Essay Submission for the 2011 Economics Society of Singapore (ESS) Essay Writing Competition

Tay Zhao Ting Jeremy

S9331189B

Raffles Institution

Submission date: 30/5/2011 through online submission

Email address used: jeremytay.zt@gmail.com
Summary

In the backdrop of fiery discontent over the Singapore government’s loose foreign immigrant’ policy, calls for protectionist measures have been echoed throughout society.

This essay acknowledges that there are some challenges posed by foreign immigrants. Such challenges include pressures that are placed on our strained public transport networks, a widening income gap in society, and disincentives for companies to increase productivity.

However, these challenges pale in comparison to the benefits that foreign immigrants bring. Foreign immigrants help keep maintain our economic growth, play a crucial role in transforming Singapore into a knowledge-based economy, and also help us deal with inflationary pressures. Foreign immigrants also help improve our fiscal position as a country.

Yet, we should not ignore the challenges posed by the influx of foreign immigrants. Instead, concrete steps should be taken to address these problems. This writer advocates a multi-pronged approach. Firstly, the government must focus on organic growth of the population as a more sustainable policy. In doing so, it must acknowledge that social incentives are more effective than economic incentives in raising our fertility rate. Next, a review of the criteria used for issuing employment passes should be made. Employment passes should be issued based on the net social benefit that immigrants have on Singapore. This writer advocates that the government look to overseas Singaporeans as a source of talent. Lastly, to mitigate the effects of foreign immigrants, the public transport industry should be deregulated and skills upgrading policies for the low income should be reviewed.

Essentially, foreign immigrants bring a myriad of benefits to our society. The key is striking a delicate balance between the benefits they bring and the challenges that arise.

Word Count: 300 words

---

1 For the sake of this essay, foreign immigrants shall refer to both permanent residents as well as foreigners here on employment passes.
1. Introduction

“In times of shrinking expectations...everyone feels like a victim and pushes away outsiders to defend his own corner.” – Oscar Handlin

In the aftermath of one of the world’s worst financial crises not seen since the Great Depression, and with the specter of a double-dip recession looming, many Singaporeans find themselves in tough economic times. However, many Singaporeans choose to blame their plight on the influx of foreign immigrants. The People’s Action Party (PAP), also the ruling party in Singapore, paid dearly\(^2\) in the recent 2011 General Elections for adopting a pro-immigration policy in a bid to attract foreigners to live and work in Singapore.

However, this writer believes that Singapore should continue to adopt a pro-immigration stance. In this essay I will seek to show that not only do foreign immigrants play a crucial role in helping our economy grow in the long term, they also help us manage structural problems with our economy. However, this essay also acknowledges the challenges posed by the influx of foreign immigrants, and will propose solutions to address these challenges.

\(^2\) The PAP suffered its worst election results since Singapore’s independence, winning only 60.14% of the votes cast.
2. How Foreign Immigrants Benefit Singapore

2.1 Ensuring Economic Growth

Singapore has one of the lowest fertility rates in the world\(^3\). The pro-immigration policies that the PAP has adopted have led to the number of employed permanent residents and foreign citizens growing tremendously\(^4\).

\[\text{Chart 1} \]

*Employment Change by Residential Status, 1998 to 2006*


\(^3\) It stood at 1.16 for 2010.

\(^4\) At an annualized growth rate of 8.4% and 2.2% respectively between 1997 and 2006.
There is a strong positive correlation between the growth in the number of foreign workers in Singapore and the GDP growth rates that Singapore has enjoyed. In this regard, the pro-immigration policy that the government has adopted has helped increase the potential output of our economy by helping to increase our labour supply.

2.2 Increasing the Stock of Human Capital

“Other countries are not only much larger than us, but have far deeper pools of talent than we have.” – PM Lee Hsien Loong

In her push to become a fully-fledged knowledge-based economy (KBE), Singapore has been making great strides in seeking to ensure its competitiveness in high-value added industries such as banking and finance. However, the shortage of highly-skilled individuals that possess the unique skills needed for these specialized jobs threatens to derail us from our objectives. By helping to fill the void in highly specialized sectors, foreign immigrants help us maintain our economic trajectory.

Aside, foreign immigrants not only improve the overall stock of human capital in the economy by their own contributions, they also help improve the *domestic* stock of human capital through a transfer of skills to locals. For example, in tertiary institutions, many students find themselves learning under foreign professors. By contributing to the stock of human capital locally, foreign immigrants are helping us improve the availability of skilled Singaporeans, and hence further our push for a knowledge-based economy.

---

5 In fact, between 2004 and 2006, foreign nationals contributed an average of 13.2% of Singapore’s GDP annually.
6 Evidenced by her bid to become an offshore Yuan hub.
2.3 Relieving Inflationary Pressures

Inflation remains a strong concern for the MAS. Foreign workers play a strong role in helping to alleviate cost-push inflation in Singapore. According to a paper by the Ministry of Manpower, “Many foreigners were taking up jobs that are labour intensive........physically demanding........less attractive to Singaporeans.” Contrary to the popular view that foreign immigrants are depriving locals of jobs, many foreign immigrants are actually doing work that Singaporeans are unwilling to do in the first place. This has been a boon for construction companies, which would have otherwise had to pay out higher wages to Singaporeans to do the job. This is a perfect illustration of Ricardo’s Theory of Comparative Advantage. Countries like Bangladesh enjoy a comparative advantage in unskilled labour, thus by importing unskilled foreign labour; Singapore has gained from trade in the form of lowered domestic costs of production. Had foreign workers not been allowed to work in our construction sector, Singaporeans would have to be employed at much higher wages. This increase in wages has to be passed on to home buyers, which would mean higher housing prices. Hence, foreign immigrants have played an imperative role in maintaining the affordability of housing in Singapore.

2.4 Net Fiscal Benefit of Immigrants

---

9 Headline inflation stood at 4.5% for the month of April 2011
10 Foreign immigrant participation in the construction sector for example, has been growing at an annualized rate of 11.5% .
It is empirically difficult to estimate the net fiscal benefit of immigrants to Singapore’s economy. A crude proxy would be considering the change in income tax revenue vis-à-vis the increase in resident population. From 2005 to 2010, the amount of income tax collected increased by 44.7%, yet the increase in resident population was only 8.8%. Evidently, foreign immigrants have contributed a substantial to the governments gain in tax receipts over the years. Research by Gott and Johnson\textsuperscript{11} showed that foreign workers contribute far more to tax revenue on average than locals, while using comparatively less social services (such as public transport). Because permanent residents or foreign nationals do not enjoy the same level of subsidies (or any subsidies at all) as their Singaporean counterparts, they thus play a net positive role in contributing to our country’s fiscal position.

3. Challenges Posed By Foreign Immigrants

3.1 Pressures on housing and public transport

Housing prices have risen significantly in recent years\textsuperscript{12}. This can partly be attributed to an increase in demand for housing by permanent residents. In particular, the problem is severe for first time home buyers who are finding it increasingly difficult to afford a home. Already, Singaporeans have one of the highest House Price to Income Ratios\textsuperscript{13} in

\textsuperscript{11} In their paper “The fiscal impact of immigration on the advanced economies”, Gott and Johnson showed that immigrants tend to make a net fiscal contribution to their receiving countries.

\textsuperscript{12} The Property Price Index rose by 17.6% in 2010.

\textsuperscript{13} At 17.19, housing affordability in Singapore is worse than in cities such as New York and Tokyo.
the world. This problem is further exacerbated by the shortage of houses created due to the increase in demand from foreigners.

Although SBS has increased the number of buses in its fleet by 19.3% between 2004 and 2008, the total non-resident population increased by 58.9% during the same period. Evidently, our public transport network has failed to keep pace with the rate of inflow of foreign immigrants. Furthermore, an increase in the number of privately owned cars can have the effect of increasing the amount of negative externalities.

3.2 Widening Income Inequality

Although foreign workers play a crucial role in filling gaps in certain sectors of our economy, they can also lead to a displacement of locals in certain instances. For instance, in the cleaning sector, many locals find it difficult to compete with foreigners who are willing to accept lower wages. This also has the effect of depressing wages for unskilled Singaporeans. Already Singapore has one of the highest Gini coefficients in the world at 0.479. Foreign immigrants, however, have helped widened this chasm.

3.3 Negative Incentives on Productivity Gains

The growth of about 1% a year in Singapore has lagged behind economies like Hong Kong which have managed to double our productivity growth rates. According to Paul Krugman, Singapore’s economic miracle “can be explained by increases in measured inputs. There is no sign at all of increased efficiency.” In the changing global landscape

---

14 Central Intelligence Agency, (n.d.). Cia world factbook
15 Liu, X.Y. (2010, June 6). Productivity: govt strategy not good enough?. The Straits Times,
that Singapore is in, productivity is the only way forward for our economy. However, cheap foreign workers in labour have created little incentives for companies to start investing in machinery to increase their capital intensity.

4. Proposals

4.1 Changing the criteria for obtaining employment passes

New criteria for obtaining employment passes in Singapore should be adopted. Ultimately, foreign immigrants should help improve the overall standard of living in society and not just our GDP. Thus, the criteria for granting employment passes should be based on the net social benefit that the individual will have. These criteria adopt a more holistic and sustainable approach in assessing overall social impact of foreign immigrants. Such criteria should include (but are not limited to) the following:

- Net Job Creation
- Availability of Singaporeans
- Implications on Housing Market

*(Please see appendix A for a more detailed analysis of these criteria)*

4.2 Organic Growth as a Key Driver

In recent years, the Singapore government has made great efforts to provide economic incentives to married couples to have more children. However, the Singapore government
fails to realize that having a child is not just an economic decision. Having a child is an investment of emotions, not money. Structural problems in our society are the main reason for the low fertility rates – not economic conditions. Indeed, a recent forum discussion\(^6\) in The Straits Times highlighted that ‘It is extremely stressful when parents feel obliged to send their children for enrichment classes, music and sports lessons so that their kids do not lose out‘. To this end, the government should move away from its policy of providing economic incentives and adopt policies that seek to make society more conducive for having children. In order to achieve this, the government should engage alternative stakeholders such as the parents of Singaporeans, as well as their employers. Furthermore, there should be a review of our pressure-cooker education system so that children can focus on having a holistic childhood. Stricter laws should be adopted towards companies that discriminate against pregnant women.

4.3 Attracting Overseas Singaporeans

Although Singapore remains an attractive place for skilled foreigners to live and work in Singapore, we cannot ensure that we will continue to enjoy this privilege in the future. Regional competitors like Hong Kong and Shanghai have adopted measures\(^7\) that are slowly eroding our competitive advantage when it comes to attracting top talent. There are about 180,000 overseas\(^8\) Singaporeans living overseas who tend to be highly skilled and will help us reduce our reliance on foreign immigrants. To achieve this, the Singapore government should set up an initiative to attract overseas Singaporeans to return to

---

\(^6\) Tan, L. (2010, December 17). French story isn't only about money. The Straits Times,

\(^7\) New deal to attract top foreign talent. (2010, August). KCS Group Newsletter,

\(^8\) Ong, H.H. (2011, May 8). Lowest voter turnout in over 20 years. The Straits Times, p. 17
Singapore. Incentive schemes should also be put in place. Such incentives should include tax benefits for a period of time after returning, as well as helping returning Singaporeans re-integrate into society by helping them find jobs and homes. These Singaporeans not only possess the qualifications and skills necessary to aid us in our quest to become a KBE, they also help incorporate best practices from overseas institutions into our society.

### 4.4 Reviewing Policies for Low-Income Groups

As companies tap government schemes such as the Productivity and Innovation Credit (PIC) scheme, a unique opportunity to help low-skilled Singaporeans upgrade themselves presents itself. Companies that tap into the PIC to invest in new machinery and reduce their reliance on labour intensive processes will be creating employment opportunities for low-wage Singaporeans to upgrade themselves and learn new skills. Hence, the Singapore government should thus seek to complete funding from the PIC, by making improvements to its Workfare Training Scheme (WTS). Currently, the WTS provides subsidies and incentives to employees earning less than $1700 a month to undergo retraining. However, many workers are unwilling to undergo retraining\(^\text{19}\) as the increment in pay that they get may disqualify them from the Workfare Income Supplement Scheme (WIS). Furthermore, the hard ceiling of $1700 a month leaves out those at the margin, who may be earning just over $1700 but fail to qualify for skills upgrading programmes. Hence, a hard ceiling of $1700, distorts incentives for workers to seek skills upgrading and

\(^{19}\) Chia, S. (2010, February 8). More help on the way for low-wage workers. The Straits Times,
should be abolished. Instead, subsidies for upgrading programme should be provided on an ability to pay basis.

4.5 Revamping Our Public Transport System

Abiding by Baumol’s Theory of Contestability bus/train routes should only be served by one operator to maximize economies of scales, markets can still be made more contestable by opening licenses to operate these routes for bidding. Thus, SMRT should be forced to divest its ownership of trains. Companies should then be allowed to bid for these trains as well as licenses to operate train lines, such as the North-East line. The bidding process should be based on the commitments of companies to improving the efficiency of train services during peak hours, and ensuring that overcrowding does not occur. The same should be done for our bus services. These licenses to operate routes need to be continuously renewed and will thus encourage firms to constantly make improvements to serve commuters better. This will allow economies of scale to be retained while increasing the overall welfare of commuters who will stand to gain from the increased competition.

5. Conclusion

“You cannot protect something by building a fence around it and thinking that this will help it survive.” –Wim Wenders

As the quote above aptly crystallizes the idea, walking down the slippery slope of protectionism could prove fatal for Singapore. However, that does not mean we open the flood gates and allow the complete free flow of immigrants into our country. Instead, a
more balanced and moderate approach should be adopted. This approach should bear in mind that there are challenges brought about by the influx of foreign immigrants. Yet, the solution to these challenges is not to ban foreign immigrants from entering Singapore, but adopting targeted measures that seek to mitigate any adverse impact on our society. In the end, we must always bear in mind that whatever economic policy the government undertakes – in this case foreign immigration policy – should have the ultimate goal of improving the overall welfare of society and not be for the blind pursuit of GDP growth rates.
Appendix A

Net Job Creation

When calculating net job creation, a consideration of whether locals will be displaced from their jobs should be made. However, it should also consider the potential for job creation for locals when that individual is hired. For example, a new MNC that is considering relocating to Singapore may have to relocate some of their own foreign employees to Singapore. In the process, they would also inevitably have to hire Singaporeans. Thus, the issuing of employment passes to these foreign employees, has led to net job creation (in this instance). This metric is useful in helping us examine the impact on unemployment rates among Singaporeans, and will help the Immigrations Checkpoints Authority (ICA) be more selective in granting immigrants employment passes.

Availability of Willing and Able Singaporeans

Foreign immigrants contribute to our economy on the premise that they take up jobs in sectors that there are either 1) no willing Singaporeans 2) a lack of sufficiently skilled Singaporeans. Thus, a consideration should be made as to whether the individual fulfills either of these criteria. In the case of there being no willing Singaporeans, exceptions should made for low-paying jobs. In certain instances, such as in roles such as cleaning, there are actually Singaporeans that are willing to take up the job. However, most of these workers usually have family to take care of, and that they tend to have higher costs of
living, hence they are unable to compete at such low wages. Thus, a cost of living allowance should be made in determining if there are willing and available Singaporeans.

**Implications on the housing market**

In considering implications on the housing market, metrics such as the Property Price Index (PPI) should be used. Considerations on whether the individual will be renting or purchasing a place to live should also be made to assess the impact of foreign immigrants on housing prices according to the current market conditions. In times of high property prices, less foreign immigrants should be let in to help stem inflation, vice versa. However, in a housing recession, foreign immigrants can actually help cushion the fall in house prices. Thus, such a flexible system is far more advantageous than a blunt tool such as an outright ban on the sale of resale flats to foreign immigrants.
Bibliography

2. New deal to attract top foreign talent. (2010, August). KCS Group Newsletter,