

NWC Recommends Wage Restraint for 1998 - 1999

Regional Economic Turmoil

1. Asian economies have been hard hit by the regional financial turmoil. Given our close linkages with the region, Singapore is not spared from the economic turbulence, though the impact is less severe. In February 1998, MTI revised Singapore's 1998 economic growth forecast down from 5%-7% to 2.5%-4.5%. The growth rate in 1997 was 7.8%.
2. The regional financial crisis poses a big challenge to Singapore and our workers. Our employers and workers must brace themselves and lower their expectations to face the difficult times ahead. While the overall economy will slow down, not all sectors will be affected equally. Some companies will remain profitable while others will suffer losses under the weight of the regional economic turmoil. To remain viable and competitive in a fast changing business environment, companies will have to restructure and improve their productivity.
3. Business competitiveness can be enhanced by cutting cost and increasing productivity. The Government, employers and workers and their unions must continue to work together to achieve these goals so as to minimize job losses. At the same time, it is imperative that our workers upgrade their skills and enhance their employability for the new industries of the future. The threat of a structural unemployment occurring in Singapore is very real.

Economic Performance in 1997

4. The growth rate of 7.8% in 1997 was faster than the 6.9% growth in 1996. However, growth momentum was uneven during the year, being influenced by two opposing forces, namely the pick-up in global electronics demand and the regional economic downturn.

The Labour Market

5. The labour market remained tight in 1997, with the average unemployment rate at 1.8%. Total employment grew by 122,800, higher than the increase of 102,600 in the previous year. A survey of private sector establishments with at least 25 employees showed that about 9,784 workers were retrenched in 1997, compared with 10,956 in 1996. However, retrenchment accelerated in the 4th quarter of 1997, when 4,278 workers were laid off, compared to 5,506 for the first 3 quarters of the year. This faster pace of retrenchment continued into the 1st quarter of this year when around 7,000 workers were retrenched. Higher business costs, lower regional demand, re-organisation and restructuring of companies were the main reasons for the retrenchments.

Productivity

6. Overall productivity growth was 1.6% in 1997, above the 0.6% in 1996. The 1.6% productivity growth in 1997 is significantly lower than the annualised rate of 3.6% over the last 5 years. The low productivity growth was due mainly to the negative productivity growth of 5.7% in the construction sector. Excluding construction, productivity growth would have been 3.3%.

Cost Competitiveness

7. In the manufacturing sector, the Unit Business Cost (UBC) index increased by 0.4% in 1997, down from 2.0% in 1996. The Unit Labour Cost (ULC) registered flat growth in 1997 compared with 2.2% in 1996. Government rates and fees declined by 1.8% in 1997 compared with the growth of 5.1% a year ago. However, services costs including rentals, utility charges, and interest and financial charges, continued to rise by 1.0%, even though this was slower than the 1.4% increase in 1996. During the period 1990-1997, ULC contributed 30% of the increase in UBC, while services costs accounted for 60% of the UBC increase.
8. Overall, Singapore remained attractive to investors due to our efficient infrastructure, productive workforce, harmonious industrial relations and a conducive business and investment environment. However, Singapore's Relative Unit Labour Cost (RULC) index of the manufacturing sector, a measure of our relative competitiveness, deteriorated against the other Asian NIEs, Malaysia and Thailand, largely due to the currency depreciation in some of these countries.

Wage Settlement in 1997

9. The total nominal wage increase moderated from 6.7% in 1996 to 5.5% in 1997. With an inflation rate of 2.0%, workers' real total wages in 1997 increased by 3.5% while real basic wages rose by 3.8%. This exceeded productivity growth for the third consecutive year. Over the last 5 years, real basic wage increased at a higher annualised rate of 5.0%, compared to the 3.6% annualised productivity growth.
10. The total wage increases in the last 3 years were 6.9% in 1995, 6.7% in 1996 and 5.5% in 1997. In other words, total wage increases over the last 3 years have moderated in line with the slower economic growth and more recently due to the regional financial crisis. Wage moderation is therefore in line with the NWC's recommendation that wage increases should reflect the performance of the economy, in order that our business competitiveness will not be eroded and workers' job security jeopardized.

Forecast for 1998

11. World economic growth is expected to be weaker in 1998, due largely to poor growth prospects in Asia. The Singapore economy will be more seriously affected as the impact of the regional turmoil filters through the economy this year. Businesses that sell final products to the OECD markets, with revenues denominated in US dollars, should remain relatively healthy despite the regional slowdown. Those servicing the region will be more badly hit. Whether the regional situation will deteriorate further, or stabilise and gradually recover, will depend on how effectively the various reform packages are implemented and how soon investor confidence is restored.
12. The NWC notes that our economy is expected to be significantly weaker this year at between 2.5% and 4.5%. The inflation rate for 1998 is expected to remain low at about 2.0%. The labour market is likely to ease. Retrenchments have increased in the 1st quarter of this year. While most retrenched workers can find alternative employment, they will take a longer time to find suitable jobs. Overall unemployment for the first quarter of this year has already reached 2.2%, higher than the 1.8% for the same quarter last year.

NWC Recommendations for 1998

13. Bearing in mind that the regional economic turmoil has yet to run its course, Singapore must exercise caution in wage adjustment this year. Our objectives this year must be to minimize unemployment, ensure competitiveness and maximize employability. The NWC therefore recommends that a total approach be taken in this year's wage guidelines, comprising the following four components:
 - wage restraint
 - containment of non-wage costs
 - productivity improvement
 - employability training

Wage Restraint

14. In implementing wage restraint this year, employers and unions should take into account the following principles for wage negotiations:
 - Total wage adjustment should reflect the slowing down of the economy;
 - Built-in wage increases should lag behind productivity growth rates; and
 - Variable payments should reflect closely the performance of individual companies.
15. Over the last 10 years, the NWC has promoted the flexible wage system. This has given companies the cushion to adjust wage increases should the need arise. Given the economic slowdown, the NWC strongly recommends that the flexible wage system be put to effective use now.
16. The NWC notes that more than 90% of the unionised companies and more than 70% of the non-unionised companies have implemented some form of flexible

wage system, comprising the basic wage, service increments and variable components. In 1997 the variable payment (annual wage supplement and variable bonus) constituted some 16% of total annual wages. In the unionised sector, the variable component has even reached 20%. The variable component which was introduced in 1987, is to enable companies to make quick adjustments in their wage costs in line with changing business conditions. The NWC strongly urges companies which have not implemented the flexible wage system, to do so without further delay.

Containment of Non-Wage Costs

17. As non-wage costs constitute a significant proportion of the total cost of doing business (50% in the manufacturing sector), to enhance Singapore's competitiveness and to tide over the regional economic slowdown, the NWC suggests that the containment of non-wage costs of doing business in Singapore be seriously addressed. These costs include rentals, utility charges, trade and transportation charges, interest and financial charges and government rates and fees. The NWC however, notes that the Committee on Singapore's Competitiveness is addressing the issue.

Strengthening Competitiveness through Productivity Improvement

18. Singapore must improve its productivity and reduce operating costs in order to compete effectively in the world market. The productivity growth of 0.6% in 1996 and 1.6% in 1997 is below the medium term potential of between 3% and 4%. The government, employers and unions should work together and in collaboration with the relevant agencies to improve the overall productivity.
19. The NWC notes that the rate of productivity growth is not uniform across the different sectors of the economy. The differential in productivity performance gains has an impact on national productivity. In 1997, for example, the overall productivity grew by only 1.6%, dragged down by construction productivity growth of minus 5.7%. In this respect, the NWC is heartened to note that the Ministry of Manpower is formulating "Construction Manpower 21", a blueprint to improve the productivity in the construction industry. Concurrently, a Committee on Practices of Construction Industry has been set up by the Ministry of National Development to promote buildable designs which will also raise the productivity of the industry. The NWC recommends that the productivity performance of the respective economic sectors be closely monitored. With high productivity in all sectors, workers will be able to earn higher wages.

Enhancing Workers' Employability Through Skills Re-development

20. Singapore spares no effort in its investment on workers' training. The Skills Development Fund committed \$72 million in training grants, supporting more than 500,000 training places in FY 96. The overall investment on employees'

training by companies was 3.6% of payroll. Today, 1 in 8 older workers received training compared to 1 in 25 older workers in 1988.

21. The NWC notes that companies are restructuring very fast and there is a need to step up training to improve the skills of the workers. Innovation and technological progress is rapidly changing the face of the economy. The economy of the future will be knowledge-based where workers will need to be highly skilled to perform high-value added jobs. The skill requirements of the economy will also change more rapidly. Workers will therefore have to continuously pick up new skills during their working life to remain productive members of the workforce. The mindset of employers and workers must therefore shift from life-long employment to one of life-long employability through continuous training and skills upgrading.
22. In this regard the NWC strongly supports the joint efforts of the Government, the National Trades Union Congress and the Singapore National Employers Federation to promote the training of workers, especially older workers, to enhance their employability. This will ensure that they are better prepared to take up new jobs brought about by rapid advances in technology as well as service jobs requiring personalised skills. The NWC notes that the Skills Redevelopment Programme (SRP) has widened to reach out to 76 companies in the training of 5,000 workers since the Programme was launched by NTUC in December 96. The NWC is pleased to learn that the government has decided to allocate a grant of \$50 million to expand SRP as a step towards evolving a national system of lifelong learning. The NWC urges employers to take advantage of the current lull period to send their workers for skills upgrading to enhance their employability and productivity.

Other Recommendations

23. To lighten the impact of wage restraint on the lower-income employees, the NWC strongly recommends that, where applicable, a dollar quantum should be included instead of granting wage increases on a purely percentage basis.
24. The NWC notes that the implementation of the Base-Up Wage System is slow and calls on employers and companies to speed up the implementation. The base-up wage truly reflects the value of the job and rewards a worker according to his or her contribution. Under the base-up wage system, wage increase is closely linked with productivity growth.
25. The NWC also urges employers and unions to accelerate the implementation of medical co-payment schemes.

Implementation

26. The NWC recommendations cover the period from 1st July 1998 to 30th June 1999. As in previous years, the recommendations of the NWC are national in scope and should apply to both the public and private sectors and to unionized and non-unionized companies.

27. As Singapore faces an economic slowdown, there should be even greater collaboration between management and unions in the sharing of relevant information to manage the implementation of wage restraint and expectations of the workers. In respect, the NWC notes that the Ministry of Manpower has set up a Tripartite Committee to assist retrenched workers to secure re-employment expeditiously, advise employers contemplating retrenchment to consider alternatives, such as shorter work-week or temporary lay-off and to channel low-skilled retrenched workers to higher-skilled jobs through training and skills upgrading with the assistance of SRP. If in the event that retrenchment is unavoidable, workers and unions concerned should be notified in advance.
28. In determining wage increases for their staff, companies should apply the NWC guidelines equitably to all groups of employees including managerial, professional and executive staff.

Conclusion

29. Economic growth is expected to slow down this year due to the regional economic turmoil. Employers and workers must exercise wage restraint to help companies remain competitive and improve productivity. The NWC notes that the government has also indicated its commitment to keep business costs low, and has set the tone by freezing the salaries of Ministers and senior public officers.
30. When the business of a company is viable, job losses are minimized and the prospect of workers being retrenched reduced. Our economy will continue to restructure and create new higher value-added jobs. We must improve the skills of our workers to ensure that they remain employable in the new economy. Employers must undertake to continuously train their workers to prepare them for new jobs in a knowledge-based economy. Workers on their part must accept skills training as a life-long commitment to enhance their productivity and suitability for employment in jobs of the future.
31. For Singapore to sustain healthy economic growth, companies must remain competitive and workers, employable.