



A21 Middle East crisis has a long history

A21 Pakatan Rakyat could fall apart

## Region to gain if haze law has effect

**T**HE use of state legislation to deal with a multi-faceted, transnational scourge is often limited in application. This could be why the framers of Singapore's enabling law to act against perpetrators of haze pollution were careful not to raise expectations. Passage of the Transboundary Haze Pollution Act by Parliament last week may have cumulative bite if more countries in the path of the pollutants adopted Singapore's approach, to complement the Asean-wide anti-haze agreement and tackle the problem as a regional effort. But national economic interest is a barrier as Indonesia and Malaysia – besides Singapore, to a smaller extent – are home to conglomerates with plantation interests in South-

east Asia, mainly in oil palm cultivation. Asean foreign ministers who met in Myanmar at the weekend urged Indonesia, the only holdout, to ratify the Asean pact which after a decade has scarcely lived up to its name. With President-elect Joko Widodo's administration soon to take charge in Jakarta, diplomatic efforts need to be stepped up to achieve compliance by the primary source country of the seasonal pollution. Only then could exchange of technical data like beneficial plantation ownership, forestry maps and satellite imagery of hot spots be used for purposes of containment and also prosecution.

Minister for the Environment and Water Resources Vivian Balakrishnan dis-

closed to Parliament that Indonesian environmental officials had been invited to give their comment on the Singapore draft law. The goodwill and mutual concern evinced will smoothen collaboration on a matter which has direct impact on the state of public health and the economy of both countries. Indonesians have choked as badly on the haze as have Singaporeans, but the island state's smallness makes it a major social, economic and environmental concern.

Although the legal move is by necessity circumscribed as pursuing cases in a foreign jurisdiction is not the intention given the current scope, the effect is not to be underestimated, either. The Act

empowers prosecutors to question representatives of suspected offending companies who happen to visit Singapore, even if these firms have no registered office or assets here. They may be charged if pollution attributed to their company's activity exceeded 100 on the Pollutant Standards Index for a full day or more. Companies and individuals acting in concert may also sue for damages. Offenders might think twice if lawsuits eventuate.

It remains to be seen if legal sanctions can exert a brake on recalcitrant polluters. But the true worth comes from the message put out to governments about Singapore's serious intent to help bring a persistent problem under control.

10 years ago today, Mr Lee Hsien Loong became the third Prime Minister of Singapore. An economist looks at Singapore's growth trajectory in the last decade.

## Growth in a decade of shocks



EYE ON THE ECONOMY

By TAN KONG YAM  
FOR THE STRAITS TIMES

**T**HE Singapore economy has performed well over the past 10 years. Over the 2004-2013 period, annual gross domestic product growth has averaged 6.3 per cent.

GDP per capita more than doubled from US\$27,403 in 2004 (ranked 31st globally) to US\$55,183 (S\$69,091) last year (ranked 9th globally), while the inflation rate has been subdued, averaging 2.7 per cent a year.

Meanwhile, the Singapore dollar has strengthened against the United States dollar by 34 per cent. Singapore's foreign reserves have ballooned from US\$98 billion in January 2004 to US\$273 billion by December 2013.

One way to characterise the Singapore economy since the late 1990s is to think of it as a complex system experiencing unprecedentedly large and frequent external shocks. These include the Asian financial crisis in 1998, followed closely by the technology bubble bust in 2001, the Sars crisis in 2003 and the 2009 global financial crisis. In other words, there were four serious crises over a period of only 10 to 15 years. This compares with only one recession (in 1985) over the 33-year period 1965 to 1997. Viewed from this perspective, the credible economic performance in the recent decade is even more impressive.

In retrospect, it is clear this growth involved an over-expansion in foreign labour that helped to sustain some firms whose cost structure might not have been appropriate for long-term national competitiveness. But without the benefit of hindsight, one can hardly blame the "harvest while you can" strategy.

### Declining wage share

THE wage shares of GDP fell from 45 per cent in 2001 to 39 per cent in 2007. The steep decline reflected the substantial inflow of foreign workers, which weakened the bargaining power of domestic and foreign labour, and allowed rapid economic growth to increase company profits instead. Some of the gains could also have gone to the public sector as a result of higher service charges.

Consequently, foreign employment growth rate rose from a negative 6.3 per cent in 2002 to 8 per cent in 2005 to 19 per cent in 2007. These policies have been favourable to foreigners as well as

local employers and companies, all at the expense of the local residents, whose economic, social and physical space has been circumscribed.

Over the 2002-2011 period, unit labour costs in the manufacturing sector declined by an annual average rate of 3.2 per cent, leading to substantial improvement in international competitiveness at the expense of labour returns. Wage growth was significantly below even the modest growth in productivity.

Over 2001-2007, income inequality in Singapore worsened, with real median income of the highest 10 per cent rising faster than the 50th percentile as well as the lowest 10 per cent.

The intense pressure of globalisation, relocation of factories to China and Asean as well as technological progress have exerted strong downward pressure on wages of the unskilled and semi-skilled workers, while the international arbitrage pressure on the highly skilled workers at the top has pulled up wages at the top end.

This is not unique to Singapore. Data from the Organisation for Economic Cooperation and Development indicate that the same phenomenon was observed in the US, Canada, Britain, Germany and Australia, but was much less acute in the Nordic countries like Norway, Sweden, Finland and Denmark.

For comparable Asian countries like South Korea, the rise in income inequality was equally substantial despite Seoul's totally closed foreign labour policy. This indicates that the forces of globalisation and relocation of factories were probably more significant than the liberal foreign labour policy in affecting income inequality in Singapore during this period.

Real median income of the lowest 10 per cent declined by 9 per cent over 2001-2007. Most incomes remained flat in real terms. Only the highest income group – those earning more than 95 per cent of the total workforce – rose significantly. They enjoyed an 18.6 per cent average wage rise.

As a result, the difference in wages between the highest and lowest wage earners increased to the point where the ratio was higher than that of most other countries of comparable income level.

Adjusting for the various public policy subsidies and transfers would likely reduce the disparity, but the trend would remain.

### Redressing the balance

SINCE 2010, the balance has been



gradually redressed. The unit labour cost in the manufacturing sector increased by 3.3 per cent in 2012, 2.8 per cent in 2013 and another one per cent in the first quarter of 2014 over the preceding quarter. With government policies now shifting towards the protection of the local population, employers are now crying foul.

The restructuring process and productivity drive for the period 2011-2020 involved an effort to shift the power balance from employers to employees, especially Singapore residents. Citizens used their voting power in the General Election in 2011 to tilt public and employment policies in their favour, against non-voting foreigners and the limited voting power of employer groups.

In 2010, the Economic Strategies Committee stipulated that the official target was for productivity to increase by 2 per cent to 3 per cent per year over the 10 years from 2011 to 2020 to ensure sustainable and quality growth.

### New indicators needed?

BUT while there are increasing signs of stress in the economy as the new model takes root, it might be useful to examine more fundamental forces driving the

economy. Important measures of the fundamental health of the economy include unit labour costs and the unit business cost of manufacturing, which can be adjusted for real exchange rate effect. They are useful leading indicators, like chest pain or clogged arteries in predicting an impending heart attack. Currently, their alarms do not appear to be too loud.

But these indicators were developed some time ago and there have been major structural shifts in the economy since then. In particular, the overall unit labour cost in manufacturing masks serious differences among firms, often distorted by large swings in output from pharmaceutical and the electronics industries.

It would also be more appropriate to examine the unit labour cost for small and medium-sized enterprises more closely at the various industry levels to see whether some economic arteries could be clogged. Internal studies may have been done on these issues, but they have not been published.

International Enterprise Singapore, the statutory board that facilitates the overseas growth of Singapore-based companies and promotes international trade, has monthly detailed trade data dis-

gregated up to 10-digit levels. This enables us to trace the export of very specific products to various markets across the world. By mapping with industry survey information at the company level, it is possible to trace the export of many products to various markets by the size of the company.

It is even possible to examine the effect of the foreign proportion of the labour force and its evolution and effect on output and export competitiveness of various detailed industry over the past several years. If the complaints of business represent genuine pain, this may be reflected in such data.

Such complaints, if genuine and not addressed in a timely fashion, could have serious economic and political consequences.

### Long-term issues

THERE is substantial disagreement about the pace and nature of the current economic changes.

This is because at the fundamental level, this restructuring is not a purely economic exercise, but a highly political process that involves a significant redistribution of wealth among various groups in our society.

In 1984, as a young economist in the Monetary Authority of Sin-

gapore (MAS), I had the privilege of working for the late Dr Goh Keng Swee, who was then the chairman of MAS. Amid the sustained prosperity over the previous 20 years, Singapore enjoyed full employment, strong wage increases and job-hopping. There were even anecdotes of workers using their retrenchment benefits to go on holiday.

While eating leftover bean sprouts warmed up from the previous day, Dr Goh expressed his concern. I mumbled something like sustained prosperity leads to calcification, complacency, a weakening of the immune system and inevitable collective blind spots and hubris. He nodded his head, and, after surveying a pile of containers along the Tanjong Pagar port terminal through the window, he suddenly turned around. With his formidably penetrating eyes gazing at me, he blurted out: "Kong Yam, maybe we should engineer periodic recessions to strengthen our immune system."

He was definitely not joking. Since 1998, we have not needed to engineer such periodic recessions. The global economy and increasing volatility and shocks have seen to that.

The Singapore economy might be small but it is not an easy task to steer it on a steady course. I had some modest experience during the period 1999-2002, when I was chief economist, and during an earlier period when I worked as an assistant to Dr Goh.

While we should strive hard to avoid recessions and suffering, Dr Goh's wisdom implies that some unanticipated shocks and periodic uncertainty is not necessarily bad. Provided they are not overwhelming, they sharpen our individual and collective senses, strengthen the immune system, get the adrenaline flowing and prevent accumulation of vested interests.

In our 50-year journey as an independent nation, we have always risen up and overcome new challenges, thanks to a resilient people, strong, nimble leadership and robust institutions.

Some Singaporeans and foreign analysts have expressed concern about the long-term sustainability of our tiny island nation.

But as the fate of dinosaurs about 65 million years ago illustrates, it is not necessarily the large and powerful that survive. Today's humble sparrow – scientists believe birds to be descendants of dinosaurs – thrives.

The nimble and adaptable can do very well indeed.

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