What are the limitations and challenges of Singapore's economic growth model? And what reforms and transformations do you think are required to overcome those limitations and challenges, particularly in terms of productivity and innovation?

Singapore's model of economic growth over the decades has been premised on a stepladder strategy of export-oriented, low cost, labour-intensive manufactured products, with the longer term aim of moving up the value chain as the country developed. This largely mirrored the strategies of the Asian Tiger economies of the 1960s to 70s, and was exquisite in its simplicity - every country could, at different stages of its development, first serve as a cost-competitive manufacturing location before traversing into a higher-value innovation hub (Ho, 2003). In Singapore's case, her economic strategy is also sited within the dictum of geography as destiny, the lack of a hinterland and natural resources, and consequently the focus on human capital towards the vision of a skilled workforce - both for the nation's industrialisation efforts and to provide for mass employment in its formative years.

The essay's thesis is that the low wage labour-intensive economic model, while a source of economic competitiveness in the short term, if pursued over long periods of time, contributes towards low labour productivity. To illustrate this, the essay begins by briefly tracing the historical roots within the political economy of Singapore's reliance on low cost labour. Next, it builds on these implications to show how the business ecosystem in Singapore has entrenched practices that depend on the easy availability of labour. Lastly, this essay scopes the role that the government and other institutions in Singapore must play in the country's current productivity drive.

The political economic context of Singapore's dependence on labour

The economic realities of Singapore's early independence years led to the adoption of a strategy hinged on mass employment. A United Nations Survey Mission led by Albert Winsemius to Singapore highlighted the low cost of labour (relative to its quality) as a boon to the country's industrialisation efforts. From the onset, these efforts relied heavily on foreign capital with its attendant technology transfer and market access.

The success of Singapore's industrialisation efforts, having quickly exhausted domestic sources of labour by the early 1970s, then evolved into an externally oriented strategy with the importing of labour to fuel economic growth. This growth imperative was tied to the ruling party's belief that its social compact with the electorate depended on a performance legitimacy judged by its ability to deliver rising standards of living, the most convenient yardstick of which was economic growth as measured by gross domestic product.

This "location-based growth strategy" depended on, among other factors, keeping labour costs low for businesses (Asher and Chang, 2013) while relying extensively on foreign workers at both ends of the skill spectrum. The strategy of boosting competitiveness through suppressing labour costs became an instrument that policymakers reached for to kick start economic growth during periods of economic contraction. This can be seen in cuts to Central Provident Fund (CPF) contribution rates in the recessions of 1985 and 1998, and more recently in subsidies implemented from 2009 onwards in the form of the Jobs Credit Scheme and the Wage Credit Scheme.

In addition to direct subsidy of wages for some resident workers, wage costs have been kept low for businesses mainly by granting easy access to imported labour. In 2015, there were 1.39 million foreigners (38.5%) in a workforce of 3.61 million (MOM, 2016). The bulk of these foreign workers (997,100 or 72.7%) held work permits, indicating that they were employed in lower paying jobs in the construction, manufacturing, marine, process or services sector.

How low wages can boost short run competitiveness but negatively impact labour productivity in the long run

Singapore's over-reliance on labour imports as an export competitiveness enhancing tool is likely to be one of the main causes of the country's stagnant labour productivity growth. Foreign workers were portrayed as a necessary but temporary feature of the economy up until the mid-1980s. Instead, they have now become a permanent feature of the economic landscape. Foreign workers may help tradable sectors boost their competitiveness, but by relieving cost pressures on businesses, companies become less incentivised in the long run to reinvent their business processes to more efficiently utilise labour.

By contrast, countries like Sweden and Germany do not depend on wage suppression to enhance export competitiveness (Atkinson, 2013). Companies in such countries have instead been forced by decades of labour scarcity to adjust their business practices to remain profitable in high wage environments. Both Sweden and Germany also have strong legacies of union representation dating back to the mid-19th century, lending bargaining power to their respective labour forces.

The Singapore government has maintained the stance that sustainable wage growth can only come through increases in labour productivity. However, wage growth actually lagged productivity growth from 2001 to 2010 (MTI, 2011). In this decade, the population of Singapore grew rapidly from 4.03 million to 5.08 million. Wage growth began outpacing productivity growth from 2010 (MTI, 2016), a possible consequence of the tightening of immigration policies pre-General Elections 2011, bolstering the broader point of wage levels being tied to immigration controls and a tight labour market.

In reality, wages are largely determined through immigration controls that affect the scarcity of labour experienced by employers and therefore the wages they are willing to pay (Ha-Joon Chang, 2014). Although one would expect the low rate of unemployment (below 3% for residents) in Singapore translating to inflationary pressures on wages, the market for labour in Singapore in effect operates like one that has a "reserve army of labour" because of the availability of labour from foreign sources.

The high proportion of foreign labour in non-tradable sectors in Singapore has also driven down the cost of domestic services that many Singaporeans take for granted. Eating out regularly, live-in domestic help, and widespread cleaning services are luxuries that are neither widely enjoyed nor broadly affordable in other developed economies. The political costs of a short term spike in the price for such conveniences, even when weighed against the upside of an economy that restructures to more efficiently utilise labour in the longer term, might be too much to bear.

Despite the low wage share of GDP, the purchasing power parity (PPP)-adjusted wages in Singapore are on average higher than other countries with higher wage shares (MTI, 2013). However, it is precisely the wide availability of low cost labour that is behind both the low wage share in the economy, as well as the upwards adjustment of wages in PPP terms. In turn, wide access to cheap services deters the bargaining power of workers in Singapore lobbying for higher wages. Comparatively, other countries (like Britain and the US) that have relied on falling wages to boost competitiveness have enabled companies to make careless use of low cost labour, ensnaring their economies in the low-productivity trap (The Economist, 2016). A local example is requiring 70,000 cleaners for a population of 5 million people, while Taipei with a larger population of 7 million has only about 5,000 cleaners (Chang, Feb 16 2015).

Entrenched business practices in Singapore making unproductive use of labour

The extent to which businesses rely on such labour in Singapore can be observed in the joint open letter that nine chambers of commerce addressed to the Ministry of Manpower to protest the tighter restrictions on foreign labour outlined in the 2013 Population White Paper. Notably, the White Paper did not propose a reduction in the absolute number of foreign workers, only that the rate of growth of the labour force should slow from the 3.3 per cent per year between 1980 and 2010 to a more sustainable rate of 1 per cent per cent per year.

Belatedly, the Singapore government has also recognised that a tight labour market has a role to play in spurring economic restructuring (Hussain, April 28 2014). On top of the economic imperative, this recent tightening of the inflow of foreign labour also comes from the recognition that foreign labour at its current levels is sorely testing the country's societal and infrastructural carrying capacities.

At the same time, the government has started other initiatives to force companies to pay more for labour such as sectoral minimum wages, which is part of the Progressive Wage Model. In addition, the government has announced its intention to increase the per capita levies that businesses pay to hire foreign labour. Taken together, these measures are good steps towards getting businesses to pay wages that better reflect the true scarcity of labour in Singapore.

Unfortunately, some social welfare policies may also shield businesses from the true cost of labour in Singapore. Although programmes such as the Workfare Income Supplement (WIS) meaningfully tie welfare payments to gainful employment, these income top ups may have the side effect of masking the true cost of labour from employers, thereby allowing firms to continue to deploy labour profitably in marginal occupations. While these social welfare programmes are indispensable in raising incomes at the bottom levels, there needs to be careful coordination with other immigration and wage policies to ensure that the role of wages as a signalling mechanism is not diluted.

The way forward

The roots of Singapore's current productivity woes go back, at least in part, to the country's persistent dependence on low cost labour. This has birthed a business ecosystem heavily reliant on said labour, adding to the complexity of economic structural change amidst an already volatile global climate. Recent efforts to tighten the labour market have managed to increase median wages substantially in the last two years without affecting Singapore's unemployment rate. The government must persist in this vein, applying pressure to companies resistant to change and rebuffing the pressures of corporate lobbyists dependent on such labour, all the while trusting in the natural economic cycle of creative destruction and the adaptability of the business ecosystem.

Wages on the lower end of the spectrum need to continue to rise. The government has implicitly acknowledged this by imposing sectorial minimum wages and should continue monitoring sectors for wages stagnation. Failing to do so can spiral such sectors into the low wage trap of first driving away Singaporean workers before cyclically reinforcing its low wage foreign worker bias, resulting in a labour-intensive low-productivity sector.

The nurturing of innovation and entrepreneurship so that human capital is creatively and efficiently utilised is also crucial. The introduction of the SkillsFuture movement earlier this year can play a key role in the transition towards a less qualification-oriented and more skill-focused economy. Without judging the nascent scheme prematurely, effort should also be applied towards educating human resource practitioners who might face difficulty looking beyond the more salient academic credentials they used to rely on when making hiring decisions. An economy that efficiently allocates jobs to well-suited candidates is the foundation of a motivated workforce.

A rethink of Singapore's social support philosophy could also be in order. Singapore's model of social security is premised on employment; this is evident through the use of social security mechanisms such as CPF and WIS in providing for retirement adequacy. This can mean that while unemployment figures are low, productivity levels are negatively skewed due to access to a demography of local low skilled workers driving wages down. Taking into account the longer term trend of workers tapping onto the innovative "gig economy" for economic opportunities rather than relying on traditional notions of employment, the government should also better articulate a more robust safety net that captures those that fall outside the reach of the CPF. Recent calls by economists (Neo, March 30 2016) for unemployment benefits to encourage the necessary risk-taking behaviour needed for a more innovative economy might be dismissed by the cynical as irony, but within the context of the conservative, risk-averse environment that is Singapore, might be the spur needed to boost our productivity drive.

Whether Singapore escapes the low productivity quagmire depends on the government's audaciousness in charting a path different from its historical tendencies. Despite the initial complications of change on as extensive a scale as this, her people will in the long term be the better for it.

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