BOX ARTICLE 3.1

Singapore's Economic Growth Potential Up To 2020

2020 EYE ON THE FUTURE

ECONOMIC GROWTH IN THE NEXT FIVE YEARS

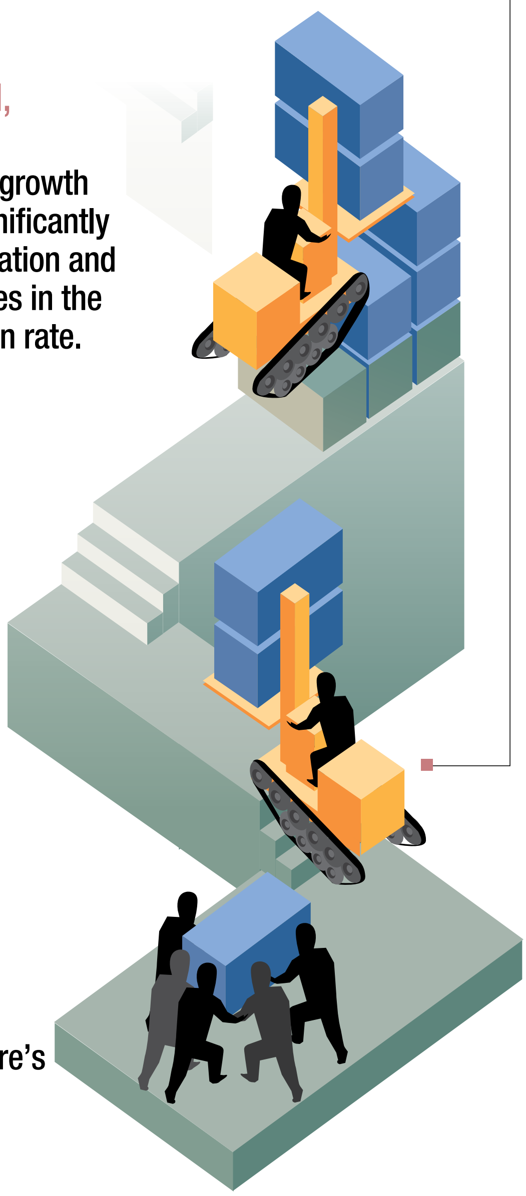
THE TEST

SLOWER RESIDENT WORKFORCE GROWTH, AGEING POPULATION

The resident workforce growth is expected to taper significantly due to our ageing population and limits to further increases in the labour force participation rate. Resident workforce growth will drop to an average of 20,000 per year towards the end of the decade, a sharp slowdown from the growth of 66,000 on average in the last five years.

CHALLENGING GLOBAL ENVIRONMENT

Five years after the Global Financial Crisis, the global economy remains sluggish. If this persists, Singapore's economy could be adversely affected.



THE QUEST

- RESTRUCTURE
- INNOVATE
- FACILITATE

GDP is likely to grow by 2 to 4 per cent per year from now to 2020.

To overcome the challenges of an uncertain global economy and slower resident workforce growth, we should continue to focus on economic restructuring and innovation, so as to raise productivity. These will help to overcome constraints of a tight labour market and raise income levels of Singaporeans.

The Government will continue to support businesses and workers in the restructuring journey towards productivity-driven growth.

In early 2010, the Economic Strategies Committee (ESC) recommended a medium-term GDP growth range of 3-5 per cent per annum from 2009 to 2019[1], supported by productivity growth of 2-3 per cent per annum and workforce growth of 1-2 per cent per annum.

As this year marks the half-way mark of the ESC's timeframe, this article reviews Singapore's economic performance since 2009, as well as sets out Singapore's medium-term growth projections for the rest of the decade, from 2014 to 2020.

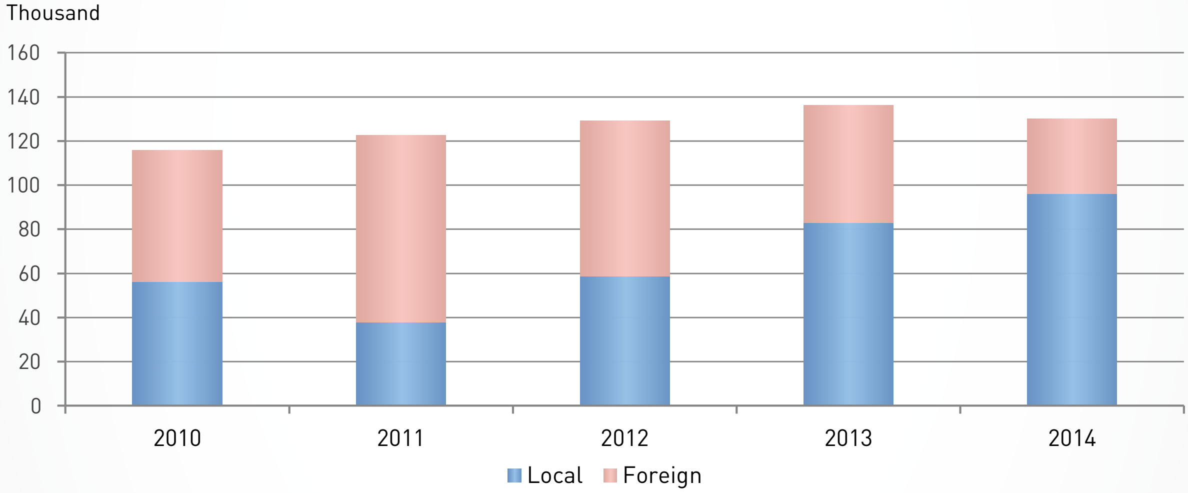
Our economy has performed relatively well since 2009…

The Singapore economy grew at a compounded annual growth rate (CAGR) of 6.4 per cent from 2009 to 2014, above the ESC's 3-5 per cent GDP growth range. Growth was driven by both workforce growth (3.8 per cent) and productivity growth (2.5 per cent).

…driven by strong resident workforce growth in recent years

The strong workforce growth experienced in the past five years was largely due to resident workforce growth, especially in recent years (see Exhibit 1). In particular, resident workforce growth is estimated to have contributed 1.9 percentage-points to the 3.8 per cent increase in total workforce over this period.

Exhibit 1: Resident and Foreign Workforce Growth



Source: Administrative Records and Labour Force Survey, Ministry of Manpower (MOM)
Note: Data are primarily from administrative records, with the self-employed component estimated from the Labour Force Survey.

The growth in the resident workforce was due to two factors:

a. Increase in the resident working-age population. Between 2009 and 2014, the resident working-age population aged 20 to 64 increased by around 100,000, from 2.5 million to 2.6 million.

b. Gains in the resident labour force participation rate (LFPR). The LFPR for residents aged 20 to 64 has seen a steady increase over the years, from 78.4 per cent in 2009 to 80.2 per cent in 2014. Singapore's LFPR for this age group is now higher than the OECD average and that for advanced economies like the US and Japan.[2] While the increase in the resident LFPR over this period was broad-based across most age groups, the increase in the LFPR of residents in the older age groups was the most pronounced. The increase in LFPR came on the back of continued job creation for Singaporeans, as well as the various Government incentives to attract and retain Singaporeans in the workforce (e.g., the Workfare Income Supplement (WIS) scheme).

[1] In this article, unless otherwise stated, the start year of the reference time period is the base year from which growth will take place. In this case, the base year is 2009, and the first year of growth is in 2010.

[2] Please see MOM's "Statement on Labour Market Developments", March 2015.

On the other hand, foreign workforce growth has moderated significantly in recent years, given the sluggish global economic environment and tighter foreign manpower policies. In particular, foreign workforce growth (excluding foreign domestic workers) averaged around 67,000 per year in the years 2010 to 2012, much of which was in the construction sector as the Government ramped up building and infrastructure works (e.g., public housing and MRT lines). This fell to around 48,000 in 2013 and further to 26,000 in 2014.

…while productivity growth has been relatively lacklustre

While productivity growth came in at 2.5 per cent on a CAGR basis from 2009 to 2014, it was largely lifted by the 11.6 per cent surge in 2010, when the economy rebounded from the Global Financial Crisis (GFC). Excluding the rebound year, productivity growth was weak at 0.3 per cent per annum from 2010 to 2014.

The weakness in productivity growth in recent years can be attributed to a number of factors[3]:

a. Uncertain and sluggish global economic environment. Productivity tends to be highly pro-cyclical in the short-run, especially for small, open economies like Singapore. The weak external environment since the GFC has dampened productivity growth not just in Singapore, but also several advanced economies and the Asian NIEs.[4]

b. Low productivity growth in domestically-oriented sectors. Overall productivity growth has been weighed down by the domestically-oriented sectors. From 2010 to 2014, the productivity of the domestically-oriented sectors declined by 0.1 per cent per annum, even as export-oriented sectors achieved productivity growth of 2.2 per cent per annum despite the challenging external environment.[5]

c. Employment shift into less productive, domestically-oriented sectors. Productivity has been further dampened by a shift in employment shares towards less productive, domestically-oriented sectors like construction and food services.

d. Slowdown in capital intensity (i.e., capital per worker) and labour quality improvements. Excluding residential buildings, capital intensity growth is estimated to have fallen from 1.8 per cent in 2010 to 0.0 per cent in 2014, in part due to weaker private investments in response to the uncertain and sluggish global economic environment. Similarly, overall labour quality improvements slowed on the back of an increase in less-skilled foreign workers in the construction sector due to the ramp-up in building and infrastructural works, as well as the entry of less-educated Singaporeans into the workforce, possibly incentivised by schemes like WIS.

Nonetheless, there are signs that our productivity initiatives are gaining traction on the ground. Companies are responding positively to the call to raise productivity, with more of them tapping on government schemes such as the Productivity & Innovation Credit (PIC) to raise productivity. Measures such as construction site productivity (i.e., floor area constructed per man day) that are used as supplementary indicators to monitor the progress of our productivity drive in the various sectors are also showing steady improvements.

[3] *Please see "Drivers of Labour Productivity Growth Trends in Singapore", Economic Survey of Singapore, 2014, pages 76-87 for more details.*

[4] *For instance, from 2009 to 2014, productivity growth in the US, Korea and Hong Kong came in at 1.3%, 2.0% and 2.1% per annum respectively, compared to the 2.5% per annum in Singapore.*

[5] *Domestically-oriented sectors refer to construction, retail trade, food & beverage services, information & communications, business services, and other services industries. Export-oriented sectors refer to manufacturing, wholesale trade, transportation & storage, accommodation and finance & insurance.*

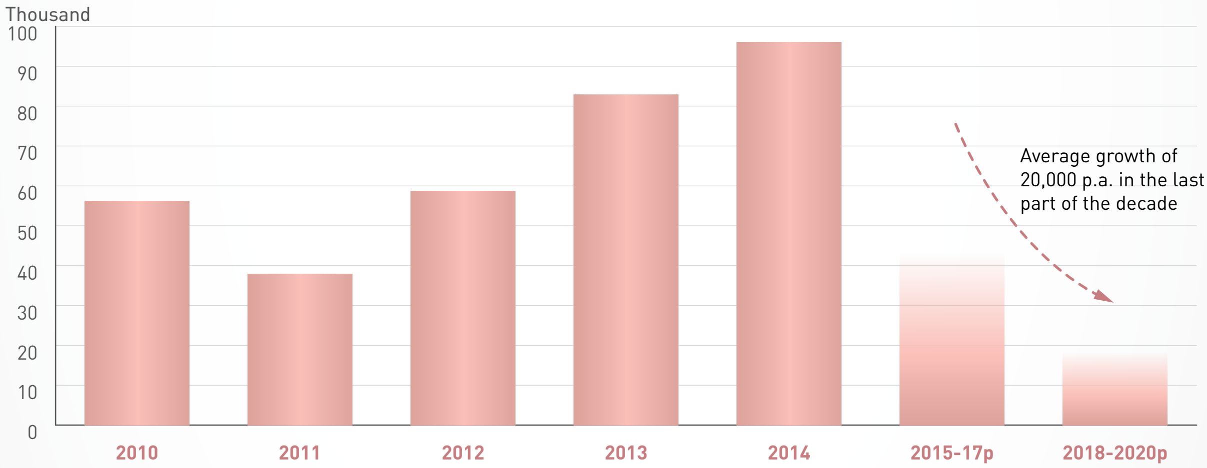
From 2014 to 2020, we expect GDP growth to be increasingly driven by productivity gains as the resident workforce growth slows

As the Singapore economy continues to mature, GDP growth for the rest of the decade is expected to moderate from that experienced in the past five years. From a supply-side perspective, workforce growth is expected to slow significantly in the years ahead, even as productivity growth is expected to pick up. From a demand-side perspective, there are downside risks to manpower demand and productivity growth arising from the uncertain and sluggish global economic environment. These factors are elaborated on in turn.

In terms of workforce growth, the resident workforce growth is expected to taper significantly due to our ageing population and limits to further increases in the resident LFPR. In particular, MOM has projected that resident workforce growth will drop to an average of 20,000 per year towards the end of the decade, a sharp slowdown from the growth of 66,000 on average in the last five years (see Exhibit 2). Factoring in the projected resident workforce supply and continued tightness in foreign manpower policies, the total workforce is estimated to grow by 1-2 per cent per annum for the rest of the decade.

On the other hand, productivity growth is expected to pick up as our productivity efforts gain momentum. Overall, we expect to achieve the ESC's target of 2-3 per cent productivity growth per annum from 2009 to 2019, although productivity growth is more likely to come in closer to the lower end of the range.

Exhibit 2: Resident Workforce Growth and Projections[6]



Source: Administrative Records and Labour Force Survey, MOM; MOM projections
p: projected
Note: Data are primarily from administrative records, with the self-employed component estimated from the Labour Force Survey. Projected figures are average per annum.

Taking into account the backdrop of a challenging global economic environment…

However, there are downside risks to growth arising from challenges in the external environment. The global economy remains sluggish five years since the end of the GFC. In particular, the major European economies and Japan have yet to see a firm recovery from the GFC. While the US has performed relatively better, its growth has also slowed in recent years. In Asia, the slowdown in China's economic growth will likely weigh on the region's growth. Furthermore, uncertainties in the global economy, such as the risk of a hard landing in China and possible deflation in the Eurozone, remain. If global economic conditions remain uncertain and sluggish for a protracted period of time, businesses' expansion plans, investment decisions and demand for workers may be adversely affected. Under such circumstances, workforce and productivity growth may come in lower than expected.

[6] *The timeframes in the chart refer to the years in which the workforce growth occurred or is expected to occur.*

...GDP is expected to grow by 2 per cent to 4 per cent per annum for the rest of the decade

Taking into account both supply- and demand-side considerations, MTI has projected that GDP growth for the rest of the decade (i.e., from 2014 to 2020) could range from 2 per cent to 4 per cent per annum, or around 3 per cent per annum on average. The lower end of the range takes into account the downside risks to growth posed by the external environment.

Although GDP growth is expected to slow, it is likely to be increasingly driven by productivity growth as workforce growth slows, especially towards the end of the decade. Achieving this will take a concerted, collaborative effort on the part of the Government, businesses and unions to uplift productivity growth, especially in our domestically-oriented sectors. The Government will continue to provide the necessary support to businesses and workers as we continue on our restructuring journey.

Productivity growth remains vital in ensuring sustainable economic growth and higher wages for Singaporeans

To sum up, the Singapore economy performed relatively well in the last five years, and is on track to achieve the growth range of 3 per cent to 5 per cent per annum envisaged by the ESC for the decade. Since 2009, the economy has expanded by 6.4 per cent per annum. For the rest of the decade to 2020, GDP growth is expected to slow to 2 per cent to 4 per cent per annum, or 3 per cent per annum on average.

The moderation in GDP growth in the remainder of the decade is expected to come on the back of a significant slowdown in resident workforce growth, especially towards the end of the decade. Beyond 2020, resident workforce growth is expected to slow even more and become nearly negligible as our population continues to age.[7]

Productivity growth thus remains crucial in our drive to achieve sustainable economic growth in this decade and beyond. The Government will continue to work with businesses and unions to raise productivity in the economy and enhance the quality of our workforce through continued investments in skills deepening and lifelong learning. This will in turn lead to higher real wages for Singaporeans.

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[7] In the 2013 Population White Paper, total workforce growth from 2020 to 2030 is expected to slow to around 1% per annum on average, with the resident workforce projected to contribute to 0.1 percentage-points of this growth.