

# Tripartism In Wage Setting And Wage Flexibility, A Singapore Case Study



A collaboration between the Lee Kuan Yew School of Public Policy and Tripartite Collective, with contributions from the Ministry of Manpower, National Trades Union Congress, Singapore National Employers Federation, and National Wages Council.

# Content

---

<b>1. Introduction</b>	<b>04</b>
<b>2. Singapore's tripartism, a brief history</b>	<b>05</b>
2.1 Singapore's dire economic situation in the 1960s	05
2.2 Getting labour unrest under control	07
2.3 The National Wages Council and annual wage guidelines	08
<b>3. Setting wage guidelines to support economic development</b>	<b>10</b>
3.1 The non-mandatory nature of NWC wage guidelines	12
3.2 Balancing wage growth with economic competitiveness	14
3.3 Quantitative vs. qualitative wage guidelines	16
<b>4. Wage policy and economic restructuring</b>	<b>22</b>
4.1 Moving away from labour-intensive industries	22
4.2 Increasing labour force participation	23
4.3 Reducing over-reliance on migrant labour	23
4.4 Tackling wage rigidity	24
4.5 The 1997 Asian financial crisis	26
4.6 The COVID-19 pandemic in 2020	27
<b>5. Conclusion</b>	<b>28</b>
<b>6. Discussion questions</b>	<b>29</b>
<b>7. Annex 1: NWC members for 2022/2023</b>	<b>30</b>
<b>8. Annex 2: The role of social dialogue in wage determination</b>	<b>32</b>
<b>9. Annex 3: The Flexible Wage System (FWS)</b>	<b>33</b>
<b>10. Acknowledgements</b>	<b>35</b>

*This case was written by Hawyee Auyong under the guidance of Ng Kok Hoe and Jean Chia, Lee Kuan Yew School of Public Policy, National University of Singapore, with contributions from Tripartite Collective (TC) partners – Ministry of Manpower (MOM), National Trades Union Congress (NTUC) and Singapore National Employers Federation (SNEF) – and the National Wages Council (NWC). This case has been funded by the Lee Kuan Yew School of Public Policy.*

*The case does not reflect the views of the sponsoring organisation nor is it intended to suggest correct or incorrect handling of the situation depicted. The case is not intended to serve as a primary source of data and is meant solely for class discussion. Copyright © 2022 by the Lee Kuan Yew School of Public Policy at the National University of Singapore. All rights reserved. This publication can only be used for teaching purposes.*

---

# Tripartism In Wage Setting And Wage Flexibility, A Singapore Case Study

“

Tripartism is the result of our long history of collaborative trade unionism, and the deep bonds of trust that we have forged through successive crises. Tripartism must always be a stabilising and anchoring force for Singapore. We must continually reaffirm the bonds, and sustain them from one generation to the next.

Lee Hsien Loong, Prime Minister of Singapore, 2022<sup>1</sup>

“

[Singapore has] a non-mandatory wage system. The employers are free to ignore NWC guidelines [...] So, you can see the advantage of flexibility — flexibility in interpreting the guidelines to fit into different circumstances. But if both parties disagree, then they have the guidelines to follow.

Lim Chong Yah, National Wages Council Chairman (1972 to 2001), 2013<sup>2</sup>

“

[I]t is not easy to tread the fine line between market and social justice. Social dialogue and tripartism are significant modes of accommodation that have been devised to cope with the harshness of living with capitalism [...] Singapore has up till now succeeded in avoiding the instability of capitalist economies.

Hing Ai Yun, “Social Dialogue and The Flexible Wage System in Singapore”, 2003<sup>3</sup>

“

[N]o real progress has been made towards better industrial relations [in Singapore]. We even think that the situation is deteriorating. Anyhow, the present situation with industrial relations gives no basis for an economic expansion.

United Nations, A Proposed Industrialisation Programme for the State of Singapore, 1961<sup>4</sup>

<sup>1</sup>Prime Minister's Office Singapore. 2022. “PM Lee Hsien Loong delivered his 2022 May Day Rally speech at D'Marquee in Downtown East on 1 May 2022”. 1 May. Accessed May 11, 2022 at <https://www.pmo.gov.sg/Newsroom/PM-Lee-Hsien-Loong-at-May-Day-Rally-2022>.

<sup>2</sup>Lim, Chong Yah. 2013. *Singapore's National Wages Council: An Insider's View*. Singapore: World Scientific. Pp 22-23.

<sup>3</sup>Yun, Hing Ai. 2003. “Social Dialogue and The Flexible Wage System in Singapore.” In *Best practices in social dialogue*, by A Sivananthiran, 125-126. New Delhi: International Labor Organization (ILO). Pg 143.

<sup>4</sup>United Nations. 1961. *A Proposed Industrialisation Programme for the State of Singapore*. United Nations. Pg xi.

---

# Introduction

Since the country's independence in 1965, Singapore has experienced remarkable economic growth driven by rapid industrialisation. Singapore has also managed to navigate several episodes of economic restructuring to improve its economic competitiveness. A key factor behind these accomplishments is the collaborative approach Singapore has adopted for interactions between the government, employees, and employers. This philosophy of "tripartism" – the constructive cooperation among the government, private sector employers, and labour unions – is actualised through continual social dialogue that builds consensus around the country's developmental priorities and helps avoid disruptive labour confrontations. This approach has historically maintained high levels of employment for Singapore's workforce while delivering a stable business environment in which businesses can invest in and grow.

This case study will examine how social dialogue in Singapore's tripartite approach facilitates collaborative, problem-solving interactions. In particular, this case study will show how this approach works in the (mostly) annual issuance of wage guidelines that have benefited

employers, employees, and Singapore's economic competitiveness. We will also explore how this tripartite process facilitates the realisation of national priorities in wage policies that support Singapore's continuous economic restructuring.

The way in which industrial relations is managed in Singapore is a result of unique historical, developmental, and political factors. Other countries with different operating contexts may find it challenging – if not impossible – to emulate. Nevertheless, this case study on Singapore's tripartite approach to wage setting and wage flexibility may be useful for those seeking an understanding of how social dialogue can help countries navigate the (at times competing) interests of labour and capital in order to achieve sustainable, fair and inclusive economic growth.

To provide more historical and policy context for readers, this case study includes a number of extracts from interviews conducted by the Lee Kuan Yew School of Public Policy with key Singaporean individuals who have been involved in tripartite work.

---

# Singapore's Tripartism

## A Brief History

### Singapore's dire economic situation in the 1960s

In 1959, Singapore was granted full internal self-government by the British colonial administration. The following year in 1960, the government hosted a United Nations (UN) survey team to chart an industrialisation programme for the country. The resultant 1961 report – *A Proposed Industrialisation Programme for the State of Singapore* – described the uphill challenge that Singapore faced economically.

Singapore's population, though relatively small, was growing rapidly from high local birth rates and migration from the Malayan Peninsula. This rapid population growth far outstripped the pace of job creation, resulting in severe unemployment and underemployment. The UN report estimated that Singapore needed to create at least 200,000 jobs in the coming decade, and recommended the government implement an immediate "crash" industrialisation programme in conjunction with a 10-year plan to generate the urgently needed jobs. Despite its gloomy analysis, the report was cautiously optimistic that Singapore possessed great economic potential, noting the high quality of Singaporean employees and their suitability for manufacturing work, as well as the latent potential of Singapore's domestic industries.<sup>5</sup>

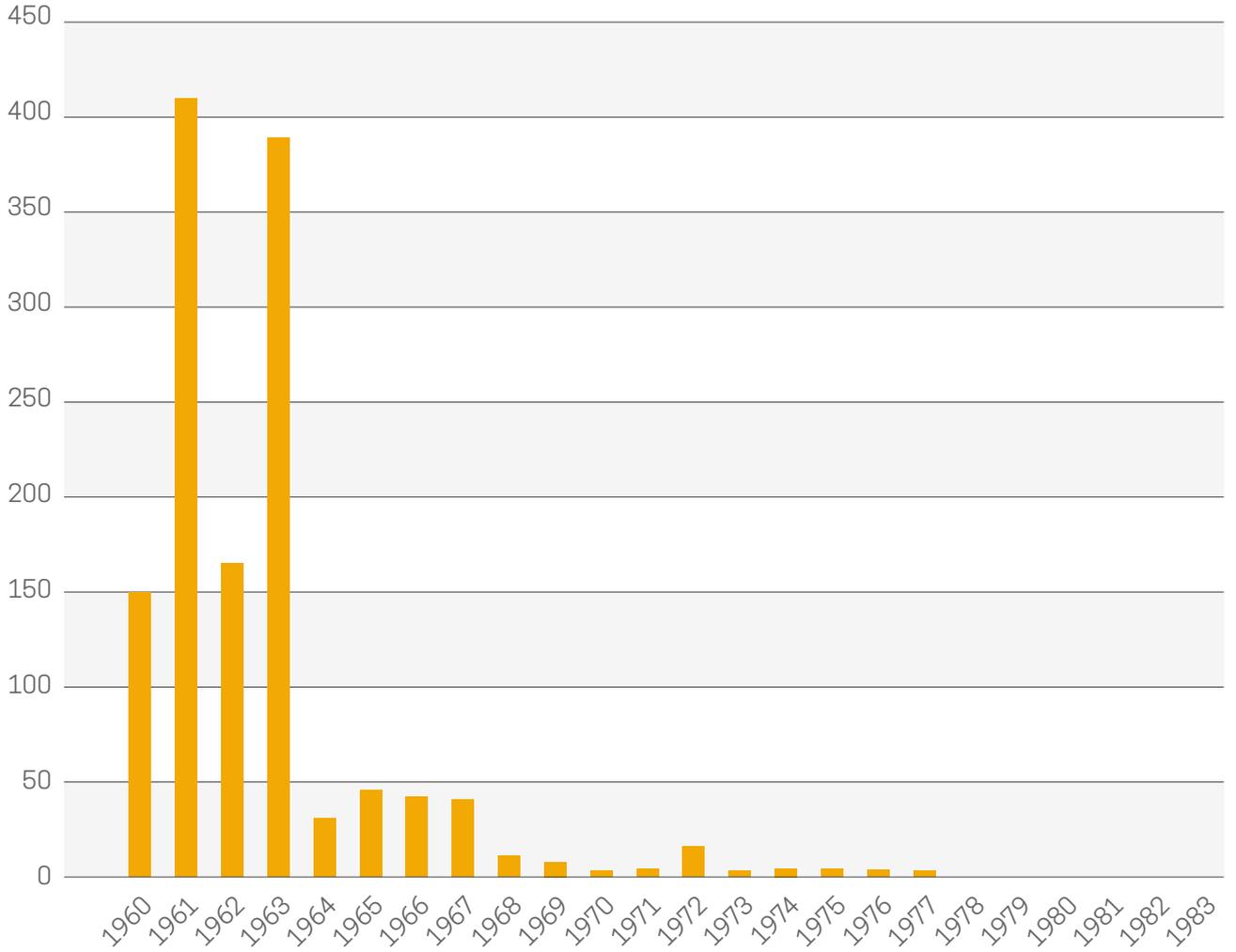
Singapore's early efforts at industrialisation experienced two major disruptions. First, Singapore joined the newly formed Malaysia in 1963 hoping to take advantage of a larger "common market". However, interference from the Malaysian federal government obstructed Singapore's economic agenda. Albert Winsemius, the UN report's lead author who later became an important economic adviser to the city-state, subsequently characterised this period of political union with Malaysia as Singapore's "lost years", and said that Singapore "at last got its hands free" when it left Malaysia in 1965 over political differences.<sup>6</sup>

<sup>5</sup>United Nations.1961. Pp ii-xx.

<sup>6</sup>Winsemius, Albert. 1984. *The Dynamics of a Developing Nation-Singapore*. Singapore. Pg 11.

Second, widespread labour unrest constantly disrupted industrial activity and hindered Singapore's industrialisation drive. At the peak of labour unrest in 1961, over 400,000 man-days were lost to such labour action (See Figure 1).

**Figure 1: Man-days lost to industrial action ('000), 1960-1983.<sup>7</sup>**



<sup>7</sup>Ibid. Chart 1.

## Getting labour unrest under control

In 1961, the National Trades Union Congress (NTUC) was established as an umbrella organisation for all labour unions. By the late 1960s, the government had largely succeeded in reining in labour unrest.<sup>8</sup> Since the NTUC's founding, the organisation has had a close working relationship with the ruling People's Action Party (PAP), a relationship that senior politicians themselves have called "symbiotic". PAP members of parliament (MPs) have consistently served in various roles in the NTUC to gain familiarity with labour issues, and prominent union leaders have also been "co-opted" into the PAP.<sup>9</sup> In particular, the position of Secretary-General at the NTUC has traditionally been occupied by PAP members.

Another important factor behind the drastic decline in labour unrest was the introduction of new employment and industrial relations legislation, such as the Industrial Relations Act of 1968, that brought important changes in the legal employment conditions that reduced the scope for collective bargaining, increased employer discretion over certain human resource matters, and prohibited unapproved labour action.<sup>10</sup> The government also simultaneously set up platforms and processes that would cultivate the support of employees and employer associations for its labour and wage policies, reducing the need

for labour confrontations. As a result of these actions and policies, Singapore has enjoyed decades of industrial peace.<sup>11</sup>

This shift away from confrontation to collaboration was not an easy process. Mary Liew, President of the NTUC (2015 to present), who had started out working for the Singapore Maritime Officers' Union (SMOU), recalls how some unions needed to drastically shift their mindset before they could engage constructively with other parties in the tripartite process.<sup>12</sup>

**"We actually had a real paradigm shift from confrontation to collaboration. So, it's something that's very close to our hearts and even where I come from, in the [SMOU], it was never like that before. We had to fight a lot with the government agency back then, even in the 1980s, but finally, we decided that it is important for us to take on a positive mindset and that is to collaborate, and to build up the trust and the relationship with our tripartite partners."**

**Mary Liew, President of the NTUC  
(2015 to present)**

<sup>8</sup> Singh, Bilveer. 2014. *Quest for political power: Communist subversion and militancy in Singapore*. Singapore: Marshall Cavendish International Asia Pte Ltd.

<sup>9</sup> Lee, Kuan Yew. 2012. "Strengthening the Symbiotic Relationship Between the Government and NTUC." In *The Papers of Lee Kuan Yew: Speeches, Interviews and Dialogues* Vol. 8: 1978-1980, by Kuan Yew Lee, 387-403. Singapore: Cengage Learning Asia Pte Ltd. Pg 387.

<sup>10</sup> Islam, Iyanatul, and Colin Kirkpatrick. 1986. "Export-led development, labour-market conditions and the distribution of income: the case of Singapore." *Cambridge Journal of Economics* 10.2 113-127. Pg 118.

<sup>11</sup> Since 1977, there have been no recorded instances of industrial stoppages until a 2012 wildcat strike by Chinese-national bus drivers working for the Singapore Mass Rapid Transit (SMRT) company (Islam, Iyanatul, and Colin Kirkpatrick. 1986. "Export-led development, labour-market conditions and the distribution of income: the case of Singapore." *Cambridge Journal of Economics* 10.2 113-127. Pg 118; Chuan, Toh Yong. 2012. "End of 26-year strike-free spell in Singapore." *The Straits Times*, November 28).

<sup>12</sup> Liew, Mary, interview by Kok Hoe Ng. 2022. *LKYSPP interview with Mary Liew* (August 10).

## The National Wages Council and annual wage guidelines

In 1972, the government established the National Wages Council (NWC) following a suggestion from Winsemius.<sup>13</sup> The idea was to create a tripartite organisation to facilitate social dialogue<sup>14</sup> among the government, labour unions, and employer associations on wage-related issues. **Annex 1: NWC members for 2022/2023** lists the current NWC members.

There are three parties (government, employers, and employees) in the NWC representing different interest groups and stakeholders. Government representatives usually hail from various departments within the economic and labour ministries and statutory boards, including government agencies involved in skills upgrading and lifelong learning. Employee representatives come from the senior ranks of NTUC and major unions (including the Amalgamated Union of Public Employees, ST Engineering Staff Union, Advanced Manufacturing Employees' Union, Healthcare Services Employees' Union, Food, Drinks and Allied Workers Union). Employers are represented by leaders of various business associations [including Singapore National Employers Federation (SNEF<sup>15</sup>), Singapore Business Federation (SBF<sup>16</sup>)], trade associations, and chambers of commerce. By design, the three parties nominate equal numbers of representatives to the NWC for parity in representation.

Discussions at the NWC are moderated by a neutral chairperson who is not supposed to be partial to any vested interests. Peter Seah, Chairman of the NWC (2015 to present), explains how the role of the chairperson as a neutral arbiter helps the different parties come to consensus at their own pace rather than forcing consensus upon them:<sup>17</sup>

“You try to guide, and you try to bring the parties together to land at the certain points of agreement. And that’s really what it is every year. You listen to the views of the employers, employees, and government. And then they come together and decide on what they think is the best way forward in terms of their recommendations.

[...] So, as chairman, I don’t really negotiate or bargain with them, but I try to bring all three parties to the table to agree. [...] It’s an impetus for the implementation of the recommendation because NWC only recommends. NWC doesn’t have regulatory powers to require that the recommendation be implemented.”

**Peter Seah, Chairman of the NWC  
(2015 to present)**

<sup>13</sup>Lim. 2013. Pg 4.

<sup>14</sup>According to the International Labour Organization (ILO), social dialogue includes “all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy” (International Labour Organization. 2022. “Social Dialogue.” Accessed May 22, 2022 at [https://www.ilo.org/actemp/areas-of-work/WCMS\\_731146/lang--en/index.htm](https://www.ilo.org/actemp/areas-of-work/WCMS_731146/lang--en/index.htm)). For a fuller discussion, see **Annex 2: The role of social dialogue in wage determination**.

<sup>15</sup>SNEF is the national trade union of employers, representing the interests of all sectors of the economy (and is thus the counterpart of the NTUC). It is an independent, autonomous not-for-profit organization funded by membership fees and revenue from consultancy, training, research, and other activities.

<sup>16</sup>SBF is the apex business chamber representing the interests of the Singaporean business community in the areas of trade, investment, and industrial relations. It represents 27,000 companies, as well as key local and foreign business chambers.

<sup>17</sup>Seah, Peter, interview by Kok Hoe Ng. 2022. *LKYSPP interview with Peter Seah* (August 24).

Despite the longevity of the NWC and widespread adherence to its wage guidelines by employers, the NWC's creation was – in fact – not backed by any legislation nor act of parliament. It functions purely as a “working arrangement” for an advisory body for wage issues, and NWC members participate in its meetings to represent the interests of their respective constituents.<sup>18</sup>

The main objective of the NWC is to facilitate orderly wage adjustments at the national level by issuing annual wage adjustment guidelines. The NWC strives to avoid strikes or lockouts, or protracted wage negotiations detrimental to businesses. In later years, the NWC wage

guidelines also advocated the adoption of specific wage policies to improve Singapore's economic competitiveness.

This tripartite approach to wage setting aided Singapore's rapid industrialisation and built strong social public support for the country's economic policies. It also improved the country's economic competitiveness by ensuring that wage increases are backed by real improvements in labour productivity and therefore, are sustainable for businesses.

<sup>18</sup>Lim. 2013. Pg 14.

# Setting Wage Guidelines To Support Economic Development

The NWC's core work involves the issuance of annual wage guidelines at the national level with a stated goal of sustainable, orderly improvements in real wages. Every year, NWC members meet for discussions that culminate in wage guidelines submitted to the Prime Minister and the Cabinet. Once endorsed, these guidelines are publicly gazetted<sup>19</sup> by the Ministry of Manpower (MOM).<sup>20</sup>

To arrive at these wage guidelines, NWC members usually take several factors into consideration. Achieving its main objective of growth with equity requires the NWC to balance real wage increases against other concerns such as the ability of employers to afford such increases, the cost of living, and job creation. Data commonly discussed at the NWC include the rate of inflation, economic growth, labour productivity growth, unemployment rate, and other national econometric data. Members are also allowed to submit position papers for consideration and debate.<sup>21</sup>

Since its creation, deliberations at the NWC have been governed by two core principles – the unanimity principle and the Chatham House principle. First, its wage guidelines must be supported by all parties. Although the unanimity requirement means discussions at the NWC sometimes take a long time to reach consensus, it also ensures that the final set of wage guidelines has the broadest possible level of social support and the greatest chance of

being closely adhered to. Unanimity (rather than majority rule) also means no two parties can collude against the third. Second, the Chatham House principle facilitates frank discussion within the NWC, since controversial or unpopular views cannot be publicly attributed. No other formal rules govern discussions at the NWC.<sup>22</sup>

Stephen Lee, President of SNEF (1988 to 2014), explains how the Chatham House principle is crucial in enabling frank discussions and preventing members from being entrenched in their initial positions:<sup>23</sup>

“There’s a clear understanding that the three parties would discuss behind closed doors, which allows [them] to be very frank with each other in terms of the discussion. And whatever solution that we finally arrived [at], then the three parties would all go out to carry that final decision.

There’s no quoting of who said what. And because it is behind closed doors and basically, the Chatham House rule applies, it offers anyone [the opportunity] to change their mind if need to without a loss of face.”

**Stephen Lee, President of SNEF  
(1988 to 2014)**

<sup>19</sup>An official gazette of a country publishes the text of new laws, decrees, regulations, treaties, legal notices, and court decisions. The published text serves as the authoritative version.

<sup>20</sup>Lim. 2013. Pg 15, 17.

<sup>21</sup>Ibid. 2013. Pp 24-31.

<sup>22</sup>Ibid. Pp 12-14.

<sup>23</sup>Lee, Stephen, interview by Jia Hao Chan. 2022. *LKYSPP interview with Stephen Lee* (August 17).

The process by which NWC manages the discussions that lead up to its annual wage guidelines is designed to be conducive to problem solving and compromise, but the interactions that NWC members have with one another outside of formal meetings are just as important for trust-building and camaraderie. For example, the three parties in the NWC take turns organising a “tripartite” golf tournament for its members.<sup>24</sup> These social interactions facilitate an understanding that – although NWC members each have to look after the interests of their constituents – they are also guided by broader national interests.

Aubeck Kam, Permanent Secretary of MOM (2016 to 2022), recalls how the parties in the NWC do not see their interests as being in opposition, and often try to seek common ground in the understanding that weakening another party for short-term gains may actually be self-defeating in the long run. He also notes that the trust built up from regular collaboration makes it easier to solve more challenging problems in times of crisis:<sup>25</sup>

“Each party has an interest in wanting to help the other to succeed because that is the way where – year on year – you can continue to work on challenges and problems and the trust level is going up and you're not actually depleting the reservoir of trust and goodwill that you built up. So, we don't play each other out. You don't do things that will undercut the other party because in a short-term game, you might win today's discussion but ultimately, you weaken your counterpart. And if your counterpart is weakened, then your ability to solve the next problem or the next year's negotiation is actually worse.

[...] You don't just build a strong reservoir of trust in the tripartite relationship for its own sake. We build it so that it serves a purpose, and that purpose actually has to be to solve problems that need solving at this point in time. So, whatever it might be, when you have that strong trust, then you have the confidence that even if you are throw[n] a curveball – things that were never contemplated in a collective agreement – there is enough reservoir of trust there to pull up your sleeves, get to work on the problem together to come up with a better way to address the challenge.”

**Aubeck Kam, Permanent Secretary of MOM (2016 to 2022)**

<sup>24</sup> Lim. 2013. Pg 174.

<sup>25</sup> Kam, Aubeck, interview by Jean Chia. 2022. *LKYSPP interview with Aubeck Kam* (August 17).

Lim Pin, second chairman of the NWC (2001 to 2015), says that tripartite partners in Singapore are very motivated to find common ground because of Singapore's vulnerabilities as a small country, and because of a shared past national trauma of separation from Malaysia:<sup>26</sup>

“Mr. Lee Kuan Yew always told us, we are all in a small sampan [Malay term for small rowboat]. That's a very good analogy. We have to work together. We can't be fighting in the sampan and have everybody drown in the water.

[...] Why is it not replicable elsewhere? Because in other countries, the sense of establishing a country, a strong, viable country, having been kicked out of somewhere else, it's so clear in our mind that there's no other way. So, we are quite fragile, and we have to be working together to make sure we survive. Not only survive, but to do well and be able to be prosperous for all part[ies] concern[ed]. I think that's the overriding concern of everybody in the NWC and that makes our discussion of wage setting much easier because we all understand that at the end of the day, we all work for a common aim, common objective.”

**Lim Pin, chairman of the NWC (2001 to 2015)**

## The non-mandatory nature of NWC wage guidelines

NWC wage guidelines are officially non-mandatory and non-legally binding, which means that employers are *theoretically* free to ignore them. Their non-mandatory nature is a deliberate choice. Broad wage guidelines were judged too crude to cover every possible employment situation. Legally binding wage guidelines would also not give businesses enough flexibility to adapt them to their specific operating contexts.<sup>27</sup>

In practice, most businesses and their employees in Singapore do rely on the NWC wage guidelines at least as a starting point for wage setting and wage negotiations, modifying the recommended wage adjustments upwards or downwards accordingly. Moreover, NWC wage guidelines help to level the playing field between companies by reducing the likelihood of a salary arms race. Most importantly, the unanimity principle behind the NWC wage guidelines means that they are collectively endorsed by the government, labour unions, and business associations, which gives them significant social legitimacy.

<sup>26</sup>Lim, Pin, interview by Jean Chia. 2022. *LKYSPP interview with Lim Pin* (August 22).

<sup>27</sup>Lim. 2013. Pg 23.

Koh Juan Kiat, Executive Director of SNEF (1995 to 2020), recalls how NWC wage guidelines help to set the tone and establish common principles for wage negotiations between employers and their employees/unions. NWC wage guidelines are also particularly helpful for smaller businesses that lack significant in-house human resource (HR) capacities:<sup>28</sup>

“[T]he most important thing that the NWC does every year is that it sets the tone for wage discussions and wage negotiations. This is very important because it puts employers and unions at the same starting point, [to] initiate discussions, instead of confronting one another with different positions.

[...] Secondly, it also spells out the principles to be used in wage settlements for that particular year. This is very important because these principles can be applied in any company flexibly.[...] because business structures differ, economic performance differ. So, principles can be used by both employers and unions as a starting point for discussions.

[...] [T]hirdly, many small companies do not have [strong] HR capability. 99% of companies are SMEs. The tone and the principles and then the specific recommendations that are spelt by the NWC, all three become of great assistance to the small- and medium-sized companies to develop their wage adjustment strategy for the year in question.”

**Koh Juan Kiat, Executive Director of SNEF (1995 to 2020)**

In a way, the intense, continual social dialogue that precedes and accompanies NWC wage guidelines lends them a moral weight that makes them hard for unions and businesses to ignore. Aubeck Kam, Permanent Secretary of MOM (2016 to 2022), recalls how the NWC’s consensus-driven process makes its wage guidelines incredibly effective despite their non-legally binding nature:<sup>29</sup>

“Because there is a moral and a relational obligation that having deliberated on it and worked out the consensus, that when you go to the company level to negotiate, that we do not deviate from the understanding that was reached at the NWC. The NWC recommendations are taken [to be] very well-aligned in the unions’ collective agreements for unionized companies

[...] [T]he reason is because they’ve looked each other in the eye, and they shook hands on it. When you’ve shaken your hands on it, you can’t quite go down to a company and say, “Oh, that was a different group of people that issued this, and we don’t feel ourselves bound by it.”

**Aubeck Kam, Permanent Secretary of MOM (2016 to 2022)**

<sup>28</sup>Koh, Juan Kiat, interview by Jia Hao Chan. 2022. *LKYSPP interview with Koh Juan Kiat* (August 15).

<sup>29</sup>Kam, 2022.

However, this is not to say that the NWC wage guidelines have no legal force *at all*. In Singapore, mediation and arbitration for wage disputes are mandatory even when only one party opts for conciliation.<sup>30</sup> Because the NWC wage guidelines are gazetted and made public, mediators and arbitrators have a common starting point for resolving wage disagreements. In cases where disputes do reach the courts, judges also take NWC wage guidelines into account when deciding

cases. Moreover, a benefit of non-mandatory wage guidelines reached via intense social dialogue is that they help to reduce wage disagreements in the first place (see Figure 1 on the decline in industrial action). The expectation that the arbitration and judicial systems will take cognisance of the NWC wage guidelines is often enough to prompt opposing parties to resolve their differences without resorting to protracted (and costly) legal battles.<sup>31</sup>

## Balancing wage growth with economic competitiveness

From the NWC's creation in 1972 to 1996, wages in Singapore increased by an average of 4.9% annually in real terms.<sup>32</sup> Although achieving sustained increases in real wages is an important objective for the NWC, the council is also careful to do so without adversely affecting Singapore's overall economic competitiveness or business environment.

Relative economic competitiveness is especially important for Singapore as one of the world's most open economies. Singapore competes internationally for investment capital, and its small domestic market means that almost all of its industrial output is exported. Increases in relative business costs in Singapore are immediately detrimental to Singapore's attractiveness as an investment destination and export competitiveness. When Singapore

experienced a recession in 1985<sup>33</sup> – its first since independence – a loss of cost competitiveness relative to other regional export-oriented economies was identified as one of the culprits.<sup>34</sup> In response to that crisis, Singapore implemented drastic reductions in wage costs through direct cuts to wages and Central Provident Fund (CPF) contributions.<sup>35</sup>

Till today, the country's relative economic competitiveness remains a central consideration of government policymaking, and the NWC's recommended wage adjustments have usually lagged Singapore's labour productivity growth rates since the late 1980s.<sup>36</sup> This is thought to be the best approach for delivering wage growth without eroding the country's economic competitiveness.

<sup>30</sup>This is called the "single party initiative" (Lim. 2013. Pg 43).

<sup>31</sup>Lim. 2013. Pg 44.

<sup>32</sup>Ibid. Pg 154.

<sup>33</sup>GDP growth for 1985 dropped 8.8 percentage points to negative 0.6% from 8.2% in 1984.

<sup>34</sup>A government review led by current then-Minister for Trade and Industry Lee Hsien Loong (now Prime Minister) determined that overall labour costs had risen 10.1% annually between 1979 to 1984, while labour productivity only grew 4.6% per year in the same period. This disconnect contributed to a serious loss in economic competitiveness for Singapore and worsened the downturn (Ministry of Trade and Industry. 1986. Pg 226).

<sup>35</sup>The Central Provident Fund is an individualised, defined contribution pension fund that has restrictions to prohibit most types of withdrawals before retirement. Both employees and employers contribute a percentage of the employee's monthly salary into the CPF account.

<sup>36</sup>Lim. 2013. Pg xxxv.

Although Singaporean employees have enjoyed significant wage improvements over the years, the NWC does not *always* recommend wage increases in its annual guidelines. The NWC has on a number of occasions recommended *wage restraint* and even *wage cuts* in order to preserve jobs. Such guidelines are issued in response to serious economic shocks such as recessions, financial crises, and – more recently – disease epidemics. These downward adjustments in real wages or reduced pace of wage increases help preserve jobs by reducing the need for businesses to lay off employees. It is reasoned that wage reductions are better than total loss of employment for employees, especially given Singapore’s lack of national unemployment benefits.<sup>37</sup> For employers, wage reductions help them retain experienced employees who will inevitably be needed when the economic situation improves. By contrast, laying off employees would mean additional costs later incurred for training or retraining when businesses subsequently staff up again.

Interestingly, the NWC’s willingness to help the private sector maintain business competitiveness by reducing wage costs in times of crises can make businesses more agreeable to the sharing of gains with their employees when they are doing well. Lim Chong Yah, founding Chairman of the NWC (1972 to 2001), recalls how this mutual trust was important in getting the private sector to support wage increases, especially when the NWC was pursuing a high-wage policy in the late 1970s.<sup>38</sup>

“The employers agreed to pay a wage increase of 20 or 22% and the unions said: “We will go with you if there is trouble. We will go for wage cut that is flexible.”

[...] This is sometime quite puzzling to people outside Singapore: “You have very strong trade unions, and you have very strong government, how is it your President, your Prime Minister, your Chief Justice – their wages were all cut by 20%?”

And it’s because of another principle: [...] In good times, we prosper together, we laugh together. But if there is a need to tighten our belts, everyone is prepared. [...] And we succeeded [in] the wage cut in 1985.”

**Lim Chong Yah, founding Chairman of the NWC (1972 to 2001)**

<sup>37</sup> Although policymakers in Singapore have traditionally held to the belief that unemployment benefits reduce the motivation of the unemployed to seek gainful employment, there has been signs of movement on this thinking in recent years, especially because technological disruptions and globalisation have contributed to greater economic volatility, making steady employment more challenging (Tang, See Kit. 2021. “Singapore studying how to expand wealth tax system as it relooks fiscal strategies: Lawrence Wong.” *ChannelNews Asia*, October 15).

<sup>38</sup> Lim, Chong Yah, interview by Kok Hoe Ng and Jia Hao Chan. 2022. *LKYSPP interview with Lim Chong Yah* (August 12).

## Quantitative vs. qualitative wage guidelines

With regard to wage adjustments, the NWC has traditionally provided two types of guidance – what it refers to as “quantitative” and “qualitative” guidelines.

Quantitative guidelines are those that recommend wage adjustments in numerical terms, usually in percentages (of current wages). These are given either as flat rates (e.g., 8%) or as ranges (e.g., 2 to 6%). In the last decade, the NWC has revived the practice of issuing quantitative wage guidelines in absolute dollar amounts (e.g., \$50), something it has resorted to whenever it wanted to improve wages for employees at the lower end of the wage spectrum (for whom wage increases in percentage terms could translate to paltry dollar amounts).

Qualitative guidelines are those couched in descriptive terms without the use of numbers. For example, the NWC’s 1994 wage guidelines did not put specific numbers to its recommended wage increments, but instead reminded businesses that wage increases should “lag behind productivity growth rates,” and that “[v]ariable payment should reflect closely the performance of the company.”<sup>39</sup>

The NWC’s stance on whether to issue quantitative or qualitative guidelines – and whether to mix and match these components in its wage guidelines, has shifted over the years. Each approach has its merits and shortcomings. Single absolute figures are simple to understand and implement, but are not flexible enough to cover all business contexts. They also reduce the need for unions and employers to interact in wage negotiations. Quantitative ranges offer more flexibility to businesses, but introduce complexity because labour representatives need to bargain directly with business owners on actual wage adjustments. Qualitative wage guidelines offer employers the most flexibility, but are the most complex to implement, since parties to wage negotiation often disagree on the interpretation of important words or phrases. For example, “a moderate wage increase” could have different connotations to employees, their unions, or their employers. Even supposedly neutral exhortations for wage increases to “lag productivity” could be understood in different ways and become a matter for negotiation.<sup>40</sup>

<sup>39</sup>National Wages Council. 1994. “National Wages Council Wage Guidelines For 1994.” Ministry of Labour.

<sup>40</sup>Loh, Oun Hean. 2018. “Wage Policies and Practices and the National Wages Council.” in World Scientific Book Chapters, 289-321. World Scientific. Pg 301.

From its founding in 1972 until 1977, the NWC opted to issue quantitative wage guidelines for simplicity. Between 1978 and 1985, the NWC adopted a mix of approaches, sometimes combining absolute dollar amounts with a fixed percentages or ranges, which gave employers more flexibility to decide on actual wage adjustments. Responding to the recession in 1985, the NWC recommended “wage standstill” in April 1986 and later revised its guidance to “severe wage restraint” in December 1986. The 1987 guidelines repeated the NWC’s call for severe wage restraint.<sup>41</sup>

**Table 1: Recommended wage adjustments, 1972 to 1987.<sup>42</sup>**

Year	Recommended wage adjustment
1972	8% increase
1973	9% increase
1974	\$40 + 6% increase
1975	6% increase
1976	7% increase
1977	6% increase
1978	\$12 + 6% increase
1979	\$32 + 5% increase
1980	\$32 + 7.5% increase <sup>43</sup>
1981	\$32 + 6 to 10% increase <sup>44</sup>
1982	Productivity-based adjustment according to 3-year restructuring wage policy
1983	\$10 + 2 to 6% increase
1984	\$27 + 4 to 8% increase
1985	3 to 7% increase
1986 (Apr)	Wage standstill
1986 (Dec)	Severe wage restraint
1987	Severe wage restraint

<sup>41</sup>Lim. 2013. Pp xxxiii-xxxiv, 18.

<sup>42</sup>Lim. 2013. Pp xxxiii-xxxiv.

<sup>43</sup>The 1980 wage guidelines included an additional tier of 3% for “above average performers.” The NWC introduced this additional tier because it was “anxious” to promote better labour productivity. The base tier of wage increase would be given to all employees, and this second tier was supposed to be reserved for “star performers”. (Lim. 2013. Pg 211.)

<sup>44</sup>With an additional 3% for “above average performers.”

Ong Yen Her, Divisional Director for Labour Relations and Workplaces, MOM (1985 to 2012), recalls there was a push for more wage flexibility after the 1985 recession. There was a sense that the NWC's quantitative wage guidelines were too blunt to be applied nationally across all companies. Eventually, it was decided that the NWC would continue to issue annual wage guidelines, but shift to qualitative ones instead.<sup>45</sup>

“Part of [the NWC wage guidelines] caused the recession. One of the reasons was because the wage guideline became very rigid. 8% have to pay 8% and so on. [...] They decided that [...] let us continue, but with qualitative guideline[s] [...] instead of having a figure or a range.”

**Ong Yen Her, Divisional Director for Labour Relations and Workplaces, MOM (1985 to 2012)**

Following the 1985 recession, reducing wage rigidity in Singapore became a priority for the NWC (discussed in more detail in the sub-section “Tackling wage rigidity in Singapore”). To introduce more flexibility to the wage negotiation and adjustment process, the NWC began issuing only qualitative wage guidelines from 1986, a practice it has continued since then for the most part.

Lim Boon Heng, Secretary-General of the NTUC (1993 to 2006) and Minister in the Prime Minister's Office (2001 to 2011), explains that qualitative wage guidelines are used to establish a common understanding among tripartite partners of Singapore's economic situation while giving them significant latitude in wage negotiations and wage setting.<sup>46</sup>

“At the same time, it was recognized that a quantitative guideline from the NWC could be quite rigid too. So, it was decided, after a lot of discussion, that the NWC should no longer issue a quantitative guideline but move to a qualitative guideline.

A qualitative guideline means that we explain to everybody what is the state of the economy, what are the factors that should be considered in the wage negotiations between employers and unions, giving them that greater leeway of arriving at something more appropriate for their companies.”

**Lim Boon Heng, Secretary-General of the NTUC (1993 to 2006) and Minister in the Prime Minister's Office (2001 to 2011)**

<sup>45</sup>Ong, Yen Her, interview by Kok Hoe Ng. 2022. *LKYSPP Interview with Ong Yen Her* (July 22).

<sup>46</sup>Lim, Boon Heng, interview by Jean Chia. 2022. *LKYSPP interview with Lim Boon Heng* (August 22).

In 2012, the NWC unexpectedly revived the practice of issuing quantitative wage guidelines. However, these new quantitative wage recommendations were targeted at low-wage employees in order to allow their wages to grow faster and gain ground with the median. Leading up to 2012, widening income inequality in Singapore and the plight of low-wage employees had become an issue of national concern. The salaries of low-wage employees had lagged the rest of Singapore's workforce in the prior decade because Singapore had imported large numbers of migrant workers – mostly deployed in low-wage occupations – to support its economic growth.<sup>47</sup> For example, between 1996 and 2007 the average monthly wages for cleaners and labourers sank from \$860 to \$600 as the number of migrant workers in these jobs grew.<sup>48</sup>

In its 2012 guidelines, the NWC recommended a wage increase of at least \$50 for employees earning \$1,000 or less per month.<sup>49</sup> This focus on improving the wages of low-wage employees through targeted quantitative wage recommendations has continued till today. In 2021, the NWC combined percentage range with quantitative recommendations and added language to urge employers to give the higher of the two to low-wage employees.

**Table 2: Quantitative wage increase recommendations, 2012-2021.**<sup>50 51 52 53 54</sup>

Year	Quantitative wage increase recommended
2012	At least \$50 for workers earning \$1,000 or less
2013	At least \$60 for workers earning \$1,000 or less
2014	At least \$60 for workers earning \$1,000 or less
2015	At least \$60 for workers earning \$1,100 or less
2016	At least \$50 to \$65 for workers earning \$1,100 or less
2017	\$45 to \$60 for workers earning \$1,200 or less
2018	\$50 to \$70 for workers earning \$1,300 or less
2019	\$50 to \$70 for workers earning \$1,400 or less
2020	Up to \$50 for workers earning \$1,400 or less
2021	The higher of 4.5% to 7.5% or \$70 to \$90 for workers earning \$2,000 <sup>55</sup> or less in gross monthly wages.

<sup>47</sup> Lim. 2013. Pp 369-379.

<sup>48</sup> The Sunday Times. 2007. "We Can Barely Stay Afloat, Say Low-Income Folk." *The Sunday Times*, December 2.

<sup>49</sup> National Wages Council. 2012. "National Wages Council (NWC) Guidelines 2012/2013." Ministry of Manpower.

<sup>50</sup> Loh. 2018. Pg 305.

<sup>51</sup> National Wages Council. 2018. "National Wages Council (NWC) 2018/2019 Guidelines." Ministry of Manpower.

<sup>52</sup> National Wages Council. 2019. "National Wages Council 2019/2020 Guidelines." Ministry of Manpower.

<sup>53</sup> National Wages Council. 2020. "National Wages Council (NWC) 2020/2021 Guidelines." Ministry of Manpower.

<sup>54</sup> National Wages Council. 2021. "National Wages Council (NWC) 2021/2022 Guidelines." Ministry of Manpower.

<sup>55</sup> The threshold for 2021 is higher because the NWC switched from using basic monthly wages to gross monthly wages as a reference. This change was expected to give employers greater certainty regarding the expected monthly wage. National Wages Council. 2021. "National Wages Council (NWC) 2021/2022 Guidelines." Ministry of Manpower. Pg 5.

These targeted wage recommendations by the NWC helped to raise the wages of low-wage employees, as reflected in the continually rising salary threshold for the NWC's recommended quantitative wage increases. In 2017, the NWC estimated that the proportion of full-time local employees earning a basic monthly wage of up to \$1,000 (in nominal, non-inflation adjusted terms) had decreased from 10.6% in 2011 to 6.8% in 2014, and further to 4.7% in 2016.<sup>56</sup>

Quantitative guidelines may have helped to lift the wages of low-wage employees, but their reintroduction was not entirely without opposition from employers, especially those employing large numbers of these employees. Cham Hui Fong, Deputy Secretary-General at NTUC (2020 to present), recalls how challenging it was to get the support of employers to implement these quantitative wage increments, and how the unions had to work closely with the private sector to improve labour productivity to support these wage increases:<sup>57</sup>

“But the past few years when we have start[ed] noticing that the low-wage workers, their wage growth has not been as satisfactory as the median income or the higher income group. That was when in 2012 when we started to have a quantitative guideline for low-wage workers. We use[d] P10 [income figure for the lowest 10th percentile] as a guide for those that are earning less than \$900. [W]e called for \$50. It was not easy. Of course, the unions wanted more, but we land[ed] at \$50 because it was the first time after many years that we introduced quantitative guidelines.

[...] Employers were at first quite reluctant to start the quantitative guide, but they do understand and appreciate that we ought to do a lot more to help [low-wage workers].

[...] Our starting principle is that we want the companies to survive and to continue to grow. And to help you to grow, if you need to pump in a lot more resources to redesign, to automate, to up your productivity, we are certainly for it.”

**Cham Hui Fong, Deputy Secretary-General  
of NTUC (2020 to present)**

<sup>56</sup>National Wages Council. 2017. “National Wages Council (NWC) 2017/2018 Guidelines.”

<sup>57</sup>Cham, Hui Fong, interview by Jia Hao Chan. 2022. *LKYSPP interview with Cham Hui Fong* (August 25).

Cham's experience demonstrates how Singapore's process for wage adjustments is not one of governmental decree, but rather a collaborative process that involves the co-creation of solutions that support consistent and sustainable wage increases.

Echoing these sentiments, Lim Swee Say, Secretary-General of the NTUC (2007 to 2015) and Minister for Manpower (2015 to 2018), recalls how the tripartite process was crucial for getting the support of employers to implement major changes in Singapore's wage setting approach.<sup>58</sup>

“We said that for low-wage workers earning below certain level of income, we go for quantitative guideline. [...] [O]bviously that became a big debate point for the employers. Because the employers say that: “I thought we have already moved away from [quantitative guidelines], why are we going back?”

So that's when the tripartite [parties] have to sit down to discuss. And eventually, we managed to get it through. [...] [B]y and large, the NWC process is quite smooth – no surprises because of the close collaboration throughout the year. But occasionally, when we want to make a big structural change to the guideline, this is where we may have to go to a deeper level of deliberation.”

**Lim Swee Say, Secretary-General of the NTUC (2007 to 2015) and Minister for Manpower (2015 to 2018)**

<sup>58</sup>Lim, Swee Say, interview by Jia Hao Chan. 2022. *LKYSPP interview with Lim Swee Say* (August 19).

# Wage Policy And Economic Restructuring

Wage adjustments during downturns have helped to preserve jobs and speed up economic recovery. Outside of economic crises, the NWC wage guidelines have also supported Singapore's efforts to restructure and strengthen its economy. A few prominent examples are briefly discussed in this section.

## Moving away from labour-intensive industries

Singapore had long resolved its unemployment problem by the late 1970s. By then, Singapore had for a number of years been attracting investments at such a rapid pace that the country was creating more jobs than it could fill with local employees. By 1971, Singapore was already letting in more than 40,000 employees annually just from Malaysia.<sup>59</sup> In 1978 when China began to implement a set of economic reforms that would enable it to better engage with global capital and global markets, Singaporean policymakers foresaw that China – with its huge supply of low-cost labour – would quickly outcompete Singapore if the country continued with its labour-intensive, low-value-added economy.<sup>60</sup>

To support this economic restructuring and to shift companies away from unproductive uses of labour, the NWC pursued a policy of large wage increases from 1979 to 1981. The NWC wage guidelines recommended wage hikes of 20% per year for those three years. Employers were

unhappy with the large increases, but most adhered to the NWC's recommendations in order to preserve good industrial relations. The NWC also recommended that the government set up an Economic Restructuring Fund [later renamed the Skills Development Fund (SDF)<sup>61</sup>], which happened in 1979. The SDF was important for two reasons. First, four percentage points of wage increases recommended by the NWC would be channelled into the SDF, reducing the inflationary risk of rapidly rising wages. Second, the SDF was used to provide training for employees left jobless by companies unable to cope with the large wage increases recommended by the NWC, as well as to provide business subsidies for productivity enhancements such as automation and computerisation.<sup>62</sup>

<sup>59</sup> Winsemius. 1984. Pg 18.

<sup>60</sup> Lim. 2013. Pg 49.

<sup>61</sup> The SDF was overseen by the Skills Development Fund Advisory Council, and would be administered by the Ministry of Labour (now MOM).

<sup>62</sup> Lim. 2013. Pp 51-59.

## Increasing labour force participation

Because of Singapore's small population and rapidly growing economy, it was important for policymakers to increase labour force participation. There were two potentially untapped sources of labour. First were older employees who found full-time employment too exhausting. Second, homemaking and childbearing responsibilities for women meant that not all of them could maintain full-time employment, which depressed the labour force participation rate for women.

Moreover, Singapore's proportion of part-time employees was lower than many other countries. In 1991, only 3.1% of Singapore's labour force worked part-time, compared with 17.3% in the US and 24.6% in the UK.<sup>63</sup> Thus, the NWC recommended that the government promote the creation of more part-time and flexible work arrangements at the national level.<sup>64</sup> This made it easier for older employees who did not want full-time employment, as well as mothers with family commitments, to participate in the formal economy.

## Reducing over-reliance on migrant labour

In the 1990s, Singapore was bringing in large numbers of migrant workers to support economic growth. In 1995, Singapore had a labour force of 1.75 million, of which 322,000 (18.4%) were non-residents. The proportion of migrant labour in the Singapore workforce was already large relative to other countries and was still growing rapidly.<sup>65</sup> The NWC recognised that this growing reliance on migrant labour was not sustainable, and advised employers against becoming too dependent on non-local sources of labour.<sup>66</sup>

<sup>63</sup>Ibid. Pg 144.

<sup>64</sup>National Wages Council. 1996. "National Wages Council Wage Guidelines for 1996 – 1997." Ministry of Labour.

<sup>65</sup>Ministry of Manpower. 2020. Labour, Employment, Wages and Productivity. Statistical table, Singapore: Ministry of Manpower.

<sup>66</sup>National Wages Council. 1996.

## Tackling wage rigidity

Singapore realised early on that having variable or flexible components in wages would help businesses cope better with economic downturns. With flexible wages, businesses could adjust variable components downwards when profits were down in order to preserve jobs, and upwards in good times to reward and motivate employees.

After the 1985 recession, the government set up the Economic Committee (EC) led by the Ministry of Trade and Industry (MTI) to conduct an in-depth review of the causes for the recession. The EC identified Singapore's increasingly uncompetitive wages as a main reason. In response, unions in Singapore quickly renegotiated many collective agreements to reduce annual increments. The government also implemented an immediate 15-percentage-point cut in the employer's CPF contributions from 25% to 10%, a move that instantly resulted in a 12% savings on the wage bill for employers, narrowing Singapore's wage gap with other newly industrialising countries (NICs) back to 1982 levels.<sup>67</sup>

Lim Boon Heng, former Secretary-General of the NTUC, recalls the challenges involved in getting the unions to agree to the CPF cut, which they only accepted because of their trust that the tripartite process would reciprocate their sacrifice and restore these cuts when the economy recovered.<sup>68</sup>

“The analysis of the problem was that because our wages had overshot and therefore, we needed to restore our wage levels to a competitive level. So, there was a lot of, debate, sometimes even angry exchanges between unions and management and government. But in the end, it was understood that we had to do something about wage cost, and the way in which wage cost was reduced was to cut the employer's contribution to CPF.

The unions agreed on the promise that when the economy recovered, the CPF cut would be restored. When the economy recovered, then the CPF cut was gradually restored to a level that was agreed by the different parties. So, that episode is one of the fundamental shared experiences of Singaporeans. Unions and workers, employers, and government going to a crisis together, coming up with a solution that works, and also demonstrating to unions and workers that there will be fair play.”

**Lim Boon Heng, Secretary-General of the NTUC (1993 to 2006) and Minister in the Prime Minister's Office (2001 to 2011)**

<sup>67</sup>Ministry of Trade and Industry. 1986. *Report of the Economic Committee – The Singapore Economy: New Directions*. Singapore: Singapore National Printers. Pp 41–43, 51–52.

<sup>68</sup>Lim, Boon Heng. 2022.

In addition to these short-term responses, policymakers in Singapore also realised that the country's wage structure needed to introduce more flexibility in the longer term to allow businesses to adjust their wage bills according to business conditions. The NWC began encouraging wage reform in favour of flexible wages starting with its 1988 wage guidelines.<sup>69</sup> Following the EC's 1986 report, the government introduced the Flexible Wage System (FWS).<sup>70</sup> Fixed components in the FWS would provide employees with stability, while variable components would allow employers to respond rapidly to changes in economic components.

When employers are able to shrink their wage bills in challenging economic conditions by adjusting variable wage components, they are less likely to resort to retrenchments (which can be quite disruptive to both employees and their employers) to maintain business competitiveness. In the absence of automatic counter-cyclical economic stabilisers like unemployment benefits, large job losses in the middle of an economic crisis can lead to a slump in aggregate demand that exacerbates

the downturn. Businesses that can retain their experienced employees in a downturn would also be able to respond faster to the eventual recovery.

Getting businesses to introduce flexibility into their wage systems is also important because the Singapore government had become more reluctant to use the adjustment of CPF contribution rates as a policy tool for crisis response. Not only is it a blunt policy tool that affects all waged employees regardless of employment situation, but reducing CPF contribution rates has negative effects both in the short term (e.g., reducing the ability of households to cover their mortgage payments with their CPF funds) and the long term (e.g., the diminution of future retirement payments as a result of smaller present contributions). In fact, the NTUC itself warned employers in 1991 that they needed to implement flexible wages because the unions would no longer support such cuts to CPF contributions as cost reduction measures.<sup>71</sup>

<sup>69</sup>Lim. 2013. Pg xxxiv.

<sup>70</sup>Ministry of Manpower. 2021. *Flexible Wage System Guidebook*. Government pamphlet, Singapore. Pg 3.

<sup>71</sup>Lim. 2013. Pg 146.

Robert Yap, President of SNEF (2014 to present), explains that the FWS can in fact offer better wage stability for employees, especially during times of economic downturn when employers can trim wage costs by adjusting the “shock absorber” of the FWS:<sup>72</sup>

“[As employers] we ensure that whatever we promise and give to our employees, we are able to sustain year after year. We don't go one year to employees and say, we take away your salaries. No. So, that's why we created this flexible wage system, to create that shock absorber. When there's a bad time, the variable [component] is touched but the basic [component] is never touched [...] Imagine your car has no absorber. [It'll be] very difficult, but your shock absorber system will help you to cushion any hard knocks along the way.”

**Robert Yap, President of SNEF  
(2014 to present)**

Besides improving the ability of businesses to respond to crises, Singapore also believes that variable wages tied to business performance can incentivise employees to improve their productivity. Since 1988, both the NWC and the government have been regularly encouraging employers to adopt the FWS by increasing the variable components of their employees' wages.<sup>73</sup>

The FWS is discussed in more detail in **Annex 3: The Flexible Wage System (FWS)**.

## The 1997 Asian financial crisis

The NWC wage guidelines have also enabled Singapore to navigate economic crises with rapid wage adjustments. One good example is how the NWC responded to the 1997 Asian financial crisis.

The 1997 Asian financial crisis originated in Thailand in mid-1997 and quickly spread to the regional economies. Regional currencies fell precipitously against the US Dollar (with most depreciating between 30% to 80%) and stock markets slumped as foreign lenders and investors panicked.<sup>74</sup> Singapore itself dipped into recession in 1998.

In contrast to other regional economies that were severely impacted, Singapore escaped relatively unscathed because of its strong macroeconomic fundamentals and timely government interventions. However, because the Singapore Dollar depreciated less against the US Dollar (by less than 20%) compared to other regional currencies, the country's exports became less price competitive than those from these countries. Disinclined to intervene in the foreign exchange market to further depreciate the Singapore Dollar as the crisis became protracted, the government opted instead for cost-cutting measures to restore competitiveness.<sup>75</sup>

<sup>72</sup> Yap, Robert, interview by Jean Chia. 2022. *LKYSPP interview with Robert Yap* (August 23).

<sup>73</sup> Yun. 2003. Pg 134.

<sup>74</sup> Ngiam Kee-Jin. 2000. "Coping with the Asian Financial Crisis: The Singapore Experience." In *From crisis to recovery: East Asia rising again*. Pg 6.

<sup>75</sup> Ibid. Pg 2-6.

As part of the cost reduction package that included wide ranging cuts to government-set fees and charges, the employer's contribution to CPF was reduced from 20% to 10%. This was similar to the government's response to the 1985 recession, when the employer's contribution rate was cut from 25% to 10% (subsequently partially restored to 20%). In its revised wage guidelines issued after the economic situation deteriorated, the NWC recommended wage reductions of between 5% to 8%.<sup>76</sup> These guidelines went further than those issued in the aftermath of the 1985 recession, which only

urged "wage restraint." The Singapore government set an example by slashing many civil service salaries by up to 5% and freezing the salaries of ministers and senior civil servants.<sup>77</sup> The combined effect of this cost reduction package was to "plunge" Singapore's unit labour costs back to 1992/1993 levels.<sup>78</sup>

The NWC's wage guidelines helped Singapore recover strongly from its second recession by quickly restoring the export cost competitiveness, and the country's economy subsequently grew by 9% in 2000.<sup>79</sup>

## The COVID-19 pandemic in 2020

The NWC also played a role in dealing with the economic fallout of the COVID-19 pandemic. As retrenchments and unemployment in Singapore surged in the first half of 2020, the NWC urged employers to cut non-wage costs, manage excess manpower through the Tripartite Advisory on Managing Excess Manpower (TAMEM), and tap on the government's wage offsets schemes, such as the Jobs Support Scheme. It recognised that struggling employers could cut wages with management leading by example, but shielded low-wage employees by recommending a wage freeze or even a built-in increase of up to \$50.<sup>81</sup> In a rare move reflecting the severity of the crisis, the council issued supplementary guidelines in October 2020, urging employers to minimise retrenchments by imposing wage cuts

if necessary, within the framework of the FWS.<sup>82</sup> For low-wage employees, the NWC recommended a wage freeze and cautioned against cutting basic monthly wages to below \$1,400.<sup>83</sup>

Singapore saw its sharpest fall on record in total employment in the first half of 2020,<sup>84</sup> but by the second half of 2020, the labour market had improved, and unemployment and retrenchments had eased.<sup>85</sup> By October 2021, the NWC called on recovering employers to restore wage cuts or grant wage increases. The NWC also called for a wage increase of 4.5% to 7.5% of gross wages, or \$70 to \$90, whichever was higher, to enable the wages of low-wage employees to grow faster than median wages.<sup>86</sup>

<sup>76</sup>National Wages Council. 1998. "National Wages Council Revised Wage Guidelines For 1998 – 1999." Ministry of Manpower.

<sup>77</sup>Parliament of Singapore. 1999. Annual Budget Statement. Singapore, February 26.

<sup>78</sup>Ibid.

<sup>79</sup>Parliament of Singapore. 2000. Budget Statement. Singapore, February 25.

<sup>80</sup>National Wages Council. 2020. "National Wages Council 2020/2021 Guidelines." Ministry of Manpower.

<sup>81</sup>Ibid.

<sup>82</sup>National Wages Council. 2020. "National Wages Council 2020/2021 Supplementary Guidelines." Ministry of Manpower.

<sup>83</sup>Ibid.

<sup>84</sup>Ministry of Manpower. 2020. "Statement on Labour Market Developments in 1H 2020", September 14.

<sup>85</sup>Ministry of Manpower. 2021. "Statement on Labour Market Developments in 2H 2020", March 16.

<sup>86</sup>National Wages Council. 2021. "National Wages Council 2021/2022 Guidelines." Ministry of Manpower.

---

# Conclusion

This case study has looked at how the social dialogue facilitated by the NWC in Singapore played a central role in its economic success, particularly when it comes to ensuring equitable wage growth for employees via the mechanism of national wage guidelines.

The current environment of tripartite engagement is a result of Singapore's unique historical circumstances, and is maintained through continuous efforts at good-faith engagement. Deep tripartite social dialogue in Singapore, often forged through crises, builds trust among major economic actors, and broadens the legitimacy and acceptability of policies that the government decides to implement. There is a shared understanding, reinforced through the NWC, that employers and employees should share weal and woe, with an emphasis on protecting jobs. That there is broad consensus among the tripartite partners that wage adjustments should in general lag labour productivity growth speaks to the depth of trust in wage negotiations.

As Singapore's experience has shown, equitable wage-setting does not take a one-size-fits all approach. The shift from quantitative to qualitative wage recommendations, and the subsequent pivot back to quantitative recommendations particularly for low-wage workers, demonstrate the difficulties of designing wage guidelines that stay relevant over time. The NWC's wage guidelines have also proven to be remarkably effective despite, or perhaps because of, its non-mandatory nature, which gives trade unions and employers some leeway to address their specific circumstances.

Over the years, the NWC has expanded its mission to include facilitating wage reforms that improve Singapore's economic competitiveness, or to achieve other economic and labour policy objectives, such as encouraging the adoption of the FWS to tackle wage rigidity. Faced with today's changing profile of workers and labour market norms, Singapore's wage-setting model, and the 50-year-old institution of the NWC, may yet need to evolve again.

---

# Discussion questions

1. Are the gains from economic development in Singapore distributed equitably?
  - a. What was the role that social dialogue played in this aspect?
  - b. How can social dialogue in Singapore be improved?
  
2. What role does social dialogue play in economic development and industrial relations in your country?
  - a. How has its presence (or absence) helped or impeded national objectives?
  - b. How can it be improved?
  
3. Consider Hofstede's theory of cultural dimensions. How should social dialogue be organised differently for societies on opposite ends of the following dimensions:
  - a. Power distance index
  - b. Individualism vs. collectivism
  - c. Uncertainty avoidance
  - d. Masculinity vs. femininity
  - e. Long-term orientation vs. short-term orientation
  - f. Indulgence vs. restraint

## Annex 1: NWC members for 2022/2023<sup>87</sup>

NWC CHAIRPERSON			
1.	Mr Peter Seah Lim Huat	Chairman	DBS Bank Ltd
MEMBERS			EMPLOYER GROUP
2.	Dr Robert Yap	President	Singapore National Employers Federation
3.	Mr Gan Seow Kee	Vice-Chairman	Singapore Business Federation
4.	Mr Kuah Boon Wee	Vice President	Singapore Chinese Chamber of Commerce & Industry
5.	Ms Kohe Hasan	Board Member	Singapore Malay Chamber of Commerce & Industry
6.	Mr Alexander C Melchers	Council Member	Singapore-German Chamber of Industry & Commerce
7.	Mr Shakilla Shahjihan	Vice-Chairman	The American Chamber of Commerce in Singapore
8.	Mr Toshinari Miyamoto	Councillor	Japanese Chamber of Commerce & Industry Singapore
9.	Mr Federico Donato	President	European Chamber of Commerce in Singapore
MEMBERS			EMPLOYEE GROUP
10.	Ms Mary Liew	President	National Trades Union Congress
11.	Mr Desmond Tan	Deputy Secretary-General	National Trades Union Congress
12.	Ms Toh Hwee Tin	Director, Industrial Relations & Analysis Executive Secretary	National Trades Union Congress Food, Drinks and Allied Workers' Union
13.	Mr Sanjeev Kumar Tiwari	General Secretary	Amalgamated Union of Public Employees
14.	Mr Sazali Zainal	General Secretary	ST Engineering Staff Union
15.	Mr Lim Teck Chuan	President	Advanced Manufacturing Employees' Union
16.	Ms K Thanalechimi	President	Healthcare Services Employees' Union
17.	Mr Lim Wen Sheng	Deputy General Secretary	Food, Drinks and Allied Workers Union
MEMBERS			GOVERNMENT GROUP
18.	Mr Ng Chee Khern	Permanent Secretary	Ministry of Manpower
19.	Mr Gabriel Lim	Permanent Secretary	Ministry of Trade & Industry
20.	Ms Jamie Ang	Deputy Secretary (Transformation)	Public Service Division
21.	Mr Esa Han Hsien Masood	Second Deputy Secretary	Ministry of Social & Family Development
22.	Mr Tan Choon Shian	Chief Executive	Workforce Singapore
23.	Mr Tan Kok Yam	Chief Executive	SkillsFuture Singapore
24.	Mr Damian Chan	Executive Vice President	Economic Development Board
25.	Mr Png Cheong Boon	Chief Executive	Enterprise Singapore

<sup>87</sup>National Wages Council. 2022. Annex. National Wages Council 2022/2023.

ALTERNATE MEMBERS		EMPLOYER GROUP
26.	Mr Sim Gim Guan	Executive Director Singapore National Employers Federation
27.	Mr Lam Yi Young	Chief Executive Officer Singapore Business Federation
28.	Mr Neil Parekh	Chairman Singapore Indian Chamber of Commerce & Industry
29.	Ms Elisa Mallis	Vice-Chairman The American Chamber of Commerce in Singapore
ALTERNATE MEMBERS		EMPLOYEE GROUP
30.	Ms Yeo Wan Ling	Director, U SME and Women and Family Unit National Trades Union Congress
31.	Ms Sylvia Choo	Director, Workforce Unions Executive Secretary National Trades Union Congress Banking and Financial Services Union
32.	Mr Muhammad Aswadi Bin Salleh	General Secretary United Workers Petroleum Industry
33.	Mr Horson Cheong	President Supply Chain Employees' Union
ALTERNATE MEMBERS		GOVERNMENT GROUP
34.	Mr Poon Hong Yuen	Deputy Secretary (Workforce) Ministry of Manpower
35.	Mr Jason Chen	Deputy Secretary (Workplaces) Ministry of Manpower
36.	Mr Musa Fazal	Senior Director (Futures, Strategy and Plans) Ministry of Trade & Industry
37.	Mr Tan Kong Hwee	Executive Vice President Economic Development Board

## Annex 2: The role of social dialogue in wage determination

Of all employment benefits, wages have the most direct impact on the well-being of employees. When it was established in 1919, the original constitution of the ILO referred to the “provision of an adequate living wage” as crucial for the promotion of universal peace, and to combat social unrest, and the hardship and privation affecting large numbers of people. Accordingly, the ILO believes that adequate living wages are a basic requirement for social harmony and stability. One of the principles adopted by the ILO in 1944 says that labour “is not a commodity.” This is because the organisation foresaw that allowing wages to be completely determined by market forces will lead to serious social conflicts. As such, it is necessary for wages to be regulated through long-term collective agreements endorsed by the state.

In recent years, the advance of globalisation has contributed to greater wage volatility by subjecting labour to a larger array of unpredictable forces. Internationally mobile capital, which has been gaining economic and political influence, is a powerful lobby for deregulation which often makes waged labour more precarious.<sup>88</sup> Whereas wages primarily represent costs to employers, they affect employees' standard of living, motivation and self-esteem. For any discussion of wages to be sensitive and balanced, there must first be recognition of this difference in how employees and employers see remuneration.<sup>89</sup>

One way of moderating the more pernicious effects of capitalism is through social dialogue that promotes accommodation between capital and labour. As was the case in Singapore, social dialogue can promote consensus building and democratic participation, and once ingrained as a practice, allows different parties to engage in constructive problem solving that avoids social instability.

According to the ILO, social dialogue includes “all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and employees, on issues of common interest relating to economic and social policy.” Conditions conducive to social dialogue include strong, independent labour unions and employer associations; but more importantly, there must be political will to engage in social dialogue on the part of all stakeholders, and respect for freedom of association and collective bargaining.<sup>90</sup>

As demonstrated by Singapore’s approach to tripartite social dialogue, the state has a crucial role to play in the success of such interactions. The state can create conditions conducive for civil and constructive interactions that give adequate consideration to the differing interests of all stakeholders. In Singapore’s case, discussions at the NWC are moderated by a neutral chairperson who is not supposed to be partial to any vested interests. The fact that the NWC’s wage guidelines are submitted directly to the Prime Minister, endorsed by the Cabinet, then gazetted by the MOM legitimises them as a starting point for wage setting and wage negotiation between individual employers and employees or their unions.

<sup>88</sup>Smith, Mitchell P. 1998. "Facing the Market: Institutions, Strategies, and the Fate of Organized Labour in Germany and Britain." *Politics & Society* 26.1 35-67.

<sup>89</sup>Yun. 2003. Pg 118.

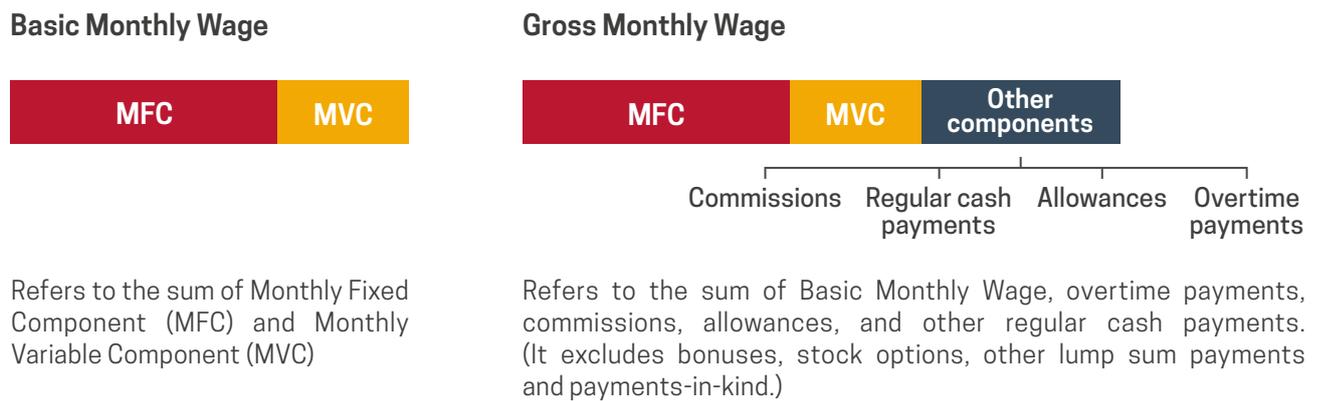
<sup>90</sup>International Labour Organization. 2022. “Social Dialogue”. Accessed May 22, 2022 at [https://www.ilo.org/actemp/areas-of-work/WCMS\\_731146/lang-en/index.htm](https://www.ilo.org/actemp/areas-of-work/WCMS_731146/lang-en/index.htm).

## Annex 3: The Flexible Wage System (FWS)

The FWS enables employers to rapidly adjust their wage costs in response to changes in economic conditions. It also allows employers to partially tie worker compensation to job performance, making it more immediately obvious to employees how their on-the-job performance affects their compensation.

Figure 2 and Figure 3 illustrates how monthly and annual wages are broken down in to fixed and variable components under the FWS.

**Figure 2: Fixed and variable components of monthly wages.<sup>91</sup>**



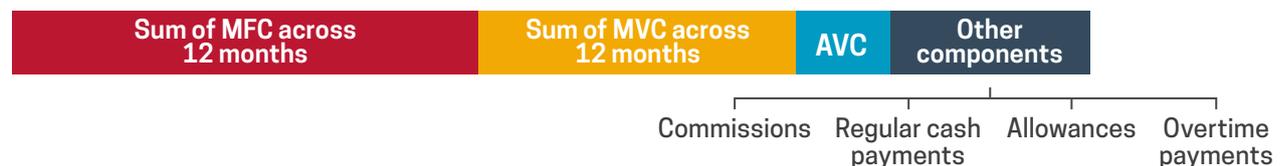
**Figure 3: Fixed and variable components of annual wages (AVC).<sup>92</sup>**

### Basic Annual Wage



Note: Some firms regard the Annual Wage Supplement (AWS), commonly known as the 13th month payment, as part of the fixed component in the basic annual wage, while others regard it as variable component in the basic annual wage. As the practice of AWS payment varies across companies, the NWC recommends that companies assess how much flexibility they require in their wage structures and decide accordingly if the AWS should be variable. When the AWS is regarded as variable, then it can be considered as part of the AVC. When the AWS is regarded as deferred fixed wages, it can be considered as part of the sum of MFC across 12 months.

### Gross Annual Wage

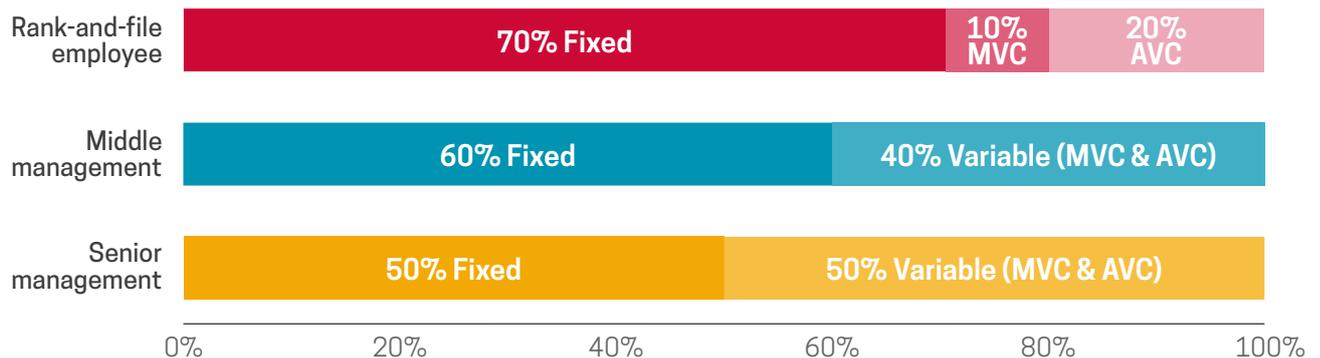


<sup>91</sup>Ministry of Manpower. 2021. Pg 6.

<sup>92</sup>Ibid.

To ensure more stable wages for low-wage employees, the NWC recommends for them to receive the majority of their pay as a fixed component (70%). Senior employees can receive more of their wages in variable components (up to 50%).<sup>93</sup> Figure 4 shows the ratio of fixed and variable wage components recommended by the NWC according to employee seniority.

**Figure 4: Ratio of fixed and variable wage components recommended by the NWC.<sup>94</sup>**



To ensure buy-in from employees, employers are advised to set clear key performance indicators (KPIs) that trigger wage adjustments. There should also be regular, transparent sharing of relevant business performance information with employees and their unions to build trust. Lastly, senior managers should set a good example by taking a larger proportion of their pay in variable components.<sup>95</sup>

Companies largely heeded this call to adopt flexible wages. By 1991, 71% of companies in Singapore had implemented some variable components in their wages.<sup>96</sup> However, businesses did not necessarily adopt all aspects of the FWS. In particular, the adoption of the monthly variable component (MVC) was slow. Many businesses did not see the need to complicate their wage structures, and reasoned that they would still be able to cut monthly wages in times of crisis even without the MVC.<sup>97</sup> By 2019, 29.3% of employees were under the FWS, although about 90% of private sector employees worked in firms that had implemented some form of wage flexibility in their pay structures.<sup>98</sup>

<sup>93</sup>Ibid. Pg 8.

<sup>94</sup>Ibid.

<sup>95</sup>Ibid. Pp 8–10.

<sup>96</sup>Loh. 2018. Pg 307.

<sup>97</sup>Ibid. Pg 310.

<sup>98</sup>Seow, Joanna. 2020. "Employers may implement temporary wage cuts to save jobs: National Wages Council." *The Straits Times*, October 17.

---

# Acknowledgements

This case study would not have been possible without the knowledge, experience and insights of those closely involved in wage setting in Singapore over the years. The Case Study Unit at the Lee Kuan Yew School of Public Policy gratefully acknowledges the kind contributions of the following individuals who were interviewed for the case study (in alphabetical order of surnames):

- Ms Cham Hui Fong, Deputy Secretary-General, National Trades Union Congress (NTUC) (2020 to present)
- Mr Aubeck Kam, Permanent Secretary, Ministry of Manpower (MOM) (2016 to 2022)
- Mr Koh Juan Kiat, Executive Director, Singapore National Employers Federation (SNEF) (1995 to 2020)
- Mr Stephen Lee, President, Singapore National Employers Federation (SNEF) (1988 to 2014); Advisor, Tripartite Collective (2021 to present)
- Ms Mary Liew, President, National Trades Union Congress (NTUC) (2015 to present)
- Mr Lim Boon Heng, Secretary-General, National Trades Union Congress (NTUC) (1993 to 2006); former Minister in the Prime Minister's Office (2001 to 2011)
- Prof Lim Chong Yah, Founding Chairman, National Wages Council (NWC) (1972 to 2001)
- Prof Lim Pin, immediate past Chairman, National Wages Council (NWC) (2001 to 2014)
- Mr Lim Swee Say, Secretary-General, National Trades Union Congress (NTUC) (2007 to 2015); former Minister of Manpower (2015 to 2018); Advisor, Tripartite Collective (2021 to present)
- Mr Ong Yen Her, Divisional Director for Labour Relations and Workplaces, Ministry of Manpower (MOM) (1985 to 2012)
- Mr Peter Seah, Chairman, National Wages Council (NWC) (2015 to present)
- Dr Robert Yap, President, Singapore National Employers Federation (SNEF) (2014 to present)

## ABOUT NATIONAL WAGES COUNCIL (NWC)

---

The National Wages Council (NWC) was established in 1972 to provide general guidelines on wage policy and recommended adjustments to wage structure. The NWC comprises of nominated representatives from the employer groups like the Singapore National Employers Federation (SNEF), union leaders from the National Trades Union Congress (NTUC), and senior representatives from the Government agencies. It meets annually, or more frequently when necessary, to discuss and forge national consensus on wage-related issues. Based on the tripartite consensus reached during discussions, an annual set of wage guidelines for employers and workers is issued.

## ABOUT THE TRIPARTITE COLLECTIVE (TC)

---

Jointly set up by the tripartite partners, Ministry of Manpower (MOM), National Trades Union Congress (NTUC), and the Singapore National Employers Federation (SNEF), the Tripartite Collective (TC) aims to strengthen the spirit of tripartism in the community by fostering trust and socialising stakeholders to the values and benefits of tripartism. The TC will bring together members from the tripartite community, academic, legal and media communities to exchange views and ideas on issues faced by employees and employers. Through such exchanges, the TC seeks to build relationships and develop capabilities within the community to further the development of progressive workplaces. To achieve these outcomes, the TC will commission research studies, conduct open dialogues and sharing sessions, and organise capability development programmes.

### **Tripartite Collective**

80 Jurong East Street 21, #05-05/06  
Devan Nair Institute for Employment and Employability  
Singapore 609607

[www.tal.sg/tripartite-collective](http://www.tal.sg/tripartite-collective)



# ABOUT THE CASE STUDY UNIT AT LEE KUAN YEW SCHOOL OF PUBLIC POLICY

---

## *Lee Kuan Yew School of Public Policy*

The Lee Kuan Yew School of Public Policy (LKYSPP) is an autonomous, professional graduate school of the National University of Singapore. Its mission is to educate and train policy-makers and leaders, with the objective of raising the standards of governance throughout the region, improving the lives of its people, and, in so doing, contributing to the transformation of Asia and beyond. In addition to Masters and PhD programmes, the LKYSPP offers high quality customised Executive Programmes that cater to the needs of time-constrained senior managers and professionals, with the aim of delivering creative solutions to real management and leadership challenges.



Lee Kuan Yew School of Public Policy  
<https://lkyspp.nus.edu.sg/>

## *Case Study Unit, Lee Kuan Yew School of Public Policy*

From Singapore's last kampong and Shanghai's waste sorting system to the challenges of blockchain technology and big data, the Case Study Unit (CSU) at the Lee Kuan Yew School of Public Policy (LKYSPP) produces case studies that cover a wide range of issues in public policy, administration and management with an Asian focus. Our case studies typically focus on a central tension stemming from multiple interests and perspectives encountered by real-world policymakers, and use public policy frameworks to analyse present-day problems. Our repository of over a hundred case studies can be found in the LKYSPP Case Study Library. These are used in classroom teaching for degree and executive education programmes at the school, and are freely accessible to the public. The CSU also promotes the use of case studies for public policy learning and public sector training. We work with organisations that would like to commission case studies, and provide training and consultancy on writing and using case studies.



Case Study Unit, Lee Kuan Yew School of Public Policy  
<https://lkyspp.nus.edu.sg/research/case-study-unit>