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Relook Link Between Low Wages and Foreign Workers

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Singapore's economy underwent structural shifts from 2002 to 2012, when manufacturing's share of the total labour force and stock of foreign direct investments declined, with the gains going to the service sector. These shifts require us to look at issues of providing and designing optimal social safety nets. ST FILE PHOTO

Relook link between low wages and foreign workers

By **HOON HIAN TECK**
FOR THE STRAITS TIMES

IT APPEARS to be a commonplace idea in public discussion that the huge inflow of foreign workers in the past decade caused a stagnation and even decline in real wage earnings of Singaporean workers in the bottom half of the income distribution.

The reasoning offered is that the ready supply of a non-resident workforce presented firms here with the incentive to substitute away from local mid- to low-skill workers, thus depressing their wage earnings.

The story sounds plausible. But do the facts support this thesis?

The size of the non-resident workforce declined in 2002 and 2003, stayed flat in 2004, and experienced substantial increases in 2005, 2006 and 2008.

The median real wage earning was flat in 2003 compared with 2002, and declined in 2004 before beginning a strong recovery from 2005 just as the foreign workforce grew significantly.

The real wage earnings of the bottom quintile declined from 2002 before beginning a recovery from a low bottom in 2006.

The timing of the recoveries of real wage earnings of the median worker as well as workers in the bottom quintile suggests that it is not the case that the huge inflow

of foreign workers caused the wage stagnation. This is because these wages started to recover around 2005 and 2006 – when the number of inflows of foreign workers was reaching its peak.

The recessions in 2002 and 2003 certainly affected low-wage workers disproportionately – despite the fact that foreign workers were repatriated in those years.

Data from Singapore's Ministry of Manpower shows that, except for the 2009 financial crisis year, the annualised average monthly recruitment rate – which measures the average number of persons recruited in a month per employee – increased from 2004 onwards. The pickup in recruitment would be consistent with an improvement in business sentiment and investments.

What the data suggests is that the huge inflow of non-resident workers in 2005 and later was a response to the pickup in business sentiment and inflow of foreign direct investments in the second half of the decade.

What appears to have happened is that, after the turbulent years of the end of the US Internet stock market boom in 2002 and Sars in 2003, bullish sentiments and big inflows of foreign direct investments led to the creation of new job vacancies.

So many new job vacancies were created, especially in the service sector, that despite the huge

increase in the non-resident workforce the labour market tightened further and wages, including those for the median and bottom quintile workers, were boosted. This would explain why wages rose, not fell, in the years when the number of foreign workers also rose.

What the experience of the past decade suggests is that the strong reputation Singapore has built up over the years as an economy that is open to the inflow of goods, capital and labour has given it a huge advantage that it must continue to leverage, even as it takes into account the constraints of land.

With the benefit of hindsight, I believe that we can think of 2002-2012 as highlighting a period when the economy was undergoing structural shifts that we are slowly getting to better understand.

In particular, the manufacturing sector's share of the total labour force and stock of foreign direct investments has declined decisively in the past decade, with the gains going to the service sector.

For example, the share of the total labour force working in the manufacturing sector has declined from about 20 per cent in 2002 to just below 16 per cent last year, while the service sector now accounts for more than 70 per cent of the employed workforce. The manufacturing share of the to-

tal stock of foreign direct investment also declined from 37 per cent in 2002 to just over 20 per cent in 2010.

In turn, these structural shifts have major socioeconomic consequences, requiring society's effort to look at issues of providing and designing optimal social safety nets.

This is needed as jobs move out of the manufacturing sector to the service sector. While there may still be net job gains, the truth is that many who lost jobs in manufacturing may not be able to adapt to the new kinds of jobs in services, and will need social assistance.

The challenge for us is to provide for the needs of the economically less advantaged in Singapore in a fiscally sustainable way.

Fiscal sustainability requires that the economy maintain its dynamism, which comes from riding the waves of opportunities that the global economy throws up.

Singapore embraced this economic openness in its past nearly half century and enjoyed the fruits of that economic integration. It must now find a means to gear its political and economic institutions to continue to embrace economic openness in the next half-century, in order to be able to deliver good jobs and wages.

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