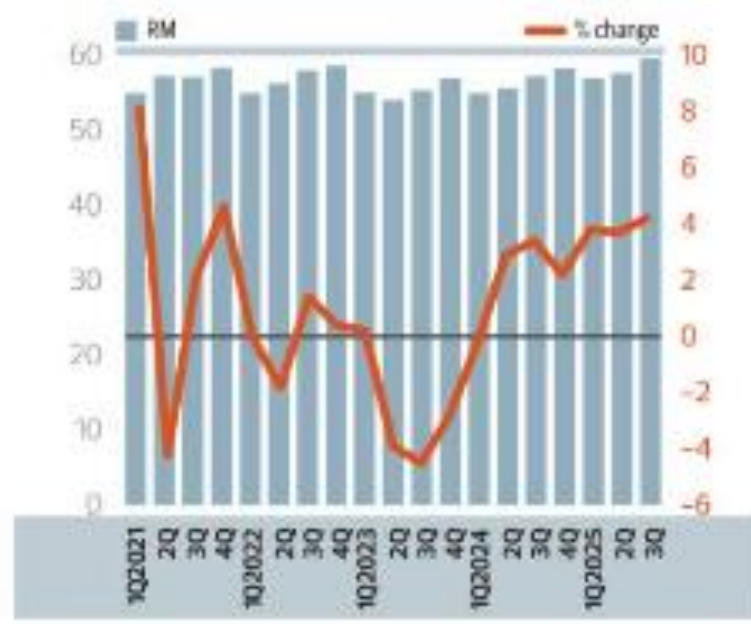
Agriculture



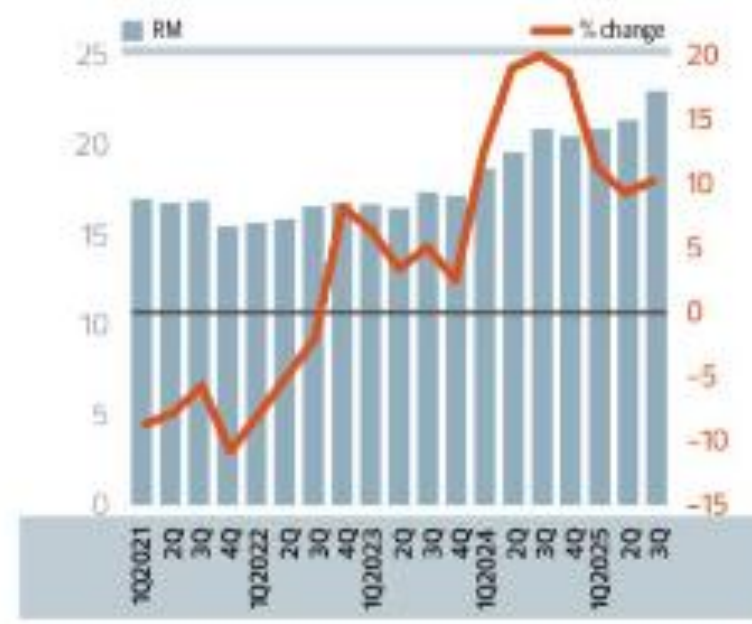
Mining and quarrying



Manufacturing



Construction



Services



talling RM45.10 per hour. It came in higher than the growth of 3.4% in 2Q2025, amounting to RM43.20 per hour.

Sectorally, labour productivity saw growth across all sectors in 3Q2025. Construction led the growth at 10.2% for the quarter versus 9.3% in the preceding quarter. This was followed by mining and quarrying at 9.7%, manufacturing at 4.2%, services at 2.9% and agriculture at 1.3%.

Quarterly data over the last five years shows uneven sectoral labour productivity growth, with some sectors recording consecutive quarters of year-on-year contractions.

Meanwhile, labour productivity per employment rose 3.6%, amounting to RM26,052 per person in 3Q2025.

Understanding the wage and productivity gap

As the cost of living rises, employees push for higher wages to mitigate the effects of diminishing purchasing power. Employers struggle, however, to justify pay increases without corresponding gains in productivity, creating a tension that is difficult to resolve.

Mohammad Iesa notes that when wage growth and productivity are misaligned, the consequences are clear: Slower wage growth can widen income inequality; and faster wage growth relative to productivity can fuel inflationary pressures.

“Ideally, we want wage growth that reflects productivity growth over time, so that employees enjoy higher living standards, employers maintain profitability and competitiveness, and inflationary pressures are managed,” he explains.

Furthermore, Choy notes, expecting sustained wage increases in the absence of corresponding productivity gains is economically unsustainable and risks becoming a problematic national narrative if widely internalised. He adds, however, that wage growth does not always move in lockstep with productivity growth in market-based economic systems.

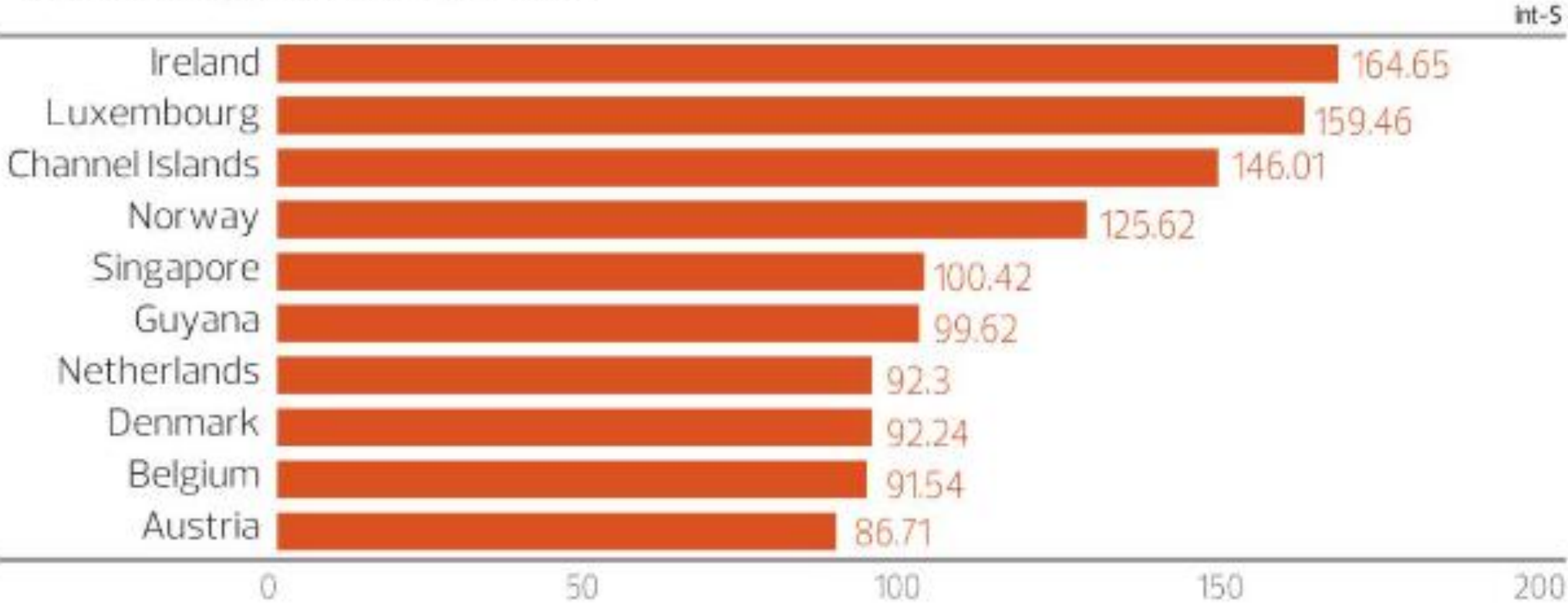
“Wage growth should primarily reflect improvements in human capability, skills and labour market bargaining power, whereas productivity, as a broader economic measure, reflects the combined effects of human capital, capital deepening and technology adoption. As production functions become increasingly technology-augmented, a growing share of output is driven by capital-embedded productivity rather than labour input alone,” says Choy.

“In the current technological cycle, productivity gains are increasingly driven by digitalisation, automation and artificial intelligence deployment, which cannot be fully attributed to incremental improvements in human labour capability. Under these conditions, there is a natural structural tendency for productivity growth to outpace wage growth over time, particularly in economies undergoing rapid technological upgrading or capital deepening.”

Meanwhile, KRI’s Wan Amirah believes the relationship between wages and produc-

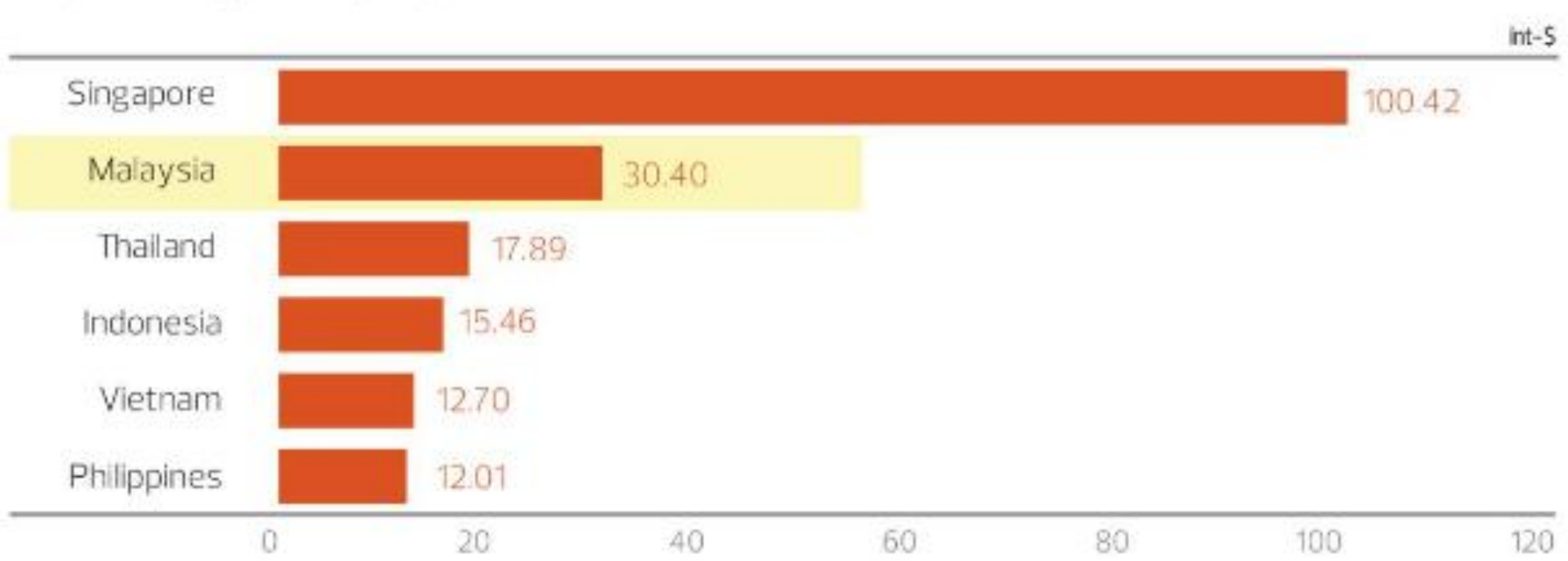
Top 10 countries with highest labour productivity per hour worked

Based on GDP per hour worked (GDP constant 2021 international dollar at purchasing power parity) in 2025



Labour productivity in Asean-6 countries

Based on GDP per hour worked (GDP constant 2021 international dollar at purchasing power parity) in 2025



tivity is reciprocal rather than sequential. She challenges the notion that productivity must first rise before wages can increase.

“At the macro level, productivity can set a target for sustainable wage growth. However, wages themselves can also influence productivity. Persistently low wages can reduce a firm’s incentive to automate, digitise or upgrade processes. When labour is cheap and replaceable, firms tend to compete on costs rather than innovation,” she says.

This creates a vicious cycle in which labour is treated primarily as a cost, entrenching a low-wage, low-productivity landscape: Firms under-invest in capital, workers remain in low- or semi-skilled roles, productivity growth falters and wages stagnate.

Wan Amirah notes: “Malaysia shows some of these features, where, despite moderate productivity improvements, median wages have grown slowly relative to living costs. This is further supported by Bank Negara Malaysia’s report, which shows that productivity per worker in Malaysia did rise between 2022 and 2025; yet, real wages have actually declined over the same period once inflation is taken into account.”

Productivity per worker rose 7.4% between 1Q2022 and 2Q2025, but real wages fell about 1.9% over the same period.

“We can see how wage growth doesn’t commensurate with productivity,” she says.

Wan Amirah argues that the discussion on matching wages to productivity should not be reduced to “wages versus productivity”, but it should examine the institutional and structural bottlenecks that prevent

productivity improvements from being reflected in broader wage growth.

“There is an element of ‘course correction’ in which current wages do not necessarily reflect productivity contributions, hence the focus on raising median wages. In the long run, however, we need to address productivity and distribution simultaneously to resolve these tensions,” she says.

One government initiative aimed at addressing wages lagging behind the cost of living is the Progressive Wage Policy (PWP). EY’s Low describes it as providing a structural “middle ground”.

“The PWP helps employers raise wages without bearing the full immediate cost, offering incentives of RM200 to RM300 per employee to support wage progression tied to skills and training. Early pilots are showing results. With a national rollout underway in 2025, supported by a RM200 million allocation benefiting 50,000 workers, the PWP now acts as the bridge aligning employer needs (productivity) and employee needs (fair wage growth) in a sustainable, evidence-based way,” he says.

Critics argue, however, that it is merely a quick fix, with incentives too weak to motivate employers to raise salaries.

Human capital, technology and institutional reforms

Experts agree that strengthening human capital is an important part of the equation to improving labour productivity, be it from literacy levels to having the right skill set for the jobs available today.

A common concern among experts whom *The Edge* spoke to is the phenomenon of skill mismatch and underemployment of graduates.

“Malaysia must close the gap, where 37.4% of graduates work in low-skilled jobs by strengthening industry-aligned training, micro credentials and mid-career mobility pathways that place people in high-value roles,” says Low.

Choy also believes workforce internationalisation remains important to lift Malaysia’s productivity to global standards. This includes improving English proficiency and ensuring the functional use of languages important to commerce and major world economies within education. He acknowledges, however, that advancing this agenda would require sustained policy commitment and social consensus.

Experts also believe that a more widespread adoption of technology, especially among SMEs, will boost labour productivity as well.

EY’s Low says: “Only 21% of SMEs are scaling digital and artificial intelligence (AI) tools beyond the pilot stage. Malaysia needs ‘plug-and-play’ digital solutions, co-funded adoption schemes and shared platforms to help SMEs automate processes and raise output per hour across the economy.”

PwC’s Mohammad Iesa says there are key sectors that are “ripe” for modernisation, including the services sector in which certain functions could be digitised — namely, scheduling, pricing, demand forecasting and even deploying AI for service quality with the potential to upsell services.

He sees the manufacturing and plantation sectors as ripe for modernisation. Robotics and predictive maintenance in manufacturing, along with mechanised harvesting tools and drones in plantations, can significantly boost productivity.

Mohammad Iesa cautions, however, that while it is essential for increasing labour productivity, technology alone is not enough. “Studies and surveys show that AI can lift output and quality but its benefits hinge on work redesign and training. Technology can widen inequalities and underemployment if it’s not accompanied by a proper culture or proper structures to promote trust and accountability,” he says.

Choy stresses that, at the institutional level, Malaysia must continue to enhance its performance in key governance indicators, including controlling corruption — an area in which the current administration is actively pursuing reforms — as well as improving transparency, voice and accountability in both the public and corporate sectors.

He adds that sustained progress in implementing legislative reforms is equally crucial, since regulatory effectiveness depends not only on sound policy design but also consistent enforcement, which in turn strengthens regulatory quality and the rule of law. ■

See also ‘Overqualified and underutilised’ — next page