

The institutional sphere of the labour market of a highly competitive economy – the case of Singapore

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Abstract. For years Singapore has ranked at the top the global competitiveness rankings and labour market efficiency rankings developed by the World Economic Forum. The paper aims to present Singapore's labour market institutional infrastructure and identify the underlying reasons for the good situation in its labour market. It discusses the assumption that the high efficiency of Singapore's labour market, contributing to the country's global competitiveness, stems from a specific approach to labour market institutions, which involves using the alternative labour market regulation mechanisms, such as the promotion of good practices, to increase relatively low work standards. Based on the breakdown of labour market institutions into formal and informal, the theoretical interpretation of the analysed mechanisms is presented. The conclusion indicates the direction for further research on labour market institutions in other Southeast Asian countries. Even though the labour market model in Singapore as such does not seem to be suitable for European economies, it is still a useful reference while shaping their labour markets.

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INTRODUCTION

Labour market is one of the most important factor markets in every economy. It is the type of a market where the allocation process occurs within a strictly defined institutional framework, also referred to as the rules of the game, which varies considerably depending on a country's economic system. This, naturally, raises the question of the efficiency of the labour market institutional infrastructure, the significance of which for the competitiveness of an economy may become one of the directions for analysis. This paper is based on the approach developed by the World Economic Forum (WEF), which recognises labour market institutions as one of the factors that are important for an economy's competitiveness. It is one of few approaches which take into account this kind of relation moreover, it distinguishes between two groups of institutions:

characterizing labour market flexibility and efficient use of talent. Another, more complicated approach is presented by e.g. International Management Development Institute (see: IMD, 2014).

This paper focuses on the labour market institutions of Singapore, the country with top ranks in terms of global competitiveness (number one in 2014, number two in 2013) and labour market efficiency (LME), which is part of the global competitiveness ranking. In terms of the latter index, Singapore regularly ranks high next to Switzerland, the USA and the UK, which offers an interesting research perspective whether it can become a useful reference for the European economies aspiring to improve the operations of their labour markets and increase their competitiveness.

The paper presents the case of Singapore's labour market in order to demonstrate that its high efficiency, contributing to the global competitiveness of Singapore's economy, is achieved through a specific approach to labour market institutions, which attempts to increase relatively low work standards by applying alternative mechanisms creating the labour market system. It refers thereby to publications which represent institutional approach to labor market analysis, most of all to these which concentrate on specificity of institutional labor market order in various countries (Freeman, 1998; Botero, Djankov, La Porta, Lopez-de-Silanes 2004; Freeman, 2007).

The paper comprises three parts. The first evaluates Singapore's labour market institutions using WEF criteria, the second characterizes selected solutions that are part of the institutional infrastructure of the country's labour market, and finally, the third seeks explanation, based on theoretical sources, why Singapore's labour market operates so efficiently.

SINGAPORE'S LABOUR MARKET EFFICIENCY ACCORDING TO THE WORLD ECONOMIC FORUM CRITERIA

According to WEF, a more competitive economy is the economy which can guarantee high productivity and lead to its further increase (Sala-I-Martin, Artadi, 2004, p. 51). LME is one of the twelve pillars of the Global Competitiveness Index developed and published by the organisation. The pillars comprise: 1) Institutions, 2) Infrastructure 3) Macroeconomic environment, 4) Health and primary education, 5) High education and training, 6) Goods market efficiency, 7) Labour market efficiency, 8) Financial market development, 9) Technological readiness, 10) Market size, 11) Business sophistication, 12) Innovation. LME has been an independent pillar of the index since 2007. The approach applied by WEF is one of few which recognise labour market institutions as the factors important for an economy's competitiveness. Characteristics that were incorporated into the index as it was structured in the publications for the years 2013-2014 comprised two groups of variables describing: 1) flexibility – cooperation in labour-employer relations, the flexibility of wage determination, hiring and firing practices, redundancy costs, effect of taxation on incentives to work, and 2) efficient use of talent – pay and productivity, reliance on professional management, country capacity to retain talent, country capacity to attract talent and female participation in labour force. The majority of data comes from the Executive Opinion Survey, conducted by WEF, apart from the data on redundancy costs, which is provided by the World Bank (Doing Business) and female participation in labour force, which is the data from national sources of the International Labour Organization (ILO). According to the WEF experts, the opinions of business leaders, regarding the majority of relevant aspects, are more qualitative compared to hard data (Browne, di Battista, Geiger, Gutknecht, 2014, p.85).

The analysis of rankings based on LME clearly shows that Singapore consistently ranks at the top. Table 1 presents the values of the LME index for the years 2008-2014 (on a scale from 1 to 7) and Singapore's position in the global ranking.

In terms of the LME index, Singapore ranked first or second in the analysed period, exchanging the number one position only with Switzerland or the USA.

Table 1

Labour market efficiency in Singapore 2008-2014

2008		2009		2010		2011		2012		2013		2014	
LME	Rank	LME	Rank	LME	Rank	LME	Rank	LME	Rank	LME	Rank	LME	Rank
5,71	2	5,91	1	5,92	1	5,86	2	5,80	2	5,77	1	5,69	2

Source: based on The Global Competitiveness Report, years: 2008-2009, 2009-2010, 2010-2011, 2011-2012, 2012-2013, 2013-2014, 2014-2015.

Table 2 shows the values of the components of the LME index and the country's position in the ranking according to the Global Competitiveness Report 2014-2015. The data comes from the years 2013-2014. The country's position in the ranking is significant due to the accuracy of the presented results, which were rounded to tenths, whereas the position in the ranking reflects more precise data. The variables are shown on a scale from 1 to 7 (apart from redundancy costs and female participation in labour force).

Table 2

Components of the Labour Market Efficiency pillar - Singapore 2014-2015

Component	Value	Rank
Cooperation in labour-employer relations	6,1	2
Flexibility of wage determination	6,0	7
Hiring and firing practices	5,4	3
Redundancy costs	3,0	6
Effect on taxation on incentives to work	6,0	4
Pay and productivity	5,3	4
Reliance on professional management	6,0	6
Country capacity to retain talent	5,2	8
Country capacity to attract	6,0	2
Female participation in labor force	0,79	76

Source: based on The Global Competitiveness Report 2014-2015. World Economic Forum, Geneva 2014, s. 484-493.

If we consider the components of the LME pillar, Singapore ranks high, at least in the top ten, in all categories apart from female participation in labour force.

Cooperation in labour-employer relations is the indicator which shows the evaluation of the cooperation based on the answers to the question: Are labour-employer relations generally confrontational (score - 1) or generally cooperative (top score - 7). The question arises whether the evaluation is not one-sided, as it seeks to establish the nature of the relations between the representatives of the two opposing sides of the labour market, while only the representatives of the demand side are asked to express their opinion. The ranking based on this indicator places Singapore on the second position and in the years 2009-2011 even the first, which might imply that Singapore enjoys the most cooperative relations between employees and

employers in the world. As a result, it will be worthwhile to analyse the nature of these relations in Singapore in more detail further in the paper.

The evaluation of the flexibility of wage determination is conducted based on the answers that managers provide to the question: How are wages generally set? The lowest score, 1, is given in the case of a centralized bargaining process, whereas the highest, 7, when wages are set by each individual company. The flexibility of wage determination is relatively high in Singapore, although countries such as Hong Kong and Estonia usually outperform it in the rankings.

Hiring and firing practices, similarly to the components discussed above, are evaluated by managers, who determine whether employee hiring and firing are heavily impeded by regulations (the lowest score – 1) or extremely flexible (the highest score – 7). The solutions implemented in Singapore are one of the most flexible in the world (3rd place in the ranking), so they will be discussed in detail further in the paper.

Redundancy costs constitute hard data and are expressed as the average weekly wages paid to a redundant worker. The costs which significantly contribute to efficiency are determined at the level of 0. In Singapore, they reach 3 weeks on average, though detailed solutions are varied.

The effect of taxation on incentives to work is also evaluated based on the opinions expressed by executive staff, who give the lowest score when taxes significantly reduce the incentive to work, while the highest when they do not affect it. In this respect, Singapore is one of the world's leaders and is outperformed only by some Arab countries, for example Qatar. The relationship between pay and productivity is assessed by managers, who give the highest score when the relationship is very strong. Singapore ranks fourth and is outperformed only by Hong Kong, Malaysia and Qatar.

Reliance on professional management scores highest when respondents declare that professional managers are appointed for merit and qualifications and lowest when they are chosen due to family connections and personal acquaintance without regard for work-related competencies. Now Singapore ranks 6th in terms of this indicator and is outperformed by the Scandinavian countries, while in previous years its position was lower. Singapore is perceived by executive staff as a country which is able to create relatively good conditions to retain talent (8th place globally) and as much more capable of attracting talent (2nd place), which is confirmed by a high percentage – almost 40% - of non-residents in the country's labour resources.

The ranking, primarily based on the results of the Executive Opinion Survey, demonstrates Singapore's labour market institutions as highly flexible and guaranteeing high efficiency of labour market processes.

THE CHARACTERISTICS OF SELECTED SOLUTIONS WITHIN THE INSTITUTIONAL FRAMEWORK OF SINGAPORE'S LABOUR MARKET

The indicators presented above include some solutions which are discussed, against the background of specific legislation and hard data, in more detail due to their bearing on the flexibility of labour markets and the resulting interest they generate in international comparisons. The discussed areas comprise labour-employer relations, the flexibility of wage determination, hiring and firing practices, redundancy costs and selected non-wage labour costs.

Cooperative relations between the representatives of the two sides of the labour market are defined as relations based on cooperation, collaboration and co-responsibility for a company's performance, when at the same time employers recognise employee innovativeness as valuable capital (Towalski, 2006, p. 251). Such relations are fostered when the labour market enjoys the balance of forces. While analysing industrial relations in Singapore, we should take into account the country's work standards building the symmetry

between the sides of these relations and their rights, namely the regulations on freedom of association for workers. They may be discussed through the prism of the ratification of the relevant ILO conventions.

The ILO conventions break into fundamental, priority and technical conventions. The fundamental conventions comprise, for example, C087 – Freedom of Association and Protection of the Right to Organize Convention, which has not been ratified by Singapore yet, and C144 – Tripartite Consultation (International Labour Standards) Convention, ratified by the country only in 2010. The latter obliges a country to implement effective consultation procedures between government, employers and employees. So far Singapore has not ratified the technical conventions: C154 – the Collective Bargaining Convention, aiming to promote and develop collective bargaining, or C175 – the Part-Time Work Convention, concerning part-time work and offering part-time workers the same treatment as that of full-time workers, for example in terms of freedom of association (it is notable that Poland has not ratified it either) (ILO, 2015a). Irrespective of the above, Singapore has trade unions, but they are rather weak. They represent 550,000 workers for 2,103,000 employed residents (*Labour Force in Singapore 2014*, p. XIII), which is an approx. 26% union membership rate, whereas a collective agreement coverage rate amounts to 17% (ILO and ADB, 2014, p. 77).

Confronted with the existing problems, in 2011 the ILO and Singapore's Ministry of Manpower signed the Partnership Agreement for a Collaborative Programme on Labour and Workplace Practices, defining three areas of intervention: 1) occupational safety and health, 2) productivity and skills development, 3) tripartism and social dialogue (ILO, 2015b). The initiative can be perceived as an attempt to substitute changes in legislation, which would be necessary if the conventions were ratified.

Another effort to alleviate the problems in the sphere of industrial relations was the Tripartite Committee on Work-Life Strategy, which developed the guidelines on flexible work arrangements (November 2014), aiming to improve the relations between the two sides of the labour market and promote open discussion on their problems and needs, which is implemented and monitored by appointed supervisors (*Tripartite Advisory...*, 2014). This is a response to the lack of work-life balance, a problem affecting many workers in Singapore, but also a reaction to the lack of dialogue and the infringement of employee rights concerning working time or overtime pay. The initiative is an attempt to prepare the ground for agreement between employers and employees.

Steps to improve work relations in Singapore are taken primarily under the pressure from the ILO, an organisation which oversees the protection of employee rights in member countries. The ILO considers Singapore's situation as one in need of improvement, while the country's government undertakes measures aimed at increasing the quality of industrial relations through alternative solutions, negotiated directly with the relevant parties and issued as guidelines and advisories, which do not require changes in the law.

In Singapore, the flexibility of wage determination, which involves setting wages on a company level, is reinforced with the lack of a minimum wage solution. Singapore is one of few Southeast Asian countries which have not adopted this solution. In recent years, it has been introduced by two other countries in the region – Hong Kong adopted it in 2014, while Malaysia a year earlier (World Bank, 2014). In Singapore, one of the consequences is an exceptionally low average wage, which in 2011 was almost twice as low as in Norway, the country which had a similar GDP per capita according to PPP, while the Gini index calculated on a disposable income basis amounted to 0.45 in 2011 and was almost twice as high as in Norway (0.25) (Tat, Toh, 2014, p. 26). Moreover, in Singapore the share of pay in GDP is lower than in other developed countries (42% in 2012) and the situation is exacerbated especially at the time of economic prosperity, which is attributed to increased inflows of cheap labour from abroad, hired to do simple work for a wage significantly lower than average. This contributes to a reduced share of salaries in GDP. However, the problem of low wages for foreign workers is growing, which was manifested, for example, by a strike against an unfair pay system held by foreign bus drivers

in 2012. This was the first strike in Singapore for 26 years (Tat, Toh, 2014, p. 8). Thus, Singapore can be seen as a country of extremely flexible wages, but also high income inequalities.

Hiring and firing practices in Singapore may, basically, be considered as completely without restrictions. Most regulations are included in the Singapore Employment Act, which is applicable in the case of both resident and foreign workers, irrespective of the type of a work contract. On the other hand, it excludes public sector employees, seamen, working family members, people in managerial or executive positions, employees of statutory bodies (the employment of these groups is governed by common law or case law). As a consequence, these exclusions affect more than half of workers residing in Singapore on a permanent basis. In Singapore, the period of probation is not restricted and neither are fixed-term work contracts, which means that an employer is not required to provide grounds for such employment, a number of such contracts with one employee is not limited, or their maximum combined time is not determined (ILO, 2011, p. 39). On the other hand, the share of workers hired based on different fixed-term contracts is not high, in 2014 it amounted to 11.8% of employed residents, 11.2% in 2013 (*Labour Force in Singapore 2014*, p. 26). The statistics, however, are distorted as they do not account for foreign workers. A typical working week in Singapore is 44 hours long for all employed (47.1 hours long for full-time employed), overtime is limited to 72 hours per month, a holiday leave after one year in employment is 7 days, to reach its maximum length of 14 days after 10 years in service (ILO 2013, pp. 24-25, World Bank, 2014).

In the case of employee dismissal an employer is not required to provide the grounds for dismissal, nor is there a distinction between justified and unjustified dismissals (although a dismissed worker can appeal to the Minister of Manpower if he was fired without prior notice or, in his opinion, unfairly). Moreover, employee representation organisations or public administration bodies do not have to be informed or grant permission in the case of planned redundancies. The absence of a statutory definition of a collective dismissal causes that dismissed workers are not granted any special rights. In 2008, however, the Ministry of Manpower, the Singapore National Employees Federation and the National Trade Union Congress entered a tripartite agreement that obliges employers to consult planned redundancies with trade unions if they operate in a given company or notify relevant public bodies (ILO, 2015b). This indicates that Singapore strives to improve employee protection standards without amending the law, which continues to give employers great flexibility.

Period of notice, determining redundancy costs, is varied and depends on the years in employment: period of notice is 1 week in the case of 2 or fewer years in service, 2 weeks in the case of no more than 5 years in service, and 4 weeks when the employment time exceeds 5 years and this is the maximum period of notice in Singapore. The employer is not required to provide any form of support for redundant workers, for example training or relocation to another position. Moreover, when the employer decides to increase employment and takes on new staff, redundant workers do not have any privileges (ILO, 2015b). In terms of formal regulations then, employers have absolute freedom to hire and fire workers. Notably, Singapore has not ratified C158 – the Termination of Employment Convention – and has no intention of doing it (ILO, 2011, p. 40).

Employment conditions and non-wage labour costs incurred by employers are affected by the absence of unemployment insurance in Singapore. Additionally, regulations stipulate that employees with less than three years' service are not entitled to any benefits compensating for the dismissal caused by redundancies or company restructuring. The regulations are connected with the common practice in Singapore, where employers provide redundant workers with benefits, paid out on a voluntary basis, that are related to the length of service, usually one month's worth of benefit for every year in service (benefits tend to be lower than the actual pay in a given period of time), which allows for the reduction in a number of appeals to the Minister of Manpower. In the absence of statutory regulations, benefits often become the subject of negotiation (ILO 2011, p. 43). This is another manifestation of the attempts to increase work standards and maintain social peace without resorting to changes in the law.

LABOUR MARKET INSTITUTIONS IN SINGAPORE – A THEORETICAL GENERALISATION

The labour market is perceived as the mechanism that demonstrates strong characteristics. R. Freeman indicates that developed countries have noticeably different labour institutions than institutions in any other market and that labour market institutions are highly country-specific (Freeman, 1998). The mechanisms that are used in Singapore and allow the country to achieve high efficiency of the market mechanism in the process of the labour factor allocation can be explained based on the institutional concept of the labour market. An institutional order of labour market consist of formal and informal institutions (Ostoj, 2012a,b).

The specific nature of Singapore's labour market institutional infrastructure and its evolution in recent years can be efficiently analysed based on the division of labour market institutions into formal and informal and the principle of institutional complementarity (Lissowska, 2008, p. 57).

The nature of Singapore's formal labour market institutions corresponds with its legal system, which is based on the British common law system. In common law countries statutory regulations tend to play a lesser role and employers and employees rely more on contracts that they negotiate (Botero, Djankov, La Porta, Lopez-de-Silanes, 2004). This might explain a relatively narrow range of restrictions imposed on employers by Singapore's legislation. As a highly developed economy, the country has also been an ILO member since 1965, but it is reluctant to amend its laws and, as a result, reduce the flexibility of its labour market, so it postpones the ratification of a number of the ILO conventions. The list of the ILO technical conventions that Singapore has not yet ratified comprises 60 positions.

However, the authorities acknowledge the problem of insufficient work standards, especially that the ILO consistently demands that they should be increased. Singapore copes with the problem by implementing non-law mechanisms, such as guidelines and advisories negotiated with employers, the solutions that complement the law without imposing new limitations. This is possible because relevant informal mechanisms are developed, such as implementing and promoting good practices, the examples of which were discussed above. Their application may also be economically justified by, for example, preventing protests and appeals against employers, but it also supports formal institutions with informal solutions while, at the same time, maintaining the flexibility of employment practices and social peace.

For many years Singapore has enjoyed very low unemployment. The unemployment rate, seasonally adjusted, calculated for the population of 15 and more years of age and of permanent residence in Singapore, defining the unemployed as actively seeking employment and capable work, did not exceed 3% in the years 2011-2014. In the same period, less than 20% of the unemployed sought employment for more than 25 weeks and almost 70% for less than 15 weeks, which clearly indicated that unemployment in the country was of short-term nature. The employment rate calculated for the population aged 25-64 reached 79.7% in 2014. This shows a good condition of the labour market.

CONCLUSIONS

The institutions of Singapore's labour market form a structure full of contrasts. On the one hand, regulations that grant employers great flexibility in the area of employment practices are upheld. A number of the ILO conventions, which would strengthen the position of workers, have not been ratified. On the other hand, in the recent years attempts have been made aiming at the semi-formal introduction of guidelines that would increase the protection offered to redundant workers and alleviate the tensions arising in labour-employer relations. These attempts have been accompanied by the conviction that such guidelines and advisories will be applied, which may, to a large extent, be attributed to cultural background. The obligations

and restrictions on the side of employers are kept to a minimum, while employees are granted opportunities to appeal against their decisions. As a consequence, labour market participants, with the assistance from the government, build a specific kind of institutional balance in the labour market. And above all, the labour market still enjoys the reputation of being free and flexible.

The institutional sphere of Singapore's labour market is highly specific, in particular compared to other countries with a similar level of development. Singapore has succeeded in keeping the unemployment rate low and productivity high, but the model that it has developed in the institutional sphere of the labour market does not seem to be suitable for European countries, e.g. Poland. It is based on the asymmetrical work relations, weak social dialogue, the freedom of hiring and firing practices, serious pay discrepancies, relatively low average wages, and no minimum wage as an employee protection instrument.

The paper has discussed the institutional sphere of Singapore's labour market, which, due to its specific nature, requires further studies. Another country that also ranks high in global competitiveness rankings and has a very efficient labour market is Hong Kong. The question that may arise is about the potential similarity of the sources of the high efficiency of the two labour markets and the identification of patterns resulting from the two countries' geographical proximity and cultural affinity.

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