

Question:

In 2013, the Singapore's Ministry of Manpower (MOM) continued its approach of taking progressive steps to raise the quality of the foreign workforce and moderate foreign employment growth. This is part of the Government's effort to achieve quality economic growth driven by sustained productivity improvement.

Source: Ministry of Manpower Website

(a) Explain how the nature of the Singapore's economy affects the government policy decision to focus on supply-side rather than demand-side policies. [10]

(b) Assess the impact of Singapore's approach to foreign labour on the macroeconomic aims of the economy. [15]

Interpret the Question – Part (a)

a) Explain how the nature of the Singapore's economy affects the government policy decision to focus on supply-side rather than demand-side policies. [10]

What is the cue word?
(what are the skills required for this question?)

Explain

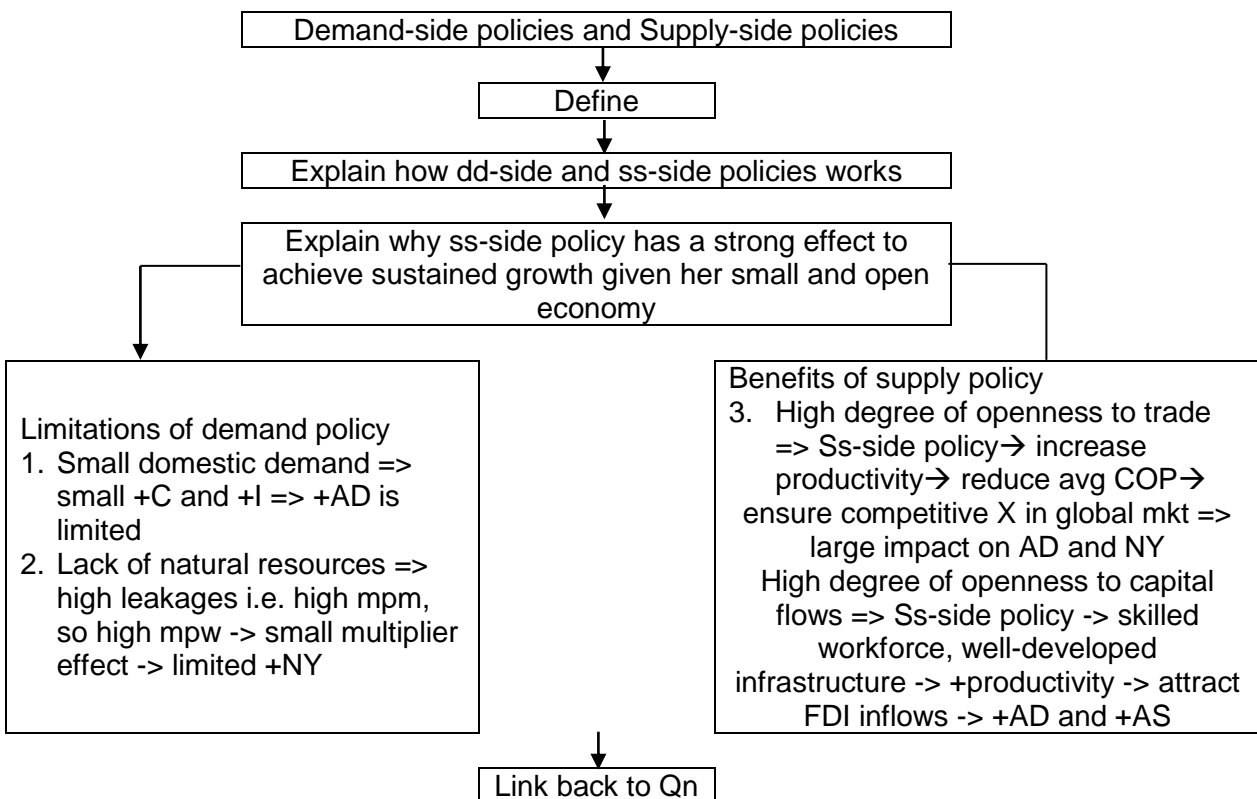
What is the concept word?
(what are the concepts required to answer this question?)

Nature of Singapore economy
Supply-side policies
Demand-side policies

What is the context word?
(what is the context for this question?)

Singapore

Schematic Plan



<u>Introduction (GIST)</u>	
Introduction	The Singapore government aims to achieve sustained non-inflationary economic growth using both demand-side and supply-side policies. Due to the nature of Singapore's economy -- small with limited resources, her government focus more on supply-side than demand-side policies. Demand-side policies refer to policies that increase her aggregate demand. They include fiscal policies and exchange rate centered on exchange rate. Supply side policies are policies refer to policies to increase her AS.

<u>Body (PEEL)</u>	
	What is the first most important point?
State the Point (P)	P: Supply side policies increase Singapore's ability to enjoy sustainable non-inflationary growth.
Explain the point with clear causal links (E) Elaborate the point with examples/diagram	<p>As Singapore is a small economy which lacks resources, she has very limited quantity of factor of production. She has a very small land mass and workforce which restricts her ability to produce a high number of outputs. It is easy to run up to the limits of her economy if her aggregate demand increases without increasing her aggregate supply. The economy will then have actual growth with high inflation. This is detrimental to her export competitiveness. However, with supply-side policies, Singapore can augment the size of her factors of production or increase their quality, thereby allowing her economy to increase the maximum amount of output.</p> <p>Singapore is open to trade and capital flows. The economy relies heavily on export for her growth. Thus, it is pertinent that Singapore's exports are competitive in the international market. Supply-side policies allow Singapore to increase the quality of her products through R & D. It also increase the productivity of her workforce which enable her to produce goods higher up in the value chain (e.g. pharmaceutical products) or reduces the average cost of production through schemes like the enhanced Productivity and Innovation Credit Scheme (PIC) which provides tax benefits to businesses which invest in productivity improvements and training for their workers. All these increase Singapore's international competitiveness of goods allowing her to bring in greater export revenue. With labour taking up a large proportion of most firm's cost of production, specially service sectors that Singapore rely quite heavily for her growth, schemes to reduce labour cost is especially important. Moderating the foreign employment flow forces firms in Singapore to tap more on technology to increase their factor productivity and lower per unit cost of Singapore's export. With a lower price of export, assuming Singapore's exports are price elastic, Singapore should enjoy an increase in net exports and aggregate demand. Greater productivity in the country also attracts FDI inflows, leading AD and AS. Hence, with the increase in aggregate supply, Singapore can enjoy a rise in output in the long run with little increase in general price levels.</p>
Link back to Qn	Supply-side policies allow Singapore to have sustainable non-inflationary

	growth.
What is the second most important point?	
P	P: Demand-side policy is limited in bringing about growth for Singapore due to her smallness, openness and small multiplier.
<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>As Singapore is small and open, she cannot rely on her small domestic sector for growth. Demand-side policies like fiscal policy can only increase consumption and investment expenditure, stimulating growth to a small extent as C and I are a smaller proportion of her GDP. Thus, Singapore relies on the external sector for her growth and sells her goods to the world market. Employing expansionary monetary policy centered on exchange rate can stimulate a rise in her net exports through lowering of the price of her exports in foreign currency.</p> <p>But it has limited effectiveness on expanding growth due to Singapore's small size of multiplier. Being heavily reliant on imports, Singapore has a high marginal propensity to import. For every round of increase in income, a large part of it flow out of the circular flow in the form of import expenditure thereby reducing the extent of increase in national income. Singapore enjoys a smaller economic growth from any attempt on demand-side policies to stimulate aggregate demand due to her small multiplier. In addition, focusing on stimulating Singapore export using her demand-side policy cannot reduce the vulnerability faced from income change of the world economies. When major economies like America and Europe are in recessions, Singapore's export also fell, reducing her AD and national income. An expansionary monetary policy centered on exchange rate of reducing in price of Singapore's export can reduce some fall in export but it cannot fully reverse the fall in Singapore economic growth. Focusing on providing goods that are income-inelastic through supply-side policy might be more apt.</p>
Link back to Qn	Demand-side policy has many limitations in stimulating growth in Singapore and thus Singapore government focus on supply-side policies to boost her growth in the long run.
Conclusion (SR)	
Conclusion	<p>S: Due to the nature of Singapore economy being small and open, she has a small multiplier and faced increased vulnerability from changes in external sector. Focusing on using demand-side policies to boost aggregate demand and growth magnified these problems. By diverting her resources to raise aggregate supply through supply-side policies allow her to augment her increase her productivity and productive capacity as well as enjoy sustainable non-inflation growth in the long run</p> <p>R: Thus, Singapore focuses on supply-side policies than demand-side policies to promote growth in her economy. However, supply side policies can bring along some negative impact on her economy.</p>

Interpret the Question – Part (b)

b) Assess the impact of Singapore's approach to foreign labour on the macroeconomic aims of the economy. [15]

What is the cue word?

(what are the skills required for this question?)

Assess

What is the concept word?

(what are the concepts required to answer this question?)
Macroeconomic impact;
AD/AS;

What is the context word?

(what is the context for this question?)

Singapore

Schematic Plan

Approach on foreign lab

Overall depends on (i) how S'pore govt intervene to minimize (-) impact (ii) time dimension

Moderate foreign lab growth

Raise the quality of the foreign workforce

T: Moderate foreign lab growth → increase pdtivity → reduce avg COP → +AS → increase LT growth; X competitive → BOP+ in the long run. Resident (Sporean and PR) employment rate can increase.

E: However, it really depends on how adaptable firms are to change.

T: Needed high quality workforce to restructure economy in accordance to changing CA → achieve sustainable non-inflationary growth. X can become more competitive → improve BOP position.

E: ability to reap benefits depends on ability to attract the right workers & successful restructuring of economy

AT: Short run (SR) → Moderate foreign lab growth → firms face lab crunch increasingly → increase COP in SR → cost push inflation, growth. Higher priced X → X rev fall → BOP fall
SR → Less C from foreigners, less investment from MNCs & local firms (I) → less output → fall in Y

E: govt has put in policies to offset cost increase ie min impact on firms' profits

AT: SR → suffer from structural unemployment, raising income disparity. Economy still need foreign lab of low skills → shortage of low skilled worker (in absence of adopting tech) → inflationary

E: govt has implement training of wkers to reduce structural unN.

LR- if restructuring is successful → long term sustainable non-inflationary growth, increase in quality jobs, (+) BOP

SR- slower growth, inflation and worsening BOP

Impact depends on time dimension, govt intervention and firm's adaptability to change.

Introduction (GIST)	
Introduction	Singapore's approach towards foreign workforce is to raise the quality of foreign workforce and moderate foreign employment. It is an approach to support Singapore's restructuring effort towards a high-value, productive economy so that Singapore can enjoy sustainable non-inflationary growth, low unemployment and favourable balance of payments position. However, in the short run, there are some trade-offs in terms of slower growth and a higher inflation. The overall impact of Singapore's approach to foreign labour depends on the time dimension and Singapore's government effort at minimizing any unfavourable impact on her economy.

Body (PEEL)	
	What is the most important point? (thesis 1)
State the Point (P)	Raising the quality of foreign labour allows Singapore to restructure her economy towards higher-value added industries to enjoy long term growth and create more employment.
Explain the point with clear causal links (E) Elaborate the point with examples/diagram	<p>With increasing globalization, Singapore has to develop new niche industries that are higher up the value chain to enjoy long term economic growth. These industries include aerospace engineering, biomedical engineering and digital media. Raising the quality of foreign workforce supports firms and attract MNCs to adopt higher-value activities in Singapore as such industries require specialised skills set, especially when local workforce may not possess such skills yet. In the absence of such talent in local workforce, Singapore cannot develop these new industries which can augment her productive capacity and aggregate supply, bringing about long term economic growth. In addition, the high quality workforce can transfer the specialised skills to the local workforce. More diversified job opportunities can also be created for our increasingly well-educated Singaporeans over the longer term, reducing unemployment rate (and resident unemployment rate). Wage can increase with quality jobs bringing about a rise in consumption and aggregate demand. The new niche industries can promote export growth and increase the net export revenue for Singapore in the long run and boosts her balance of payments position.</p> <p>E: However, the extent in which Singapore can reap long term sustainable growth depends a lot on the ability to attract the right foreign talent to develop these new industries to be relatively more competitive than other countries.</p>
Link back to Qn	Hence, raising quality of foreign labour is crucial in Singapore's long term growth and job creation.
	What is the second most important point? (Anti-thesis)
P	However, increasing the quality of the labour force could be detrimental to Singapore economy as well.

<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>Increasing the quality of foreign workforce could result in increasing structural unemployment (for local workers) where these highly skilled foreign worker fill the newly created job opportunities in new sunrise industries leaving local workers who were laid off in the sunset industries without job.</p> <p>E: However, with more transfer of specialized skills from the foreign highly-skilled foreign labour and training provided by government to the local workforce, the extent of structural unemployment can be reduced over time. However, if the laid-off workers are unwilling to receive training and not susceptible to changes in work requirement, structural unemployment may continue to be a concern in Singapore.</p>
<p>Link back to Qn</p>	<p>Improving the quality of foreign labour force could increase structural unemployment, increase income disparity between the skilled and unskilled as well as create shortage of low skills labour.</p>
<p>What is the third most important point? (thesis 2)</p>	
<p>P</p>	<p>Moderating foreign employment growth allows Singapore economy to be more productive in the long run to enjoy sustainable non-inflationary growth, lower unemployment and improved balance of payments position in the future.</p>
<p>Explain the point with clear causal links (E)</p> <p>Elaborate the point with examples/diagram</p>	<p>To overcome the constraints of small size of workforce and greying population, Singapore has to bring in foreign labour to augment her labour force. But there is a need to calibrate the foreign labour force to support her towards a more productive and higher value society. Measures like higher levies, lower Dependency Ratio Ceiling were progressively phased in to reduce the rate of growth of foreign labour. With progressively less foreign labour, firms have tap on technology and innovation to increase the productivity of their existing labour. Some firms outsource their work while other made use of technology in the production processes. This reduces the average cost of production shifting the economy's aggregate supply curve downwards. The rise in productive capacity also causes AS curve to be shift outwards, increasing Singapore's long term economic growth. At the same time, it reduces cost-push inflation and make Singapore export more competitive, thereby improving her balance of payments position. With a lower Dependency Ratio Ceiling to reduce the ratio of foreign labour, resident (Singaporean and Permanent Resident) unemployment rate will fall. With a more productive workforce, sustained wage increase can also be achieved to bring about further increase in consumption and aggregate demand. Together with the rise in AS, AD rise will cause a non-inflationary sustainable growth in Singapore. In June 2014, it was reported by Ministry of Manpower that resident long-term unemployment remained among the lowest globally at 0.6 per cent while foreign employment growth continued to slow with a lower on-year total employment growth of 3.8 per cent. A more productive economy can also be a pull factor for more FDIs into Singapore, further increasing her ability to enjoy sustainable non-inflationary growth.</p> <p>E: However, the extent to which Singapore can reap the positive macroeconomic effects depends on how adaptable firms are to the new rules aimed at moderating foreign employment. If firms are unable to shift their methods of production towards embracing greater use of technology and utilise less labour, Singapore will face greater challenge in its drive towards a more productive and higher value economy, reaping less or taking a longer period of</p>

	time to reap the full macroeconomic benefits.
Link back to Qn	Singapore should expect a sustainable noninflationary growth in the long run, with a rise in employment and improvement in balance of payment position with a successful restructuring of her economy by improving the quality of her foreign labour.
What is the third most fourth point? (anti-thesis 2)	
P	The trade-off of the approach towards moderating foreign employment is higher inflation and lower economic growth in the short run due to higher cost of production.
Explain the point with clear causal links (E) Elaborate the point with examples/diagram	<p>When Singapore government moderates foreign employment, local firms start to face labour crunch. Firms in the service and manufacturing sectors see a fall in supply of employable labour due to the lower Dependency Ratio Ceiling (DRC) and high levy for each foreign worker. The DRCs specify the maximum proportion of foreign workers that companies can hire. When overall supply of workers fall, wage of workers rises and firms have to pay more to hire each worker, incurring a higher operating cost; lower profits in the short run before the some parts of the production process can be mechanised and innovated upon to increase the productivity of the workers. This increase in cost can also bring about an upward shift of AS curve, bringing about cost push inflation in Singapore. A relatively higher inflation can increase price of Singapore's export worsening her BOP position.</p> <p>In addition, raising the quality of the foreign labour may result in gaps in some labour-intensive sector of the economy like construction and domestic help in the short run. Construction sector faced the most challenge in adapting increased technology usage and will continue to require high number of low-skilled construction labour. With less low-skilled labour allowed into Singapore, construction sector will not have enough resources to meet the increased demand for construction work. In addition, with less of low-skilled foreign labour and Singaporeans unwilling to work in such sectors, it will increase labour shortage and raise wages in these industries. Aggregate supply may shift upwards pushing up general price levels causing cost-push inflation.</p> <p>However, some industries face persistent shortage of labour even with a rise in wage. Some local workers are not willing to work in jobs due to the long working hours or uncondusive work environment. To comply with the DRC, the firms will not be able to hire more foreign labour as they cannot get any local to fill the vacancy. Some of these jobs include waitressing and construction work. The rigidity in hiring reduces capacity of firms and their ability to ride on the recovery of the world economy. Restaurants in Singapore were seen shutting down despite a greater demand for their food due to the dire shortage of labour in the industry. This has a far-fetching detrimental impact on Singapore's hospitality industry and its ability to attract tourism revenue. MNCs may also think twice about investing in Singapore, local firms may not wish to expand their production if they are unable to adapt to the new rule. At the same time, with slower growth of foreign labour, the demand for housing and food slows progressively. Export revenue and consumption and investment expenditure and aggregate demand will fall, via reverse multiplier, national income will fall. Singapore should expect slower growth during this period of restructuring</p>

	<p>towards a more high-value, productive economy.</p> <p>E: In fact, Singapore government had implemented the DRC progressively and during periods of slow growth to minimise the cost for the firms. In addition, to help offset business cost and support the restricting process, Singapore government have also put in place grants and subsidies to help firms embark on the using innovation and technology in their production processes and improve training of the workers. By slowing down the implementation of the DRC on foreign labour and allowing the firms to catch up in their adaptation of technology, Singapore government has reduced the negative impact on the firms and economy.</p>
Link back to Qn	Singapore has to face slower economic, higher prices and worsening of BOP position in the short run when moderating foreign employment in an attempt to restructure her economy.
Conclusion (SR)	
Conclusion	<p>The drive towards a high-value, productive economy supported by moderating of foreign employment and higher quality foreign workforce should bring about long term benefits of sustainable non-inflationary growth and more job and favourable BOP position in the long run. However, in the short run, she has to sacrifice her economic growth and suffer from raising prices.</p> <p>However, these negative repercussions can be mitigated with government intervention. The more adaptable local firms are to the change on labour policies, the faster Singapore can reap the benefits of a restructured high – value productive economy.</p>