

The High Value-High Wage Economy: Role of Labour Market Policies in Singapore

ISIS Malaysia hosted a talk entitled 'The High Value-High Wage Economy: The Role of Labour Market Policy in Singapore,' on January 15, 2010. The talk was by Associate Professor Dr Shandre Thangavelu of the National University of Singapore. **Nor Izzatina**, Researcher at ISIS Malaysia, reports.

The Singapore government's economic policy goal in the 1960s and 1970s was to create employment and economic growth by opening up the country to trade and investment. That strategy rested on attracting multinationals (MNCs), and on integrating Singapore with regional economies by enhancing its role as a transit port and as a regional distribution hub. As an essential move in its accommodative investment policy, Singapore targeted key strategic sectors, mostly with strong technologies.

Looking back, it is clear that besides having a supportive industrial policy, Singapore has always promoted organic growth in its industrial base. But as it is harder to flourish organically, Singapore has had to use GLCs to support its industrial policy. Despite that, Singapore finds it difficult to get the kind of FDI and technologies that it needs. Now, as a way of jump-starting technology and research-oriented industries, Singapore has decided to go into the defence industry where basic research can be applied and commercialised in multiple aspects. Singapore's trade and investment strategies are continuing to be implemented, with bilateral and regional free trade agreements and the promotion of new areas.

The development of the economy with a strong technology base rested on the right labour policy. Knowing wage levels' positive correlation with human capital stocks, Singapore has, over the years, experimented with increasing the value and productivity of its labour force. Being open to the world economy, Singapore is susceptible to global economic shocks, making it imperative for it to have a supportive labour policy to accommodate



Shandre Thangavelu

these shocks. Over the years it has moved from training support and employers' job credit to an open immigration policy so as to increase its labour market dynamics. The objective of its labour policy is to have technology-driven, real wage growth, in line with productivity growth.

Singapore's labour policy gravitates towards the following issues:

- The ability to match human capital supply with its high value economy;
- Reducing displacement effects when industries restructure which include aging workers and low-skilled workers;
- Ensuring foreign workers add value to its high value industry while addressing its citizens' perceptions.

The High Value-High Wage Economy

Singapore's labour policy approach can be viewed as a two-pronged instrument, which focuses on i) countering economic shocks and ii) cultivating a high quality labour force. The main tools used to counter economic shocks are the Central Provident Fund's (CPF) contribution rates, and the variable component in Singapore's Flexible Wage System. Changes in the contribution rates for CPF are effected through government directive, while the variable component in the Flexible Wage System (suggested by the government to be at 10 per cent of employees' monthly wages) is exercised by employers when the situation calls for it.

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Both the CPF and the flexible wage system brought about huge economic and social changes in Singapore. Introduced in 1955, the CPF has helped fuel house ownership and has served as a social security net for Singaporeans. However, with an increasingly aging population, the nation must guard against the CPF contributions acting as an enabler for 'big ticket spending,' funded by employers and employees.

The Flexible Wage System (FWS) is the outcome of the 1985 economic crisis which showed Singapore's wage system rigidities to be an important cause of Singapore's loss of competitiveness. The FWS has also shifted the wage/salary link from seniority to productivity. It allows employers the flexibility to adjust wages downwards during downturns. Employees gained due to less uncertainty over being retrenched during a downturn, and the prospect of being

rewarded during the good years. An important aim of the FWS was to maintain a high standard of living.

Singapore's wage reform works effectively due to its National Wage Council, a tripartite advisory body of 30 members. Employers, the government, and trade unions, including multinationals (MNCs), and government-linked companies (GLCs), are represented by ten members each. Since its inception, the National Wage Council has not only been involved in wage reform, but tackles work-related issues like job-hopping, CPF charges and skills development for workers. However the National Wage Council can only recommend wage adjustment; it will be up to the members of tripartite bodies to implement it.

In the aftermath of the Global Financial Crisis, the Singapore government has been focusing on ways to subtly shuffle its labour market, mainly to cultivate a high quality labour force. The efforts were on two fronts: i) further development of its services sector, that can act as a cushion to enable workers to move between sectors, especially workers previously employed in manufacturing sectors, and ii) targeted human capital training. In the services sector, there are certain skills, such as communication skills, that are easily transferable between sectors. Singapore is looking at developing an integrated services sector that can offer many employment opportunities to its people.

Singapore's Workforce Development Agency (WDA) is an organisation established to assist human capital training, and to lead and drive workforce development by increasing the employability and competitiveness of its workforce. There are 24 key skills in 18 identified key sectors. The training is provided by over 30 accredited institutions. Apart from WDA-related institutes that help make workers skills relevant to the market, universities like the National University of Singapore have started to offer double-degree programmes, to give its graduates higher portfolios.

The government is also seeking to increase the number of polytechnics in Singapore, and to enhance their roles, in order to increase the skilled work force. Training, retraining and re-educating the work force has become pertinent because the 2008-2009 Global Financial Crisis has displaced educated workers, and therefore a timely response is needed to help them.

Singapore is open to an increasing talent outflow because it recognises that high value-added activities are now globalised and integrated, and requires the mobility of workers. A mobile work force can help establish networks and connections with other countries. The government of India has been employing such a strategy. As Asean is becoming more integrated, labour mobility will become increasingly important. With Singapore's relatively high exchange rate in the region, it is confident it can attract human capital.

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increase productivity through cost savings. But productivity must be based on technology as well. Greater participation of the female labour force is necessary, so as to engage a bigger pool of labour, to increase productivity, and also to reduce the reliance on foreign workers. Some of the ways of encouraging female work force participation would be by promoting work-life balance and building facilities like child day care centres.



The Merlion near the mouth of the Singapore River

Singapore has been dealing with an increasingly negative perception of its foreign workers. While employers in Singapore are driven by cost, the government has encouraged the employment of locals for middle and high end jobs. Regulations for employing foreign workers are in place to prevent excessive inflows. Levy is charged for each foreign worker, especially the low-skilled ones. There is also a ratio of local to foreign workers to be observed. The government feels that foreign worker input must be managed, so as to

In concluding, Dr Thangavelu said that Singapore is experiencing a widening wage gap. The middle-income group is being squeezed. In view of this, the Singapore government is determined that its economy will be driven by a high value structure, and that the nation will have a strong growing industry that will have huge employment spin-offs. Apart from widening the employment base, Singapore is also looking into formulating an Older Workers Employment Act, and revamping social welfare to assist certain sections of the society.