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Malaysia's Cost of Living Challenges

POLICY AND RESEARCH DIVISION
INSTITUT MASA DEPAN MALAYSIA
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Malaysia's Cost of Living Challenges

Dated 5 January 2023

Theme:

Malaysia's Cost of Living Challenges

Introduction:

Undeniably, Malaysians have been feeling the pinch in their everyday budgets. Cost-push inflation around the globe due to the COVID-19 pandemic has further heightened the costs of living in Malaysia. However, the issue of high cost of living has been an ongoing debate, with much discussion surrounding the repercussions and sources.

On 27 November 2022, Prime Minister Datuk Seri Anwar Ibrahim chaired the 2022 National Action Council on Cost of Living (NACCOL) Special Meeting, which was attended by government ministries and agencies. The meeting was aimed to discuss the urgent need to address the pertaining issue.

As such, concerns regarding the rising cost of living are generally influenced by several factors. These include:

- 1) Challenges of salaries and wages; and
- 2) Dependence on imported food.

1.0 Cost of Living

Elaboration	<p>Although Malaysia's inflation rate had seen a decrease of 0.5% (October: 4.0%) from 4.5% in September 2022¹, the public at large are still struggling to put food on the table and to live a dignified life.</p> <p><u>Issues:</u></p> <p>1) Challenges of stagnant salaries and wages</p> <ul style="list-style-type: none"> - According to the Bank Negara Malaysia's 2018 report, up to 27% of households in Kuala Lumpur have incomes below the threshold required for
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¹ [Malaysia Inflation Rate - Trading Economics](#)

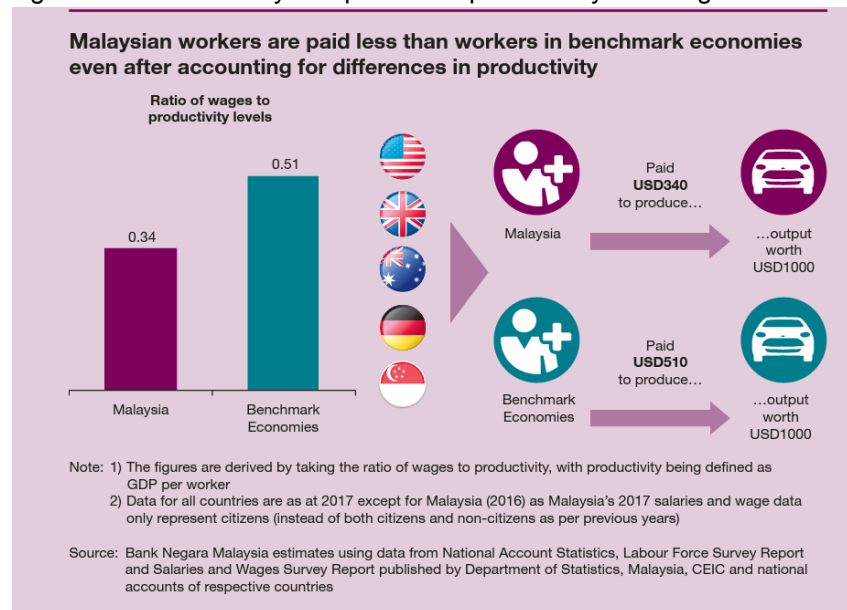
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meaningful societal involvement, opportunities for individual and family growth, and freedom from severe financial hardships².

- The **median salary** in Malaysia was reported to be **lower than the 5.4% average in Asia Pacific region** due to wage stagnation³.
- Even after accounting for differences in productivity levels across nations, **Malaysian employees are found to be paid less than those in the benchmark economies**, according to the wage to productivity ratio below (Figure 1).

Figure 1: Cross-country comparison of productivity and wages in 2017



- This issue also reflects the underlying challenges faced by the workforce in certain industries, where workers typically **lack bargaining power**, particularly due to the **abundance of low-skilled workers**, including foreign workers.

² [Are Malaysian Workers Paid Fairly?: An Assessment of Productivity and Equity](#)

³ [Higher salary increments expected in 2022 as confidence in Malaysia's economic recovery grows](#)

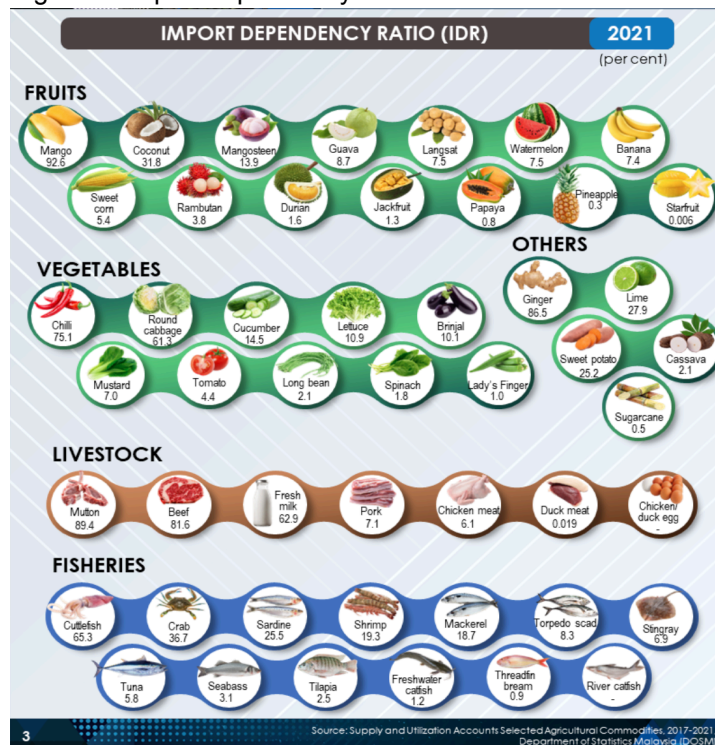
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2) Dependence on imported food

- Malaysia's **import volume increased 0.7%** in May 2022 compared to the previous month, **driven primarily by the country's imports of food abroad**⁴.
- According to DOSM, over a **28-year period**, Malaysia's **reliance on imports of agricultural products rose from 7.3% to 13.7%** (1987-2015)⁵.
- Malaysia heavily hinges upon imports for many essential products which include, among others, wheat, rice, protein meals, dairy products, beef, as well as the majority of citrus and deciduous fruits.

Figure 2: Import dependency ratio 2021



⁴ [Malaysia's import volume increases, led by food buys](#)

⁵ [Supply and Utilization Accounts Selected Agricultural Commodities, Malaysia 2016-2020](#)

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- The recent shortage of egg supply has burdened the consumers especially with a hike on price due to the limitation of buying, and the recent announcement from the Agriculture and Food Security Minister of importing the egg supply to accommodate the demand will not address the root cause⁶.
- The Bumiputera Retailers Association has urged the government to implement a ban on the export of eggs from now until Hari Raya Aidilfitri to curb shortages that are expected to prolong until the major celebration⁷.
- Importing chicken eggs was not the best solution, considering Malaysia the net exporter of the food item.
- Owing to Malaysia's heavy reliance on food imports to meet domestic demand, the cost of living has risen, notably for food and beverage commodities channelled to the *rakyat*, thus requiring them to pay a relatively higher price for kitchen staples.

Thus, it is crucial for the government, particularly the **Ministry of Domestic Trade and Living Costs**, to shift from populist and simplistic approach (of increasing the egg export), and take a brave, proactive and urgent steps to address the issue of cartels and shape inclusive policies that ensure sufficient food supply and income for all segments of society to cover the cost of living in Malaysia, thereby ensuring a prosperous nation in line with the **2nd Guiding Principle of Equitable Outcome under the Shared Prosperity Vision 2030 (SPV2030)**.

⁶ [Malaysia to import up to 10 million chicken eggs daily from India](#)

⁷ [Ban export of eggs from now till Hari Raya, say Bumi retailers](#)

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<p>Recommendations</p>	<p>The Government should provide concrete solutions to address the issue of rising costs of living in alleviating the burden of the <i>rakyat</i>:</p> <ol style="list-style-type: none"> 1) Wage increment should be on par with the national productivity level and employees must be compensated fairly and equitably by their employers. Hence: <ol style="list-style-type: none"> a) Consider automatic National Wage Index (NWI) increment whenever price inflation exceeds a certain year, as stated in the Strategic Thrust No. 4 of SPV2030 to address high living costs in Malaysia's towns and cities⁸. b) There is a pressing need to create high-skilled jobs in order to increase the demand for quality labour. In this sense, it is critical to shift away from the low-cost business model and attract new, high-quality investments from both domestic and international firms. 2) Malaysia should also focus on increasing the self-sufficiency ratio (SSR) in food production to meet local demand without having a high dependency on food imports. Thus: <ol style="list-style-type: none"> a) Accelerating the process of technology adoption by farmers, such as smart farming, local R&D, and digital technology, to boost
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⁸ Strategic Thrust 4, Shared Prosperity Vision 2030 (page 92)

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	<p>productivity in the agriculture sector, which includes rural and indigenous communities.</p> <p>b) Strong surveillance of cartels and monopolies can be achieved by strengthening the role of Malaysia Competition Commission (MyCC) in ensuring fair trade, competition, and purchasing operations.</p>
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