Bosses fear tighter rules for foreign hires may stunt growth, raise costs

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Economists welcomed the Manpower Ministry's move to tighten salary criteria for S Pass and Employment Pass (EP) holders, but bosses are concerned about the impact on costs, labour shortage and Singapore's competitive edge.

Irvin Seah, senior economist at DBS, has called for foreigners' salary thresholds to be brought in line with the past decade's rise in local wages, "to ensure policy relevance and policy effectiveness in the long term".

But Jacky Goh, director of Prime Force Engineering, said the latest changes "will definitely affect our costs, which will then have to be passed on to consumers".

"Of course, we want to support Singaporeans," he added, but some types of jobs, such as excavator operator and prime mover roles, are simply "not popular" with locals.

Suresh Shankar, CEO of software firm Crayon Data, noted that effectively reducing the foreign workforce in high-skill, knowledge-based industries would require building up the skills of the local talent pool in tandem with raising the salary requirements. Otherwise, companies will not be able to make the necessary changes to their workforce or handle the increased costs.

"In the early years of Crayon, we tried to hire more from the universities, but the student population was more than 60 per cent to 70 per cent foreigners studying here... The supply of local talent needs to match the demands of the industry," Mr Shankar said, citing data science as an area where he struggles to hire locally.

The Singapore National Employers Federation (SNEF) said that the changes could improve the quality of Singapore's workforce over time, as employers develop a Singaporean core and bring in better quality foreign manpower.

However, ample time should be given before the changes apply to existing passholders, since some of them may have taken wage cuts alongside local employees, it added.

"Employers hire based on business needs, and the vast majority of employers are fair and responsible," said SNEF executive director Sim Gim Guan. "The key is for Singaporeans to develop and gain relevant skills and experience to be able to take up these roles."

Currently, businesses may be able to cope by reducing their foreign workforce without hiring replacements, given lower activity amid the coronavirus pandemic.

But some worry that they will be caught in a bind when things turn around.

Oh Ser Wah, founder and CEO of information and communications technology (ICT) firm Whizpace, said the changes would make it difficult to keep up the research and development (R&D) work his company needs to develop new products.

"The government has mentioned there's an ICT shortage in Singapore. When we advertise for our openings, we receive very few resumes, and sometimes we have no choice but to hire from overseas," he said.

The high cost of maintaining employment passes has led the company to keep its foreign workforce to a minimum, especially during the current crisis.

But Whizpace will eventually need to resume its R&D activities, and Dr Oh said he would have no choice but to hire talent from overseas despite the higher costs.

Edward Wong, president of the Spa and Wellness Association Singapore, also said his industry may face a dilemma when the economy recovers, as the number of Singaporeans in the industry has been declining over the years. Even vocational institutes have not been able to attract students to the industry, he noted.

When business picks up again, it's "either the industry can't grow, or we'll still have to rely on foreign workers - but we pay more for them and therefore have to charge more to customers", Mr Wong said.

Economists acknowledged trade-offs from the tighter rules, with Maybank Kim Eng senior economist Chua Hak Bin saying: "Some firms may choose not to invest and expand in the face of rising labour costs, impeding the economic and jobs recovery."

They stressed that the revised criteria are meant to support local wages, rather than to drastically cut the size of the foreign workforce.

Christopher Gee, a senior research fellow at the Institute of Policy Studies, called the policy move "a strong signal on the lower boundary of wages... not just for foreigners but also for the market as a whole".

Even so, "higher salary thresholds for foreign workers may tip some firms to hire more locals", since there are more unemployed workers than job vacancies, said Dr Chua.

Economist Walter Theseira, an associate professor at the Singapore University of Social Sciences, also said "the carrot of subsidised Singaporean wages and the stick of having to pay higher wage costs for foreigners" could push employers to spend more time on local job candidates.

Mr Gee added that there may be productivity gains, despite the short-term hit, as firms adjust to new wage levels or restructure their operations.

That's even as benefits of the tweak will not likely be immediate.

"In terms of having a drastic effect on the resident unemployment rate, we have to bear in mind that this is not a cure-all solution, because... we are already in the worst recession since independence," said Mr Seah.

Prof Theseira also warned that whether hiring shifts towards locals depends on factors such as "how radical the changes are in the wage floors" and "whether employers are able to generate more value out of foreign workers even after wage hikes".

But, on whether Singapore's global competitiveness could slip, Mr Seah said multinationals that reap tax and other advantages here should also be prepared to invest in local talent.

"I don't think there's any issue if they parachute in their top management, but the issue is fresh hires and mid-level workers," he said.

Mr Gee added: "If we envision Singapore as a dynamic, thriving business hub, then surely workers here should have dynamic, appropriately-paid jobs... We cannot be a First World economy paying Third World wages."