

National Wages Council Wage Guidelines For 2001 – 2002

Economic Performance in 2000

1. The Singapore economy grew by a strong 9.9% in 2000, after a 5.9% growth in 1999. External demand was the primary growth engine, but robust household consumption and business investment also contributed to the expansion. Although overall economic growth was strong, there were differences in performance among sectors and companies. For example, the manufacturing and wholesale & retail sectors enjoyed double-digit growth, while the construction sector was still contracting. Even within fast growing sectors, the performance among segments was uneven.

Labour Market

2. The labour market improved in line with stronger economic growth. The average unemployment rate trended downwards from a high of 3.5% in 1999 to 3.1% in 2000. Total employment expanded by 108,500 compared with a net job gain of 39,900 in 1999. With the pick-up in business demand, the number of retrenched workers (based on a survey of private sector establishments with at least 25 employees) fell to 11,600 last year, down from 14,600 in 1999.

Productivity

3. Productivity grew at a healthy pace of 5.6% in 2000, slightly slower than the 6.3% growth in 1999. The manufacturing sector chalked up the highest productivity gain, followed by wholesale and retail trade. However, construction, financial services and business services continued to record productivity declines.

Wages

4. In line with the strong economic expansion, total wages increased by 6.6% in 2000. Basic wages increased by 4.9% for all employees, substantially higher than the 2.1% registered in 1999. Taking into account the 2% points restoration in the employer's CPF contribution in April 2000, the change in overall wage cost would amount to 8.5%.

Cost Competitiveness

5. Business costs in the manufacturing sector continued to decline in 2000, with the unit business cost index falling by 1.1%, after a 10% decline in 1999. The manufacturing unit labour cost (ULC) declined by 7.1% on the back of a 12% increase in manufacturing labour productivity. Government rates and fees rose by 10% in 2000, after a 17% decline a year earlier, mainly due to higher

industrial property prices and the reduction in property tax rebates. Services costs rose by 3.0%, as higher cost of transport, financial services, warehousing and utilities outweighed cheaper rentals and telecommunications costs.

6. The improvement in our ULC has translated into greater cost competitiveness relative to our key competitors, as measured by the relative unit labour cost (RULC) index. The RULC index for the manufacturing sector declined by 4.4% last year after falling by 21% in 1999.

Economic Outlook in 2001

7. After the strong growth last year, the external environment has suddenly turned negative. In particular, the US economy slowed rapidly. Growth fell from 5.6% in the second quarter of 2000 to 1.0% in the fourth quarter. It, however, picked up by 2.0% in the first quarter of 2001. While the US economy is still weak, the consensus is that it would turn around in the second half of the year.
8. Meanwhile, the global electronics industry is on a cyclical downturn. Worldwide semiconductor sales peaked in the second quarter last year and have decelerated rapidly. The decline is sharper and more rapid than in previous cycles. US new orders for electronics components continued to decline in March.
9. The Japanese economy has moderated sharply, with continued declines in industrial production and deepening deflationary pressures. The Yen has also weakened in the last few months. All these will dampen growth in the Asian economies considerably. Social and political problems in some regional countries also remain a concern to investors.
10. Singapore's growth this year will therefore be significantly affected. Non-oil domestic exports and manufacturing production have slowed considerably. GDP growth in the first quarter this year has declined to 4.5%, down sharply from 11 % in the previous quarter. Taking these factors into account, MTI has revised its 2001 growth forecast to 3.5-5.5%. The final outcome will depend on how soon and how strongly the US economy and the electronics industry rebound in the second half of the year. The NWC notes that despite the current downturn, Singapore is still expected to achieve positive growth this year. Consumer price inflation is expected to remain moderate at 1-2% in 2001, after increasing by 1.3% in 2000.

Wage Guidelines for 2001-2002: A Cautious Approach in Managing Wage Cost

11. In the light of the slowdown of the US economy and regional uncertainties, which will have a significant impact on Singapore's economy, the NWC is of the view that a cautious approach should be adopted in dealing with the issue of wage cost this year. In determining this year's wage increase, the restoration of the 4 percentage-points in employers' CPF contribution in January 2001 should also be taken into consideration if companies have not

already done so. These would help to ensure that our cost competitiveness will not be eroded and jobs could be preserved. The Council is also of the view that for wage increases to be sustainable in the long run, the established principle that built-in wage increase should lag behind productivity growth rates needs to be upheld.

12. Taking into consideration the general economic conditions and the substantial wage increases enjoyed by workers last year, the NWC recommends that, in general, wage increase this year be lower than that of last year, and specifically:
 - (A) Companies which are profitable and are performing well should reward workers with wage increases commensurate with their respective companies' performances and prospects, taking into consideration the need to remain cost-competitive in less favourable economic conditions. Companies which are performing exceptionally well should also reward workers with an additional bonus to recognise their contributions;
 - (B) Companies which are making lower profits compared to last year and are facing uncertain prospects should consider lower wage increases in line with their companies' circumstances. Should the performance of the company improve, workers should be rewarded with a one-off payment;
 - (C) Companies which are incurring losses and performing poorly could apply wage freeze or appropriate cost reduction measures including wage cut (through MVC where it is available), or grant wage increase, if there is justification to do so. Companies which are considering wage increase could grant a one-off payment instead, so that the increase in wage cost is not of a permanent nature.
13. If the Singapore economy performs better than expected in 2001, employers should consider rewarding workers with a special one-off payment in line with company performance.
14. As in previous years, companies should consider the inclusion of a dollar quantum in the payment of their wage increase to benefit lower-income employees.

Immediate Implementation of the Monthly Variable Component

15. The NWC recommended the adoption of the Monthly Variable Component (MVC) in 1999 and 2000. This is to make our wage system even more flexible to better cope with the rapidly changing business conditions and an increasingly competitive business environment.
16. The NWC is pleased to note the significant progress made in the implementation of MVC in the unionised sector from 11% of companies in 1999 to 29% in 2000. However, the progress in the non-unionised sector is not

satisfactory where the rate of MVC implementation increased only marginally from 2.2% of companies to 2.4% during the same period.

17. For companies to remain cost competitive and to minimize job losses, the NWC strongly urges companies, particularly those in the non-unionised sector, to implement the MVC as soon as possible. The NWC recommends that companies granting wage increase this year should set aside a substantial part or the entire wage increase as MVC so that the flexibility of our wage system could be further enhanced. Early implementation of the MVC would provide companies with the ready means to make quick adjustments to their wage cost in a sudden business downturn.
18. While the reduction in employers' CPF contribution has effectively helped companies to remain viable in two recessions, the NWC notes that CPF cuts affect all employees regardless of the individual company's performance, as well as workers' savings for housing, medical and old age needs. The NWC is of the view that companies should not rely on a CPF cut to reduce cost in a business downturn but should instead build in their wage structure a flexible MVC that would be responsive to changing business conditions of individual companies. Such a mechanism would also enable the MVC component to be restored when business conditions improve.
19. Hence the advantages of MVC are to help companies adjust cost flexibly and nimbly, to preserve jobs in a rapidly changing business environment, and to avoid or minimise the need for a cut in CPF which affects workers' savings for retirement and other needs.

Restoration of Employers' CPF Contribution

20. The 10 percentage-point cut in employers' CPF contribution has contributed significantly to the reduction in Unit Labour Cost and Unit Business Cost in the recent severe economic downturn. The NWC notes that the government has restored 2 percentage-points in April 2000 and 4 percentage-points in January 2001 of the CPF in view of the strong economic recovery in 1999 and 2000.
21. To ensure that workers have adequate CPF savings to meet their old age, housing and medical needs, the NWC urges the government to restore the employers' CPF contribution rate eventually back to 20% at a pace which the economy can bear and without eroding business competitiveness. In this regard, the NWC notes that the government has indicated that it would decide later in the year whether to further restore part of the remaining 4 percentage-points of employers' CPF contribution in 2002 after reviewing the economic situation and assessing the prospects for growth.

Investing in Human Capital to Enhance Capabilities and Employability

22. Rapid advances in technology and intense global competition in the knowledge economy require businesses not only to remain cost-competitive, but also to enhance their innovation capabilities in order to move higher up the value-added ladder. To remain employable and benefit from the opportunities provided by high value-added jobs, workers will also need to constantly acquire new skills throughout their working lives.
23. The NWC notes that about one-third or 500,000 of the resident workforce has less than secondary education. 60% of these workers are over 40 years old and had missed out on educational opportunities in the sixties and seventies. This category of workers is most vulnerable to retrenchments and will face difficulties in securing alternative jobs. While the Skill Re-development Programme (SRP) has provided workers with training opportunities and subsidies to undergo skills upgrading, more needs to be done to prepare them for jobs which require new or higher skills. In this regard, the NWC further notes that the government has introduced several other major training programmes and schemes, including the Manpower Development Assistance Scheme, the National Skills Recognition Scheme and the Strategic Manpower Conversion Programme. The government has also set up a \$5 billion Lifelong Learning Endowment Fund to be built up over 5 years.
24. To enhance the capabilities of our workforce and workers' employability, the NWC strongly urges employers to take advantage of these programmes and schemes and invest more in human capital as their competitive edge. Companies in Singapore have, on average, allocated 3.6% of their payroll for training. This is close to the national target of 4%. Given the importance of investment in human capital in the New Economy, the NWC suggests that the national target of 4%, which was set some years ago, be raised so that companies could allocate more resources to enhance the capabilities of their workforce. The NWC recommends that greater opportunity for training be provided for older workers, who are increasingly facing difficulty in seeking re-employment due to lack of relevant skills and employers' preference for younger workers. Given the necessary training, older workers will be able to take on new jobs and remain employable. This would also help reduce our heavy reliance on foreign workers.
25. The NWC is confident that with employers, trade unions, workers and the Government playing an active role in skills upgrading and the development of human capital, we are able to meet the manpower challenges of the New Economy.

Application of NWC's Recommendations

26. The NWC recommendations are applicable to all employees (management, executives and rank-and-file employees), unionised and non-unionised companies and in both the public and private sectors.

27. To facilitate wage negotiations, companies should share relevant information on company performance and business prospects with employees and their representatives.
28. The recommendations shall take effect for the period 1 July 2001 to 30 June 2002.

Conclusion

29. The strong tripartite partnership fostered over the years has enabled Singapore to respond effectively to the challenges of global competition. In good years, employers have rewarded workers with substantial wage increases and additional bonus payments, apart from other company benefits. In times of adversity, workers have made sacrifices and accepted wage and CPF cuts to help companies remain viable and preserve jobs. Tripartite partnership in Singapore is not just a competitive advantage in economic terms, it is our social capital, bringing about a high level of trust, teamwork and synergy, which will ensure that Singapore continues to enjoy strong economic growth for the benefit of all.
30. Although our economic prospects are uncertain and this year's growth rate is likely to be significantly lower than that of last year, the NWC is confident that, given our strong tripartite nexus, its recommendations will be smoothly implemented.