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In Singapore, productivity at all costs

By Megawati Wijaya

SINGAPORE - As Singapore's trade-geared economy contracted sharply amid the global economic downturn, the government fired up its fiscal engines to drive short-term growth and job creation. Now, buoyed by recovery, the People's Action Party (PAP)-led administration is shifting fiscal gears by dedicating billions of state funds to improve long-term economic productivity.

The recently passed S$46 billion (US$33 billion) budget reaffirms Singapore's commitment to state-led economic development and signals an ambitious investment plan that aims to keep the increasingly service sector-driven economy one step ahead of its regional competitors.

The new budget dedicates S$5.5 billion to boost overall annual productivity gains over the next 10 years to 2% to 3% , which if successful would represent a significant boost from the 1% achieved annually over the past decade.

Part of the package will be allocated to companies and individuals in the form of tax benefits, grants and training subsidies. About S$1.5 billion will go over a five-year period towards the promotion of research and development, and another S$450 million to boost public-private sector collaborations. It further allocates more than $500 million to build corporate competitiveness, including by upgrading local companies' staff and capabilities. A new high-level state body, the National Productivity and Continuing Education Council, will be created to oversee all the state-led, productivity-enhancing initiatives.

The new budget "focuses on building up the capabilities we need for a phase shift in our economy over the next decade, with growth being based on the quality of our efforts rather than the ever-expanding use of manpower and other resources," said Finance Minister Tharman Shanmugaratnam. "Our priority during last year's global crisis was to keep jobs. Our priority must now be to improve the quality of jobs."

The previous budget was forged in a time of crisis and aimed mainly to save the trade reliant economy from collapse. Singapore entered into recession at the end of 2008 - the first Asian country to do so - after recording two consecutive quarters of shrinking gross domestic product (GDP). Data released in January indicates the economy contracted 2% in 2009, a stronger than expected performance despite the overall decline.

At the height of the crisis, the government mobilized S$20.5 billion in a so-called Resilience Package with the main aim of saving jobs. For the first time, Singapore tapped into its foreign reserves to bankroll the S$4.5 billion Job Credits scheme, which saw the government pay a proportion of companies' salaries to ease the financial burden of employers and keep Singaporeans at work.

The economy has since bounced back, witnessed in a booming property market and a fast recovery in exports. Officials expect economic growth to range anywhere between 4.5% and 6.5% this year, in line with a recovery in global trade. In response, the government has repealed the personal tax rebates it promoted over the past two years and against expectations failed to cut personal income tax rates which top out at 20%.

Fiscal shift
The government's abrupt fiscal shift from crisis management to long-term productivity growth has won plaudits from market analysts. Singapore's productivity growth has been stagnant in recent years despite government efforts to lead the economy in more high-tech directions, including ventures into industries such as biotechnology and nanotechnology. Singapore's productivity is now only 55%-65% of comparable measures in the US and Japan, analysts say.

"Declining productivity is a drag on the country's potential economic growth, and the global economic malaise of 2008 and 2009 has drawn attention to the urgent need to address this challenge," said Eugene Tan, assistant professor of law at the Singapore Management University.

The new productivity-geared budget followed closely the recommendations of the Economic Strategies Committee (ESC), a 25-member body set up last year to respond to the global recession. According to the finance minister, the ESC is tasked to "develop strategies for Singapore to build capabilities and maximize opportunities as a global city in a new world environment, so as to achieve sustained and inclusive growth".

Economist Song Seng Wun of CIMB-GK Research said: "While this may sound like a new theme, it is really a rehash of the theme of turning Singapore into a more globalized, entrepreneurial and diversified economy, with economic growth of 3% to 5% per annum over the medium to longer term. The difference this time is that growth should be less dependent on foreign labor and more on productivity."

Government leaders have long recognized that given the small island nation's limited natural resources, human resources are key to economic success. Continuous efforts have been taken over the years to enhance productivity and identify new high-end niches of economic growth. In 1972, Singapore set up the National Productivity Board (NPB) to improve individuals' and companies' productivity in all sectors of the economy.

The NPB adopted a so-called "total productivity" approach, which emphasized productivity measurement, product quality, worker training, and assistance to small- and medium-sized enterprises (SMEs). In 1982, NPB launched a nationwide productivity campaign to encourage the move from labor-intensive activities to more highly-skilled and technology-driven work.

Part of that campaign included the creation of a national mascot, Teamy the Productivity Bee, which was made popular on state-controlled television and newspapers. The campaign targeted a change in work attitudes and management practices, and included a system of national awards to reward model productive practices in the form of paid holiday tours, exchanges or study trips. The state-led campaign is given credit for changing corporate attitudes, seen in average productivity growth of 4.8% per year between 1981 and 1990.

The productivity campaign was later phased out as the country pursued more growth and profit opportunities in the global marketplace, including major state-led investments in service sector companies across the region. At the same time, faced with low-cost competition from developing countries such as China, India, and Vietnam, the government tweaked its immigration policies and opened its doors to more cheap foreign labor to keep pace.

The government's renewed emphasis on productivity is already winning praise in the local business community. In a recent op-ed in the local Straits Times newspapers, prominent businessman Ho Kwon Ping called the budget 2010 "a transformational budget" that marks "a major government re-think of economic policies since the last major re-think of the 1980s".

In the 1980s, "the objective was to get out of the cheap-labor trap and to move into high-skill industries, and the role of the budget was to create incentives and disincentives for this transformation," he said. "Today, Singapore's falling productivity against a background of slowing or stagnant levels of new capital investment has prompted the recognition ... to transform low-productivity sectors like construction and non-financial services."

Many here have blamed the import of low-skilled cheap foreign workers to work in construction and low-end service industries as one major reason for falling productivity rates. The government plans to address this trend by increasing the levy on foreign workers' beginning July 1. "If we make low-cost foreign workers too readily available, employers will not have sufficient incentive to upgrade their operations and upskill their workers," said Shanmugaratnam in justifying the new tax policy.

Widening gaps

While nearly all agree that raising productivity is a worthwhile pursuit, analysts say the road to actual improvement is difficult to map. Already a debate is stirring in parliament over how to define productivity gains and whether working longer hours and stretching budgets tighter are appropriate strategies. Parliamentarian Amy Khor noted reports that asserted productivity efforts have recently been "fruitless" because "people are [already] working really hard these days and even harder than before".

Economists say that Singaporeans are generally working harder just to meet a rising cost of living, seen in rising housing, health care and daily living expenses. Human resource specialist Robert Half says that workplace stress levels in Singapore rank behind only Japan and contribute to other national problems such as a stubbornly low birth rate. If the definition of productivity is not clearly articulated, the "misunderstanding of productivity will crush the average Singaporean worker," said parliamentarian Khor.

Other analysts question the attainability of doubling productivity in the context of the current competitive global economy. They note Singapore's extraordinary productivity gains in the 1980s came in an era when fewer countries were export-oriented and competing for foreign investments. Parliamentarian Josephine Teo said the national targets of 3%-5% are too broad and suggested instead different targets be set for specific business sectors.

Some fear the new state-led drive towards productivity will accentuate an already widening gap between rich and poor. They note that most low-wage workers will not be able to afford to take time off for formal training programs. Minister Shanmugaratnam argues that the new budget has placed "additional emphasis on older, low-wage workers” and noted that S$100 million will be allocated to fund workers' training and time-off schemes.

He said the government is committing significant budgetary resources to help workers gain better skills, jobs and incomes, and if everyone plays their part, no one will be left behind.

Singapore has long touted its working society as a meritocracy, but some say the result has been fast widening gap between rich and poor. Despite a decade of usually fast economic growth, Singapore's Gini coefficient - a statistical measure of income inequality - has increased in the past decade and at 0.48 is way below other, more equitable high GDP-per-capita Asian countries such as Japan and South Korea.

Minister mentor and ex-prime minister Lee Kuan Yew last year rejected the idea of setting up minimum wages and said the widening social divide is inevitable in a maturing economy such as Singapore's. While workers in developed Western countries tend to have social safety nets to fall back on in times of economic need, Singapore has eschewed welfare programs - though government spending on assistance programs rose by over 30% during the recession.

Most of those programs will be cut with the new productivity-focused budget. Opposition leader Sylvia Lim of the Workers' Party cautioned earlier this month that as Singapore pursues fast economic growth and productivity gains, the average citizen must also feel the gains. She cited an article by Centennial Group economist Manu Bhaskaran which noted that almost half of national profits went to foreign companies and queried whether the majority of Singaporeans have benefited from a rising gross domestic product.

Its a debate expected to intensify as Singapore puts less emphasis on social spending and more towards corporate productivity.