MALAYSIA AUSTRALIA BUSINESS COUNCIL

Observations By the Chairman of MABC

AUSTRALIA'S MINIMUM WAGES, AI AND THE ECONOMICS OF OFFSHORING

Australia's latest wage ruling by the Fair Work Commission's (FWC) announced on 2 June 2026 may appear to be a purely domestic concern, but for Australian companies operating offshore, particularly in Malaysia, it carries implications beyond national borders.

The FWC's 2026 Annual Wage Review introduces a 4.75% increase in the national minimum wage, lifting the weekly rate to AUD1,004.90 and the hourly rate to AUD26.44. Entry-level classifications receive an effective increase closer to 5.95%, alongside structural reforms that gradually lift the wage floor.

Although the adjustment falls slightly below inflation, meaning most workers will not see a real wage gain, it adds to the cumulative cost pressures facing employers. It is within this quiet escalation that may bring about real strategic consequences.

A Widening Cost Divide

For Australian companies with a footprint in Malaysia, the decision reinforces an already important economic dynamic that is, the widening gap between labour costs in developed and emerging markets. Malaysia continues to offer a compelling proposition, combining relatively lower wages with a skilled, English-speaking workforce and a well-established ecosystem for multinational operations.

Each incremental increase in Australia's wage floor strengthens the case for locating certain functions offshore. For labour-intensive roles, even a single percentage point rise can significantly alter long-term cost projections. Over time, this divergence encourages a gradual redistribution of work across borders.

How Malaysia Could Benefit

One area where the impact is especially visible is in global business services and shared services. Malaysia has spent the past two decades positioning itself as a hub for offshore delivery. As Australian wage costs rise, companies may

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increasingly look to Malaysia to host functions such as finance, HR, IT support and customer service. These roles, often standardised and scalable, are highly sensitive to wage differentials. Even a small percentage increase in Australia could translate into significant cost savings when operations are relocated or expanded in Malaysia.

Australian Companies In Malaysia

A number of major Australian firms already operating in Malaysia are particularly well placed to benefit from this wage differential. These include Telstra, Lynas Rare Earths AirTrunk, NextDC, BlueScope, Cochlear, SEEK and Lendlease, all of which maintain operations or commercial activity in Malaysia across manufacturing, technology and services sectors. For these organisations, Malaysia is not merely a secondary market, it is an essential component of their global operating model.

Wage Equity

The equation is not entirely one-sided. Rising wages in Australia can have spillover effects on Malaysian operations, particularly within multinational firms that seek to maintain internal pay equity. Employees in Malaysia working for Australian companies may expect salary adjustments to reflect groupwide benchmarks. Even so, Malaysia's overall cost advantage remains substantial. The country's combination of skilled labour, competitive wages and supportive business environment ensures that it continues to offer significant savings relative to Australia.

Artificial Intelligence

Overlaying the labour arbitrage is the inexorable impact of artificial intelligence (AI). The growing adoption of AI is beginning to reshape how companies think about both wages and geography. For Australian firms, rising wages make automation increasingly attractive, particularly for routine, process-driven and information-heavy tasks. Functions such as data entry, basic analytics, customer support and reporting, once offshored to lower-cost locations, can now be partially or fully automated using AI tools.

Rather than replacing offshore operations entirely, AI is more likely to augment and reshape them. In practice routine tasks may be automated, reducing headcount needs in both Australia and Malaysia.

The adoption of AI may also moderate the impact of wage increases over time. As automation reduces reliance on labour for certain functions, companies gain flexibility in managing rising labour costs.

In effect, AI introduces a counterbalance to wage inflation, but one that shifts demand toward more specialised skills. Malaysia also needs to upskill its workforce for AI adoption to remain relevant notwithstanding its relative cost advantage as AI could still replace a significant number of low skilled workers.

Conclusion

The 2026 wage increase in Australia is, in itself, a measured response to economic conditions. Yet its implications extend far beyond national borders, particularly when viewed in conjunction with the rapid rise of artificial intelligence.

For Australian companies operating in Malaysia, the message is clear. The logic of labour arbitrage remains relevant and, if anything, is reinforced by rising wages at home. At the same time, AI is transforming how that arbitrage is realised, shifting the focus from simple cost savings to productivity through technology.

Loong Caesar
Chairman, MABC

(We welcome feedback and comments. Please contact mabc@mabc.org.my)