More productive economy still needed

The Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy estimates that the average labour productivity level in Singapore's major industries over the past decade was less than 60 per cent of the levels in the US. ST PHOTO: LAU FOOK KONG

By TAN KHEE GIAP and TAN KONG YAM

NOT all economies are ready as the process of globalisation intensifies. Some developed countries have been found wanting in terms of international competitiveness, skill obsolescence and widening income disparities. Portugal, Italy, Ireland, Greece and Spain are among the more glaring of recent examples.

Singapore – being a small, open, export-oriented economy – is especially vulnerable to global competition. It has to always keep its edge to survive. Hence productivity growth – not across the board wage increases – has to be the key to improving the well-being of Singapore's workforce, especially low-wage workers.

The private sector – especially the small and medium-sized enterprises (SMEs) – has to take the lead in this endeavour, with the Government watching over the process.

Singapore is certainly not yet an ultra-efficient economy. There is considerable room for productivity growth.

According to the estimations of the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy, the average labour productivity level in Singapore's major industries over the past decade was less than 60 per cent of the levels in the US.

Construction is less than 30 per cent of US levels, information and communications less than 40 per cent, and hotels and restaurants less than 50 per cent.

Even the more competitive industries – such as financial services (less than 60 per cent of US levels) transportation and storage (less than 80 per cent), wholesale and retail trade (less than 70 per cent) – are still less productive than their US counterparts.

It is simply not true that the productivity of Singaporeans, and hence their wages, cannot be improved. Of course a bus driver cannot drive two buses at the same time, as Dr Tan Meng Wah wrote in these pages last week.

But in vast swathes of the service sector – not to mention in construction and the marine sector – it is clear that we employ more workers to produce the same output compared to other developed countries. It is plainly wrong to assert that there is limited or no scope for productivity improvements in Singapore.

But while productivity is important to maintain competitiveness, it cannot account fully for the widening income gap of today.

As Singapore moves up the technological ladder, the skill sets possessed by Singaporeans born in 1950s and 1960s are fast becoming irrelevant for the higher value-added jobs that are being generated. Singaporeans with secondary or lower education are becoming increasingly trapped in an economic underclass.

It is pertinent to note that latest data from the Department of Statistics reveals that SMEs make up 99 per cent of the 160,000 enterprises in Singapore. They employ 60 per cent of the total workforce and contribute more than 50 per cent of Singapore's gross domestic product.

SMEs are thus a significant social stabiliser not to be overlooked especially in times of externally-driven shocks. Yet years of brutal competition have contributed to the prolonged low productivity among SMEs.

To ensure thriving SMEs, we must monitor other components of business costs such as rentals, fees and charges. It should be noted that once these business costs are taken as given, inevitably the squeeze would be on wage cost.

> **Sharpening Singapore's international competitiveness and plugging into the globalisation process are the only ways to maintain Singapore's first world living standard. Slower growth is certainly not the way to ease social strains.**

Numerous government agencies such as Spring Singapore, International Enterprise and the Economic Development Board are making an effort to nurture Singaporean SMEs through improved management, leadership upgrading, establishing better international networks, and imparting marketing and branding skills. These initiatives would make a difference in creating employment opportunities for Singaporeans, raising productivity and increasing wages among SMEs.

A fair sharing of productivity gains is an important part of the social contract and the Government should not leave the social compact to the uncertainty of market forces.

In particular, employers must give our lower-wage workers a fair share of productivity gains. The Government's Inclusive Growth Programme is structured to ensure that employers are able to raise productivity plus give low-wage workers a big pay rise – basic pay, not just bonuses.

In addition, we are happy to see the Government intervene to help those who are lower paid through special transfers such as the Workfare Income Supplement (WIS) scheme.

The importance of the wage-productivity-competitiveness nexus is not just a standard assumption in microeconomic theory. Evidence of its empirical relevance is plentiful.

The sustained competitiveness of the German economy and the significant decline in competitiveness of the Italian, Greek, Spanish and Portuguese economies is illustrative.

German wage compensation more or less tracked labour productivity gains, exceeding it by only 5 per cent over the recent decade.

In the case of the other four countries, wage compensation exceeded productivity gain by between 25 per cent and 30 per cent over the same period.

The sustained competitiveness of the German economy compared to the other four troubled economies is a reminder to Singapore of the danger of allowing wage compensation to outpace productivity gain.

Sharpening Singapore's international competitiveness and plugging into the globalisation process are the only ways to maintain Singapore's first world living standard. Slower growth is certainly not the way to ease social strains.

On the contrary, we must forge ahead with an optimal growth path and use the surpluses generated to ease the pains of unemployment and income disparity due to exogenous shocks.

In the process of wealth creation for all under intense global competition, economic and social trade-offs are unavoidable.

A courageous government would confront these trade-offs head on and explain the necessary, but more often than not unpopular, public policy options.

Economic restructuring and productivity upgrading is an on-going process of continuing self-renewal.

We therefore propose an independent, bi-annual, nationwide wages-productivity-competitiveness (WPC) taskforce be established within the National Productivity and Continuing Education Council.

Its terms of reference would be as follows:

- Evaluate the social profile and constraints of low-wage Singaporeans and the emerging economic underclass.
- Better understand industry-specific manpower issues, business difficulties, labour market requirements and expectations.
- Explain and educate the public at large on the urgency of the productivity drive, international labour market competition and improved work discipline.

Fortunately, unlike many European economies, Singapore does not need wages to lag behind productivity gains. Indeed, over the long term, real wages have kept pace with productivity.

Over the short term, from one year to the next, many things may come in between real wages and productivity.

It is imperative to bear in mind that, without productivity gains, wages and profits are zero sum games. With productivity gains, they become positive sum games.

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Don't write off Japan's electronics giants

By BRUCE GALE
SENIOR WRITER

An electronics store in Tokyo. Writing Japanese electronics companies off as behemoths unable to adapt to new circumstances seems premature. PHOTO: REUTERS

JAPAN'S electronics giants, say the pundits, are on the brink of collapse. Not only have they become less competitive than their cheaper South Korean rivals, they have also lost the lead they once held in cutting-edge technologies. But while there is no shortage of evidence to support these ideas, it would be unwise to write off the Japanese just yet.

The critics point to companies such as Sony, Panasonic and Sharp, three of Japan's biggest consumer electronics companies. All recently announced massive losses, while competitors such as Apple and South Korea's Samsung have continued to grow.

Last month, Sony announced a US$5.7 billion (S$7.3 billion) loss for the fiscal year ending in March, its fourth consecutive year in the red. Sharp lost US$4.7 billion, prompting the company to sell 9.9 per cent of its shares to Taiwan's Hon Hai Group. Panasonic's losses were even larger, chalking up a record US$9.7 billion. Other less well-known Japanese companies such as semiconductor maker Renesas Electronics have also been reporting losses.

Osaka-based Panasonic is considering shrinking its main office by between 3,000 and 4,000 staff, mainly through early retirements and employee transfers to subsidiaries. The company has already announced a major restructuring of its liquid crystal display (LCD) manufacturing division, and is reportedly considering shifting all of its mobile phone handset production overseas amid high costs at home.

In early April, Sony similarly announced it was laying off 10,000 employees, or about 6 per cent of its workforce. Renesas Electronics is also shedding employees.

Explaining these setbacks, Japanese electronics firms point to the appreciation of the yen, which makes exporters' products less competitive overseas. Falling prices and slow demand at home have also eaten into profits.

But critics say these companies only have themselves to blame. A recent article in Fortune magazine cited arrogance and failure to follow the changes of the times. Japanese electronics companies, added the magazine, failed to understand the significance of the Web in changing consumer preferences. They also made the critical mistake of cutting back spending on R&D.

There is some truth in this, of course. But Japanese electronics companies should not take all the blame. Writing them off as behemoths unable to adapt to new circumstances also seems premature.

A strong currency makes life tough when you are faced with increasingly sophisticated rivals making cheaper products.

And the Japanese companies that moved production to Thailand in an effort to lower costs can hardly be blamed for the severe flooding in that country that disrupted production last year.

Not all Japanese electronics manufacturers have been neglecting R&D either. Earlier this month, Sharp announced that it had developed technology to make images more vivid on organic electroluminescent (OEL) display panels for smartphones and other electronic products.

The technology involves use of an indium-gallium-zinc oxide semiconductor, a new material Sharp already employs to increase the picture definition on its liquid crystal panels.

The LCD display requires a light source in the back of a screen, while in the OEL panel, organic materials sandwiched by glass sheets illuminate by themselves, producing a thinner, brighter screen.

Admittedly, R&D has sometimes focused on the wrong areas. Panasonic made "excessive" investments in plasma and LCD televisions, president Fumio Ohtsubo told reporters last week. With television sales falling, "we regret the decision we made".

And while some of the major players in the Japanese electronics industry can be accused of losing sight of customer preferences, others in the broader industry remain very customer-focused.

Many people in Japan have been concerned about radiation since the quake and tsunami of March 2011 sparked a crisis at the Fukushima atomic plant.

Realising that worries about radioactive leaks have sent demand for radiation-measuring devices soaring, local mobile phone operator Softbank last month unveiled a smartphone that can do the job.

New corporate structures are also being explored in an effort to regain market share from South Korean rivals.

Reports say Sony and Panasonic are considering joining forces to produce next-generation television.

Meanwhile, the idea that Japanese electronics firms are in decline globally needs to be balanced by the realisation that – in some markets at least – they are doing very well indeed.

In India especially, companies such as Sony and Panasonic have more than held their own against the onslaught of South Korean rivals.

Indian consumers, say local marketing experts, still trust Japanese brands to deliver quality.

Japanese electronics companies may be struggling, but it is too early to write them off.

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