

ESC Subcommittee on Fostering Inclusive Growth

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1. Over the past decade, Singapore's economy grew by an average of 5 percent per annum. Singapore's productivity growth over the same period averaged about 1 percent per annum, a rate on par with that of other developed countries. The broad majority of Singaporeans also enjoyed real wage growth and a rise in living standards. Nonetheless, productivity gains have declined in recent years due to heavier reliance on labour inputs to generate economic growth, especially inputs of foreign manpower. Globalisation, increased competition and lack of relevant skills have also led to slower wage growth for low-wage workers; wages of the 20th percentile worker³³ grew by only 1.2 percent per annum over the period.

2. **Only productivity-driven growth can deliver sustainable and inclusive economic development.** We need to build up dynamic and innovative enterprises that continually seek to develop new and improved ways of doing business through investments in technology and training. We need to raise the quality of our human capital, both local and foreign. We must also strengthen the ability of our low-wage workers to upgrade their skills so that they can move into better and more productive jobs over time. These are the keys to raising Singapore's economic competitiveness, producing sustainable wage growth and improving the standard of living for all Singaporeans.

3. Businesses cannot continue to rely on low-cost, low-skilled foreign manpower as a substitute for investing in productivity improvements such as innovation, R&D and skills upgrading for their workforce. Foreign manpower will remain an important and necessary complement to the local workforce in supporting our economy. However, growth of our foreign workforce will need to slow given physical and societal constraints.

STRATEGIC SHIFT 1: GROWING THROUGH SKILLS AND INNOVATION

4. **We aim to raise Singapore's productivity growth to 2 to 3 percent per annum over the next decade,** putting us on par with what advanced economies such as Finland and Hong Kong have managed to achieve. This will bring productivity to a level that is one-third higher than it is today. Over the next 10 years, productivity will account for about two-thirds of economic growth, as compared to just one-fifth in the last decade. Accelerating enterprise productivity will entail more than just changing work attitudes or raising quality – a focus of earlier productivity efforts. It will require significant transformations in the way companies manage

³³ Full-time employed residents (excluding NSmen).

their businesses, from their supply chain management, production methods to service provision. It will require enterprises to deliver innovative products and services that can command higher value and tap into new markets. Enterprises should naturally aim for higher productivity as a means of increasing competitiveness and profitability. However, this subcommittee believes that there is scope to provide enterprises with support and assistance to catalyse productivity improvement.

Recommendation 1.1: Provide leadership and coordination through a high-level national council to oversee and drive efforts to boost productivity and expand CET (Continuing Education and Training)

5. For productivity to remain at the forefront of the national agenda, this subcommittee recommends setting up **a high-level national council** to provide leadership and coordination at the national level to address productivity challenges across different sectors and different types of enterprises. We should take an industry-specific response, given unique factors such as the competitive landscape and operating model within each industry. The national council should work with industry stakeholders, unions, and other Government agencies to drive productivity efforts within each industry. Productivity efforts could range from the adoption of productivity-enhancing innovations to re-engineering of processes to human capital development and training. For enterprises that are already internationally competitive in their levels of productivity, they must continually innovate to stay ahead.

Recommendation 1.2: Provide incentives to catalyse and sustain productivity transformation in enterprises and industries

6. The Government should **encourage enterprises to undertake initiatives at a national and sectoral level to accelerate large-scale productivity transformation**. This subcommittee recommends that **a National Productivity Fund** should be set up to provide grants to support both industry-wide and enterprise-level productivity initiatives, in areas such as the adoption of innovative business models, processes or technology, research and benchmarking, and other proposals which would be useful for productivity improvements. The Government should also introduce **strong economy-wide fiscal incentives** to encourage enterprises to invest in productivity enhancement and innovation.

Recommendation 1.3: Develop the knowledge base and train personnel to implement productivity improvements

7. To further stimulate firms to build productivity capabilities, we need to develop a knowledge base that companies can tap on. We envision Singapore becoming a leading centre for research in manufacturing and services innovation and productivity, where the latest knowledge is rapidly diffused through an extensive network of research centres, training institutes, industry associations and companies. To achieve this, this subcommittee recommends:

a. **Setting up a Singapore Productivity and Innovation Centre.** The Centre will conduct applied research on productivity and innovation that companies can tap on. Various countries such as Japan, Korea and Hong Kong, have established centres that play such a role. The Centre's efforts should cover all sectors of the economy, starting with the sectors that are lagging in productivity. This Centre can advance applied research in new business models and innovations, encourage adoption of new types of technology, raise capabilities in productivity techniques, and conduct local and international research and benchmarking.

b. **Developing productivity training for managers, line supervisors and workers.** This will enable employees at all levels to learn skills and techniques critical for developing and implementing productivity initiatives, such as demand forecasting, flexible scheduling, implementation of 5S³⁴ in services, supply chain management and service management. This can help to develop a network of productivity professionals who can help companies monitor productivity levels, raise awareness amongst all employees, and implement productivity interventions where appropriate.

STRATEGIC SHIFT 2: A WORKFORCE AT THE GLOBAL SKILLS FRONTIER

8. A productivity-driven economy must be supported by a highly educated and skilled workforce that is able to seize opportunities in new areas and continually adapt to change. **We envision our resident workforce at the global skills frontier.** About half of our residents are projected to have at least a diploma qualification by 2020, up from 39 percent in 2009; including about 35 percent with degrees, up from 27 percent in 2009.³⁵

9. In parallel with the improvement in the academic profile of our resident workforce, we need to raise the skills profile of our workers through the schools and CET system. The CET system will be a critical component of these efforts. By 2015, at least 240,000 individuals will undertake CET annually, up from 100,000 in 2008. We can create new global peaks of excellence in skills through first-class CET institutions with internationally recognised programmes from certificate to postgraduate qualifications.

Recommendation 2.1: Develop multiple skills pathways to complement academic pathways through our schools and CET system

10. To support growth industries and make continuous upgrading a way of life for our entire workforce, we must broaden the definition of upgrading to encompass skills, in addition to academic qualifications. **Singapore needs to establish a stronger focus on skills qualifications through the development of a parallel skills pathway.** We have well-established academic training pathways. However, many existing growth industries such as precision engineering, aerospace and digital animation, as well as potential new areas of growth such as lifestyle

³⁴ 5S is a workplace organisation methodology that uses a list of five Japanese words that start with the letter S. It is a philosophy and a way of organising and managing the workspace and workflow with the intent to improve efficiency by eliminating waste, improving flow and reducing process unevenness.

³⁵ Based on the Ministry of Manpower's resident workforce projections.

and consumer-centric products, call for more skills and craft-based qualifications. In many developed countries, skills-based training pathways form a significant parallel component of their education and training systems, and deep skills and craftsmanship receive high recognition and remuneration, creating a market-based mechanism for investment in skills.

11. Both our schools and CET systems should provide individuals with skills pathways for progression, in order to create opportunities for different types of talent and industries to thrive in Singapore. This subcommittee recommends:

a. **Developing multiple pathways for skills-based progression to complement the academic route, through our schools and CET system.** Skills pathways should start from the education system, similar to what other advanced countries have developed. With the establishment of the Singapore Institute of Technology, polytechnic graduates now have more opportunities for acquiring applied degrees in Singapore. We can provide more opportunities for ITE graduates to progress towards a diploma. Based on a 2007 survey, about one third of ITE graduates upgrade to a diploma within 5 to 10 years after graduation. At present, about 20 percent of ITE graduates progress directly to the polytechnics to obtain a diploma. We should expand opportunities for ITE graduates who are able to obtain a diploma, to upgrade earlier, and via multiple pathways for skills-based progression. This can be through the polytechnics, ITE in partnership with high-quality foreign institutions, or CET institutions. This should bear in mind the need for existing institutions to focus on their mission and capitalise on their strengths to provide students with holistic education and a strong foundation for lifelong learning.

b. **Providing stronger linkages between our academic and skills pathways.** We should also provide meaningful linkages between our academic and skills qualifications. This will facilitate upward mobility for workers and provide employers with greater clarity on how different qualifications relate to one another. There is already mutual recognition between Workforce Skills Qualification (WSQ) and ITE Nitec. We can further extend this to other levels such as with the polytechnics.

c. **Further building up a first-class CET system by attracting best-in-class foreign institutes to Singapore along with continued investment in local CET institutions.** WDA has developed a strong network of about 50 CET centres, and should continue to develop local CET providers as well as attract international providers where relevant. In areas where local expertise is lacking, we should bring in relevant internationally-renowned foreign training programmes to provide a wider range of diploma, degree and postgraduate qualifications. Likewise, to build up a sizable number of skills pathways rapidly while maintaining high quality in the CET system, WDA should bring in best-in-class foreign institutes, via partnerships with institutions such as the CET Centres, WDA's Institute of Adult Learning or the upcoming national CET Campuses if necessary.

Recommendation 2.2: Expand the CET system for broader coverage

12. **The CET system should broaden its reach to cater to the entire workforce at different levels.** The CET system is a national system and should take into account both industry needs for higher skills and the changing composition of the entire workforce. As the workforce will increasingly see more professionals, managers, executives and technicians (PMETs), we must ensure that the CET system caters to their professional needs as well. This subcommittee recommends:

- a. **Developing “T-shaped PMETs” who are professionals** with deep skills in their own fields, yet with knowledge of other related areas in business operations, and who are able to operate in different business environments. To achieve this, we need programmes to develop their versatility in horizontal skills such as project management, HR, sales, finance and management, and professional continuous development courses to gain specialised expertise.

STRATEGIC SHIFT 3: INCLUSIVE GROWTH FOR ALL SINGAPOREANS

13. As we transform our economy to improve the quality of life for all Singaporeans, we must make extra efforts to ensure that economic growth uplifts and upgrades low-wage workers as well. This subcommittee recommends:

Recommendation 3.1: Review Workfare Income Supplement Scheme

14. In 2007, the Government introduced the Workfare Income Supplement (WIS) Scheme to help older low-wage worker supplement their incomes and build up their retirement savings. **With our refocus on enhancing productivity and developing the workforce skills base, the Government should review the WIS to ensure it is focused, timely and effective.**

Recommendation 3.2: A stronger push for training for low-wage workers

15. We want more of our low-wage workers to participate in training, which is a springboard for them to upgrade their skills and earn better pay. We recognise that low-wage workers face particularly severe barriers to upgrading themselves. As many low-wage workers depend on casual work to earn a living, their hours tend to be long and irregular, and they face high opportunity costs when they participate in training. Employers are also generally less supportive of training lower-skilled workers.

16. **We should provide upgrading opportunities and structured assistance for vulnerable workers** so that they will also be able to achieve real and sustainable income growth. The recommendations from this subcommittee are:

- a. **Introduce a broad-based incentive scheme** to encourage employers to send their low-wage workers for training and for these workers to commit to training.

b. **Develop a structured programme to train and place low-wage workers in better jobs.** The programme could be customised to meet the needs of low-wage workers. It should cover basic literacy skills, placement into better jobs (be it with same or different employer), financial assistance to cover opportunity and other costs (e.g. training allowance, completion awards for key milestones), modular classes (to cater to their schedule as many are on rotating shifts with limited leave entitlement), peer support and counselling to provide positive reinforcement and support.

Recommendation 3.3: Closer linkage between productivity and wage growth

17. To ensure sustainability of our productivity efforts, there should also be a **closer linkage between productivity and wage growth** to motivate workers, through performance-based remuneration, to pursue skills upgrading and contribute to raising the capabilities of our workforce.

STRATEGIC SHIFT 4: A SUSTAINABLE FOREIGN WORKFORCE

Recommendation 4.1: Ensure foreign workforce growth remains sustainable in the long-run.

18. To ensure that our economic growth becomes more productivity-driven, **foreign worker (FW) growth at the macro level should slow, in order to maintain the current balance between the foreign and local workforce in the long run.**

19. To **manage our dependence on FWs**, this subcommittee recommends:

a. **Increasing levy rates to better factor in costs from the presence of FWs and to encourage investment in productivity improvement.** The large FW presence has incurred infrastructural and social costs. Levy rates can be a helpful lever to encourage individual enterprises to be more efficient in their hiring decisions and thereby help optimise FW growth at the macro level.

b. **Dependency Ratio (DR) tiers to encourage better deployment of FWs.** DRs indicate the maximum percentage of FWs that an enterprise may hire. In the Manufacturing and Services sectors, levy rates increase when enterprises hire FWs beyond certain thresholds. There is scope to adjust these thresholds so that enterprises continue to have access to FWs but are encouraged to hire fewer but more productive FWs.

20. At the same time, we need to **raise the quality of FWs to support a high-productivity economy.** A more productive workforce, both local and foreign, will continue to root high value-added industries and jobs in Singapore. Better quality FWs will also improve locals' perception and acceptance of foreigners and industries or jobs with a high FW presence. This subcommittee recommends:

a. **Setting effective quality benchmarks that leverage on WSQ and other relevant skills recognition frameworks.** The WSQ frameworks can be leveraged on to help enterprises assess and certify the skills level of FWs they hire from labour suppliers. We could also leverage on other skills frameworks (e.g. Nitec) for specific industries.

b. **Encouraging employers to hire and retain skilled workers.** Increasing the differential between the levy rates for skilled and unskilled FWs will encourage enterprises to hire and retain better skilled and more experienced workers. This can be facilitated through programmes and measures to raise the productivity of both the enterprise and its entire workforce.

21. Finally, **the hiring of FWs should be supported and accompanied by good employment practices.** Good FW recruitment and management practices will help reduce inefficiencies arising from labour disputes, workplace accidents, and mismatches between the FW and his job. This will allow Singapore to remain an attractive destination for experienced and skilled FWs who can help us achieve productivity-driven growth.