

The big challenge which Singapore must meet through sound policy based on facts and openness to foreign talent



EYE ON
THE ECONOMY

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THE report in The Straits Times on April 30, "S'pore cannot count on global demand to drive economy" makes for sober reading.

Quoting Deputy Prime Minister Tharman Shanmugaratnam, the report notes that inflows of foreign workers slowed from 80,000 in 2011 to 20,000 last year. Meanwhile, resident labour force growth is tapering off severely. Hence the conclusion of Mr Tharman that restructuring the domestic sector to achieve higher productivity would be essential. Upgrading skills and allowing more market forces to work in weeding out the less innovative and efficient firms would be the keys to achieving this objective.

Prime Minister Lee Hsien Loong in his May Day message highlighted the need to improve productivity as the means to enjoy higher wages, and urged workers and employers to take the new SkillsFuture strategy seriously.

I agree that achieving higher productivity is essential. In fact, McKinsey Global Institute has estimated that Singapore would need to raise its productivity performance by 170 per cent over the next decade and a half to maintain historical growth rates. But even if we settle for a lower rate of gross domestic product (GDP) growth, the necessary productivity improvement would be challenging.

Allow me to share some thoughts on nine pillars of productivity growth.

■ DON'T PENALISE THE STARS

First, while not minimising the need for domestic restructuring, it would be a mistake to eschew greater efforts to tap a slower global economy which is also experiencing tectonic shifts. Much has been said and written about our two-track economy. We should recognise, however, that not every sector and not every worker can be on the same track. Inevitably, some run faster. Our export sectors have been the most productive and should be seen as engines of growth, pulling the rest of the economy. Concentrating on the laggards and penalising the fast runners would be a terrible mistake.

■ GLOBAL DEMAND

Singapore is a small economy. There is plenty of demand out there if we adapt our production and achieve competitiveness. We need to study how to shift our NODX (non-oil domestic exports) away from semi-industrial products like parts and components to high quality brand-name goods.

The Economic Development Board has been leading the way in creating higher-value-added industries, but we need to pay more attention to quality and branding. For example, Switzerland's expensive hand-made watches and Germany's costly luxury cars and high-quality machine tools allow them room for higher wages and to endure stronger currencies.



Likewise, our service exports need upgrading, whether in tourism, business or healthcare.

In the case of tourism, if we continue to attract low-end tourists by building budget hotels and backpackers' facilities, we add little value and cause congestion.

■ LIMITS TO SERVICE SECTOR

When it comes to productivity, we must recognise that most service sectors are not capable of much improvement. Typically, sectors like manufacturing, especially bio-medical, precision engineering and transport engineering are the star performers of productivity, benefiting the rest of the economy.

The macro approach to increasing productivity must therefore be to concentrate on the key sectors capable of improvement. As opposed to this, a purely micro approach focuses on SMEs and low-wage earners. There is nothing wrong with this, provided we understand that the results would not be spectacular.

Meanwhile, the share of manufacturing in GDP has shrunk from 27 per cent in 2005 to only 18 per cent last year.

Such a sectoral shift towards less productive sectors has had an adverse impact on overall productivity performance. Moreover, slowing deployment of machinery and equipment, software and R&D by firms also contributed to the poor productivity performance,

according to the Economic Survey of Singapore 2014.

■ MEASURING PRODUCTIVITY

I have not seen any index of output per man hour for Singapore, only output per worker. Consider this: Over the past 10 years, our labour force participation rate has gone up from 63 to 67 per cent. Most of the increase came from employing more retirees and having more housewives working. From 2004-14, the labour force participation rate of people aged 55-59 rose from 59 per cent to 74 per cent while that of the 60-64 age group rose from 35 per cent to 60 per cent.

Do we realise that most of these additions to the workforce are part-timers and may not have relevant skills? There are at least two reasons for this, the first being that retirees may not have the energy for a full day's work, while housewives may prefer part-time work.

The second, more important, reason has to do with how the Ministry of Manpower allows firms to qualify for foreign worker quotas. According to its formula, two part-time Singaporean workers count as one full-time worker! This must be creating an incentive to grab any Singaporean part-timer. Recall the phantom worker phenomenon?

■ SKILLSFUTURE

The recent Budget promulgated a

bold initiative to upgrade skills for everyone. The Government will subsidise skills formation and upgrading on a lifelong basis. From next year, every Singaporean aged 25 and above will have a SkillsFuture Credit account with an initial \$500 for skills upgrading. Sectoral needs are being identified in the process.

But what has to date deterred low-wage earners who are below 35 years of age from upgrading is the need to co-pay at least 10 per cent from their own meagre resources. (Older workers have to foot 5 per cent). They will also need an adequate income during the re-training (Some schemes provide \$4.50 per hour.) It might be better not to give \$500 to every Singaporean but to use the resources to raise the subsidies and income supplements for needy workers.

■ SKILLS MISMATCH

No matter how good the programmes, skills mismatch will always be a problem. Educational institutions are being encouraged to develop more industry-relevant curricula. However, diploma holders and graduates may not pursue jobs that utilise their training. For example, there are lawyers, doctors and engineers who do not pursue their professions.

Moreover, the demands of new manufacturing and technologies are for high-end skills and very low-end ones. Mid-skill jobs

seem to have disappeared in several advanced countries while more low-skill jobs have been created.

We need to scrutinise the types of training programmes and skills produced. We should not neglect the valuable role foreign skilled labour can play in alleviating the skills mismatch. Otherwise, we shall be like Britain and the United States, where millions of jobs go a-begging because local skills are lacking. The unfortunate result is a much less vibrant economy.

■ GRADUATE UNDEREMPLOYMENT AND UNEMPLOYMENT

Demand for university degrees continues to grow alarmingly in Singapore, leading to an increase in the number of government-supported institutions and the proliferation of private schools granting external degrees from foreign universities. While some of the latter undoubtedly provide quality education, not all do.

Commercial motives do not always engender quality output in educational institutions. Recent reports point to evidence of graduate underemployment in which graduates do jobs that do not require degrees and pay less. If the economy slows further, it would not be inconceivable to see unemployment of graduates.

Recently, the Government sensibly moved to allow promotions in the civil service on merit rather than on paper qualifications. Hopefully, that would dampen the

demand for ever-increasing tertiary qualifications.

■ FOREIGN MIGRANT WORKERS

The Government has to tweak its foreign-worker policy. Too many low-wage workers cause congestion and resentment. Low-wage workers should be reserved for essential sectors like cleaning and healthcare, particularly for the aged. Other sectors such as manufacturing, marine and construction would benefit from more skilled migrants instead of low-skill ones.

Migrant workers affect the economy in three ways: Competition, complementarity and growth impetus. Competition for jobs and promotion creates obvious negative reactions among locals, especially when they feel discriminated against. More can be done on this.

However, fair competition in skills and competence helps sharpen local workers' edge and prepares local companies to compete in global markets.

Having migrant workers can also help the economy grow, if they possess skills locals lack. For example, manufacturing needs engineers, but locals find the wages too low and promotions too slow. Denying factories that need engineers access to migrant labour means lower production and their eventual closure and relocation. The country loses out as a whole.

■ ENTREPRENEURIAL TALENT

A vital role of talented migrants is in the generation of new firms, industries and jobs. For every 1,000 migrants who take our jobs, if one of them succeeds as an entrepreneur, that could mean thousands of jobs being created. Without a vibrant economy, Singapore graduates cannot expect good jobs and pay. In Europe and the US after the 2008 financial crisis, many graduates waited a long time after graduating to land a job.

Investment guru Jim Rogers, who has settled in Singapore with his family, believes that limiting immigration will be detrimental to Singapore's development. In a June 6, 2013, Forbes article, he was quoted as saying: "One of the reasons why Singapore has been successful is that it encouraged immigration and nearly everyone in Singapore is an immigrant or family of an immigrant."

He added, with an air of conviction: "Every country in history that has a backlash against foreigners is going to go into decline."

Singapore prospered because of visionary leaders like Mr Lee Kuan Yew and his early Cabinet. They leapfrogged the confines of Singapore and the region to reach out to the world, harnessing MNCs and foreign talent and skills to tap global markets.

Mr Lee has bequeathed us a great legacy of a global city with a vibrant economy that is the envy of many. Like him, we can choose to be visionaries, striving for excellence by benchmarking ourselves against the best in the world, never shrinking from competition, never daunted by failure – or we can retreat because of fear of competition from foreigners and seek to protect what we have, to face a future of mediocrity.

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