

Foreign workforce: take into account economic cycles

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Singapore's shrinking resident population has many serious consequences, and it must allow a certain rate of net immigration to augment its resident population, Ravi Menon, managing director of the Monetary Authority of Singapore (MAS) said on Monday.

And while the share of foreign workforce cannot be increased indefinitely, there should be flexibility in allowing fluctuations in the ratio according to economic cycles, circumstances, and opportunities, he said.

"This is not just about numbers but about rejuvenation and expanding our talent base," Mr Menon pointed out.

He explained that raising the fertility rate, increasing labour productivity, and boosting labour force participation are options to soften the hard constraints faced, but they are still not enough.

Mr Menon was speaking on "Economic Dynamism Amidst Demographic Change" at the Singapore Perspectives 2018 conference organised by the Institute of Policy Studies (IPS).

He told the audience: "The underlying demographic slowdown is so severe that it is neither feasible nor desirable to try to completely offset it through immigration or foreign workers."

He said that even as Singapore must accept a slower rate of labour force growth, it must make balanced choices to address the issue.

The country's growth demographic constraints - specifically its shrinking resident population growth dragged down by declining fertility and tighter immigration flows - will continue to weigh on the economy if not addressed.

But even though population challenges do not determine its destiny, there are still inevitable choices that Singapore will have to make if it wants to grow at a "reasonably good rate" of above 2 per cent.

On the foreign workforce, Mr Menon said: "It is not about how many foreign workers industry wants or society can afford to have, but what number and kind of foreign workers we need to maximise the job and wage opportunities for Singaporeans," adding that it is about the specific skills of foreign workers that Singapore should focus on, and not just the quantity.

Economists have long expressed concerns about the impact of an ageing population, with an earlier UOB report in December 2017 describing the situation as a ticking "demographic time bomb", with implications on costs, taxes, labour and productivity.

Bank of America Merrill Lynch economist Mohamed Faiz Nagutha told The Business Times that there are two options if the resident labour force continues to decline. The first is to be open to foreign workers and to structurally improve participation rates among older workers and women to at least keep the labour force growth positive, he suggested.

"Failing that, the economy may have to settle for one to 2 per cent growth in the long run. Which means wages and asset prices will also not grow meaningfully," he said. "Lower workforce growth is a reality we have to live with, which means structurally lower GDP (gross domestic product) growth as well."

But economists concur that there is no easy solution.

OCBC economist Selena Ling said that bolstering Singapore's domestic labour force with immigration or foreign workers is not as straightforward as it seems.

"It's not a pure economic trade-off. There are also social and political considerations. There is the need to balance the needs of businesses together with the groundswell of the man on the street, as well as the ability to push out infrastructure to accommodate the numbers."

There have been growing calls for more flexible manpower policies in the past few weeks by some business associations and consultancies in their recommendations for Budget 2018.

In particular, KPMG suggested that the government allow companies to hire more foreigners - especially in fast-growing tech segments such as cybersecurity and data analytics, as concerns rise over a shortage of tech talent and its dampening effect on growth.

This was similar to calls by the Singapore Business Federation for the city-state to get access to skilled talent from abroad in emerging growth sectors to help companies continue their digital transformation journeys.

Economists said that labour remains a policy challenge and could even be addressed in the upcoming Budget 2018.

Foreign workers certainly do have an economic spin-off, but it's about managing the pace, added OCBC's Ms Ling. "It boils down to what is an acceptable labour growth rate and what kind of numbers we are bringing in. Now that the global economy is in an upswing, businesses are looking to increase hiring and their capex. The manpower issue will come back."