

Review - Others

Foreign worker buffer is working

Ivan Png, For The Straits Times

587 words

12 September 2009

LAST week, the Monetary Authority of Singapore (MAS) reported a survey of economic analysts from the private sector. The combined wisdom of 21 economists provided the good news that the year-on-year contraction from last year to this year in Singapore's gross domestic product (GDP) would be just 3.6 per cent, and unemployment in the current year would be just 3.8 per cent.

The GDP forecast is certainly better news than the Government's forecast of a 4 to 6 per cent contraction. Considering the sharp recession in the overall economy, the forecast increase in unemployment from 2.2 per cent last year to 3.8 per cent this year seems relatively mild. Compared with the United States, where unemployment is forecast to reach 10 per cent, we might feel quite blessed. Analysts have credited Singapore's relatively low unemployment rate to pro-active government policies including Jobs Credit.

However, the headline reports and forecasts have focused on our total unemployment rate. What is more pertinent to Singaporeans is the resident unemployment rate - that is, the rate of unemployment among Singapore citizens and permanent residents.

Last year, a total of 2.858 million were employed in Singapore. Of those, slightly more than one-third - to be precise, 35 per cent - were foreigners. By reason of deliberate government policy, foreign workers - especially at the lower levels such as production workers and construction labourers - provide a buffer to our employment. When the economy booms, Singapore attracts more foreign workers; when the economy weakens, foreign workers are laid off and return to their home countries.

To the extent that this buffer works as intended, unemployment among foreign workers would be lower than among Singaporeans. In the accompanying chart, I draw on Ministry of Manpower statistics to show the trends in the total

unemployment rate and resident unemployment rates since 1998.

Two facts are evident from the chart: One, the resident unemployment rate is always higher than the total unemployment rate, thus confirming that the foreign worker buffer is working as intended. Two, the resident and total unemployment rates track each other very closely.

In absolute terms, the resident unemployment rate is about 1 to 1.3 percentage points higher than the total unemployment rate.

What is less obvious from the chart is that the resident unemployment rate fluctuates more than the total unemployment rate. In some sense, the burden of changes in GDP on Singaporean employment is relatively heavier than indicated by the total unemployment rate.

Using the technique of regression analysis, I estimated a statistical relation between the two unemployment rates. In the recent MAS survey, the total unemployment rate for this year was forecast to be 3.8 per cent. Based on this, I can predict that the resident unemployment rate would be 4.9 per cent.

So the economic news for Singaporeans may be better than expected but it is still sobering. Unemployment among Singaporeans and residents will rise to 4.9 per cent. This would be just shy of 5.2 per cent, which was our highest resident unemployment rate over the last decade, as experienced in 2003 during the Sars crisis.

Of course, it could be worse - if, as some including Finance Minister Tharman Shanmugaratnam worry, the economy takes a second dip.

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