

Ask: NUS Economists

How can S'pore reduce its reliance on foreign labour?

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For *The Straits Times*

Q How can we reduce our dependence on foreign workers?

A The Covid-19 epidemic in the foreign worker dormitories is a sharp reminder of the cost of Singapore's heavy reliance on foreign workers. The maximum ratio of foreign to local workers ranges from as high as 7:1 in the construction and process industries, to 3.5:1 in the marine industries and to 0.6:1 in services.

For this to change, we should first reconsider the desired outcomes of our economic, social and other policies. With the economy, the target might be growth, as measured by growth of gross domestic product (GDP).

GDP is the difference in monetary terms between the value of output and the value of inputs. That difference is made up of profit, wages and rent. The Government takes part of these through tax.

Many businesses – both in manufacturing and services – are owned by foreigners, and so, the profit accrues to foreigners. As for wages, a part is earned by foreign workers.

A substantial part of construction – itself intensive in foreign workers – serves to reclaim land and build infrastructure for foreign-owned manufacturing plants. What is the net benefit of all this to Singapore?

As for non-commercial activities, parks and roadside landscaping enhance our quality of life. But we may have taken this to an extreme. The marginal benefit of grassing every roadside kerb and slope to a manicured state must be very low.

Security is another example. As the Government has emphasised, we should shift our thinking from



Workers at the construction site for HDB's Ubi Grove project. Covid-19 has made clear that a fundamental review is needed of the desired outcomes of economic and other activities as well as full costing of foreign labour. These will bring the numbers of foreign workers into proper balance, say the writers. ST PHOTO: LIM YAOHUI

the number of guards on duty to the actual outcomes: safety and security.

We can achieve safety and security with fewer boots on the ground.

Second, we should refocus on the economic principle of comparative advantage. It should be obvious that Singapore does not have a comparative advantage in labour-intensive production.

Yet, by admitting over 920,000 foreign workers (the number of

foreigners on S Pass and work permits, excluding domestic helpers), we have slipped into labour-intensive production.

To avoid distorting economic fundamentals, all activities should be evaluated with full costing of foreign workers. That is the wage that Singaporeans would require for the same work.

Coupled with a focus on the net benefit to Singapore – rather than the GDP contribution – full costing might mean that we should exit

some industries and shrink areas, such as marginal landscaping and security guards.

And consider the construction industry. Hong Kong and Singapore are similar in size, population and economic structure. However, less than 1 per cent of Hong Kong construction workers are foreigners. Yet, their contractors have built a city no less attractive or functional than ours.

With full costing of foreign workers, the construction industry

will be smaller. One reason is a reduction in demand for construction, as we exit and shrink some industries and recalibrate desired outcomes in others.

What about construction for residential and commercial purposes?

With full costing of foreign workers, the cost of construction would increase sharply. Design and consultancy firm Arcadis estimates the cost of construction in Hong Kong to be two to three times

higher than that in Singapore.

However, contrary to intuition, the prices of residential and commercial property would not increase to the same extent.

The reason is that the supply of residential and commercial property is a function of the cost of construction as well as the cost of land. When the cost of construction goes up, the price of land will fall.

Moreover, full costing of foreign workers would provide a strong incentive for builders to hire and train local workers, and for Singaporeans to join the industry. In Hong Kong, a bricklayer earns \$238 a day, or over \$4,600 if he works 20 days a month.

That is more than double the recommended wage at the top of the Progressive Wage Model in Singapore for cleaners and 50 per cent higher than the current wage of foremen in the building and related trades.

The Covid-19 outbreak has made clear that we need a fundamental review of the desired outcomes of economic and other activities as well as full costing of foreign labour. These will bring the numbers of foreign workers into proper balance, and even better, possibly create new jobs for Singaporeans.

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