

National Wages Council Wage Guidelines For 2000 - 2001

NWC Wage Guidelines in 1999

1. In the midst of deteriorating economic conditions, the NWC reconvened a special session in September 1998, four months after its first set of recommendations in May. It proposed a wage cut of 5% to 8% to achieve a 15% reduction in overall wage costs (including a 10% point cut in employers' CPF contributions). Further in 1999, the NWC recommended a wage restraint in order to instil greater confidence among investors in the Singapore economy, help businesses regain their cost competitiveness, and preserve jobs for our workers and minimise unemployment.
2. As a result of the strong tripartite co-operation among the workers, employers and Government, the economy turned around quickly from the severe economic downturn. The NWC commends workers at all levels for accepting the CPF and wage cuts to help companies regain cost competitiveness. Now that the overall economy is firmly on the road to recovery, workers can look forward to wage increases and bonus payments.
3. As Singapore moves towards the New Economy, there is a greater need for the three social partners to work closely together to develop and implement an innovative and responsive compensation system that could better encourage and motivate employees to make greater contributions, and reward them for higher value creation. This would also help to improve our human resource practices that will enhance our capacity to successfully transit to a knowledge-based economy.

Economic Performance in 1999

4. The Singapore economy rebounded strongly in 1999 and posted a healthy growth of 5.4%. The sharp improvement from the 0.4% growth in 1998 was due to strong US electronics demand, as well as our significantly improved cost competitiveness following the wage cut and the other cost cutting measures implemented in January 1999.

The Labour Market

5. In tandem with the recovery, the labour market improved in 1999. The quarterly seasonally adjusted unemployment rate trended downwards from a high of 4.3 % in December 1998 to 2.9 % in December 1999. Total employment rose by 39,900 after a decline of 23,400 in 1998. Reflecting the tightening of the labour market, a survey of private sector establishments with at least 25 employees showed that the number retrenched in 1999 dropped by almost half to 14,600 from 29,100 in 1998. However, survey feedback also revealed that the internationally oriented sectors like manufacturing, which contributed the bulk of retrenchments last year, continued to face intense competitive pressures to restructure and reorganise their business operations.

Inflation

6. In tandem with the pick-up in economic activity and on the back of higher oil and petroleum prices, inflation (as measured by the consumer price index) was flat last year, against a decline of 0.3% in 1998.

Productivity

7. After a decline of 2.3% in 1998, labour productivity rebounded strongly by 5.8% last year. The manufacturing sector led the way with a strong 18% productivity growth, followed by wholesale and retail and transportation and communication. The other major sectors of construction, financial and business services, however, continued to record negative productivity growth as they lagged behind in the economic recovery.

Wages

8. In 1999, *basic* wages increased by 2.1%, lower than the 2.7% increase at the end of 1998. As a result of the improvement in economic conditions in the second half of last year, more firms paid annual or one-off special bonuses. Consequently, *total* wages (basic wage plus bonuses) rose by 2.8% in 1999, compared to the decline of 0.4% in 1998. Taking into account the CPF cut of 10 percentage-points, overall wage costs (total wages plus employers' CPF contribution) declined by 5.8%.

Cost Competitiveness

9. Our business costs have improved sharply as a result of the cost cutting package implemented in January last year. At the overall economy level, Unit Labour Cost (ULC) dropped by 10% in 1999. For the manufacturing sector, Unit Business Cost (UBC) declined by 12%, compared to a decline of 1.8 % in 1998. The decline was across the board for all 3 components of the manufacturing UBC. The Unit Labour Cost (ULC) index of the manufacturing sector fell by 18%, after the wage and CPF cuts and reduction in foreign workers' levy. Government rates and fees fell by 26% owing largely to the fall in property prices and the property tax rebates granted. Services costs fell by 4.5% led by declines in warehousing, utility, telecommunications, interest and financial service charges.
10. These domestic cost reductions have translated to improved cost competitiveness relative to our key competitors, as measured by the Relative Unit Labour Cost (RULC) in the manufacturing sector. Last year, the RULC index fell by 19%, or back to 1990~91 levels.

Forecast for 2000

11. The external economic outlook for 2000 is favourable. The US economy continues to display resilience after consecutive quarters of strong growth,

while the Euroland economies are firmly on the path to economic recovery. Within Asia, Japan's economy is still fragile but should recover gradually on the back of rising production and business sentiments. Growth in the rest of Asia is also slowly broadening and deepening, as domestic demand improves in line with more overall favourable economic conditions.

12. However, external risks still remain. Signs of inflation are appearing in the US and the Fed is poised to raise interest rates further. Aggressive tightening by the Fed could lead to a severe correction in the US stockmarket and a sharp deceleration of the economy. Regional uncertainties continue to be a source of concern for investors.
13. In Singapore, growth prospect is good. First quarter GDP growth was a robust 9.1%. However, while the economy shows no signs of slowing down, prospects for the second half are not quite as certain. Domestically, the construction sector is still contracting. Regionally, most South East Asian economies are doing well; nevertheless there are still some uncertainties.
14. Taking all these factors into account, the Ministry of Trade and Industry has just raised its growth forecast for the year by 1 percentage point from 4.5%~6.5% to 5.5%~7.5%.
15. While growth this year will very likely be better than 1999, continued robust growth in future years cannot be taken for granted. The competitive landscape has changed dramatically. Driven by the rapid pace of technological advances, increased trans-border mergers and acquisitions, and reform efforts across Asia, competitive pressures in the New Economy will mount – at a quickening rate.

Evolving a Wage and Benefit System Compatible with the New Economy

16. As Singapore transits to the New Economy, the forces of globalisation and technological innovations will increasingly affect how businesses are conducted. Consequently, there will be continuing *restructuring*, *downsizing* and *outsourcing*, especially in internationally competitive sectors like manufacturing which employ a significant share of our workforce. While existing jobs may disappear or be relocated, new job opportunities will be created with new investments in both knowledge-driven manufacturing and services sectors. Such investments will bring about higher value-added jobs, which require higher skills and knowledge.
17. To seize these opportunities and meet the needs of jobs in the New Economy, our workers must be equipped with new skills and capabilities. They may also be retrained for conversion to employment in new growth sectors, which provide higher value-added jobs. For this purpose, employers, workers and the Government should work closely together to continuously upgrade the workforce through lifelong learning. Workers with such a mindset will be able to acquire the relevant skills and knowledge and remain employable. At the same time, innovative workplace and human resource practices will have to be introduced to better meet the needs of employees. Such practices, including

flexible work arrangements, employee stock options, and a more responsive wage and benefit system, will encourage and facilitate new value creation, and provide appropriate rewards for employee contributions to their organisations.

18. Given the challenges of a rapidly changing economic landscape, and the opportunities provided for Singapore to successfully transit to the New Economy, the NWC is of the view that the new wage guidelines should help to achieve the following objectives: -
- (i) Strengthen the confidence of global investors in Singapore's resolve to keep the economy cost competitive;
 - (ii) Accelerate efforts to help workers adapt quickly to the New Economy through training and retraining;
 - (iii) Capitalise on the current recovery to strengthen our mechanisms to weather future crises; and
 - (iv) Evolve an innovative and more responsive reward and benefit system to support and facilitate a successful transition to the New Economy.

Wage Guidelines for 2000-2001

19. For 2000-01, workers should be rewarded with wage increase in line with economic recovery, taking into account the restoration of the 2 percentage points in employers' CPF contribution. Specifically, the NWC recommends the following:
- (i) Companies that have performed exceptionally well should reward workers with good wage increases and bonus payments. They should also consider granting workers a special bonus.
 - (ii) Companies that are profitable and have recovered should grant appropriate wage increases and reward workers with bonus payments.
 - (iii) Companies that have not recovered should consider granting wage increases commensurate with company performance and prospects, and labour market conditions.
20. To benefit the lower income employees, companies should consider the inclusion of a dollar quantum in the payment of their wage increase.
21. To ensure that we remain internationally competitive, the NWC reiterates that built-in wage increase should lag behind productivity growth rates. Total wage increase should reflect company and individual performances and, as far as possible be in the form of variable components.

Immediate Implementation of the Monthly Variable Component (MVC)

22. As most companies are likely to grant wage increases to their workers in view of the economic recovery, the NWC strongly recommends that :
- (i) Companies that grant wage increases of more than 3% should set aside at least 3% of wages as the Monthly Variable Component (MVC).
 - (ii) Companies that grant wage increases of up to 3% should set aside the entire wage increase as the MVC.
23. The recent economic downturn has demonstrated that, while we have successfully introduced the flexible system in the form of year-end variable payments linked to company performance, our wage system is still not flexible enough to enable wage costs to be adjusted more responsively in the event of a sudden business downturn. This is because companies have to wait for year-end adjustments to their bonus payments and this may be too late to help companies remain viable and preserve jobs. The speedy building up of the MVC in the wage system will allow companies to adjust their wage costs quickly when the need arises and preserve jobs, as well as minimise the need for CPF cuts in future.
24. The current recovery offers a timely opportunity to quickly build up the MVC. Companies should therefore not delay the implementation of MVC. Companies and unions with implementation difficulties may seek assistance from the SNEF, MOM and NTUC. SNEF and NTUC, with the support of MOM, will continue to organise seminars for employers and union leaders to explain the modus operandi of the MVC system.

Additional Recommendations

25. The NWC further recommends the following:

Restoration of the Employer's CPF contribution

26. The NWC notes that the 10 percentage-point cut in the employers' CPF contribution in Jan 1999 has contributed significantly to the reduction of Unit Labour Costs and Unit Business Costs. However, it has also affected workers' CPF savings that could be used to meet housing, old age and medical needs. The NWC also notes that the Government has restored 2 percentage points of the CPF on 1 April 2000, 9 months earlier than scheduled.
27. As the economy picks up, we should progressively restore the CPF contribution rate, in step with wage increases, recognising that CPF restoration is part of total increase in wage costs. This will enable us to build up workers' savings without delay. It will also help us avoid pushing up wages too far inadvertently and prematurely, thus making it harder to restore the CPF contributions later on.

28. Given the robust 1st quarter growth rates and the strong economic outlook, the NWC recommends a speedier restoration of the CPF cut. *If the growth continues to be strong for the rest of the year, the NWC proposes that the Government brings forward the next increment of the restoration to 1 January 2001. The extent of the restoration can be decided later, when prospects for the year are clearer. But the NWC recommends that the Government give early notice of its intentions.*

Skills Upgrading and Lifelong Employability

29. The NWC notes that companies in Singapore invest an average of 3.6% of their total payroll in training and retraining of our workers. While the larger companies spend more than 5% of their payroll in training, the training budget of most small and medium-size enterprises (SMEs) is far below the national average of 3.6%.
30. The NWC reiterates that upgrading of the skills and capabilities of the workforce is critical in ensuring that companies are able to meet the challenges of global competition and that workers could remain employable. In this regard, the NWC noted that PSB has, over the years, played an important facilitation role in encouraging companies to provide more resources for workers' training and skills upgrading. We should continue to monitor and encourage more resources to be set aside for workers' training and retraining in all sectors of the economy in Singapore to avoid over-dependency on unskilled foreign workers.

Portable Medical Benefits

31. With an ageing population, rising medical cost and increasing job mobility, the NWC recognises the need to refine the existing medical benefit schemes and recommends that we move towards a portable medical benefit scheme with co-payment features. This will help encourage workers to take greater personal responsibility for their own health and to enable them to accumulate unused medical benefits to meet their future needs.
32. In this regard, the NWC is pleased to note that the Ministry of Manpower has set up a Tripartite Committee on Portable Medical Benefits to study and recommend on how a portable medical benefits system could be effectively implemented. The NWC looks forward to the outcome and recommendations of this study.

Flexible Work Arrangements

33. The NWC notes that flexible work arrangements are common in the developed countries in the face of globalisation and technological changes. Such arrangements, supported in particular by developments in telecommunication and information technologies, have enabled companies and their employees to better meet their needs and have been shown to increase productivity. However, in Singapore, flexible work arrangements, including part-time employment, are lagging far behind that of the developed countries. Part time

work constituted only 4.7% of total employment in 1999. The NWC recommends that employers, with the support of unions and the Government, should explore flexible work arrangements, so that companies could better attract, retain and motivate their employees, while employees are better able to achieve work-life balance.

Application of NWC's Recommendations

34. 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.
35. To facilitate wage negotiations, companies should share relevant information on company performance and business prospects with employees and their representatives.
36. These recommendations shall take effect for the period 1 July 2000 to 30 June 2001.

Conclusion

37. As Singapore moves towards the New Economy, it is imperative that we motivate employees to make greater contributions and evolve an innovative compensation system to reward them for higher value creation.
38. Now that the economy is firmly on the road to recovery and taking into consideration the sacrifice made by employees in accepting the CPF and wage cuts during the economic recession, the NWC strongly urges employers to reward employees for their contribution by granting wage increase and bonus payment.