

The writers analysed the relationship between the average monthly wage of local workers and the ratio of foreign workers in Singapore's food and beverage industry of 2016. They found that there was a less pronounced negative relationship between the wages of local workers and ratio of foreign workers compared with 2011. More research is needed to uncover the extent to which the changes in such wages are due to each of the various foreign worker policies, they said. PHOTO: LIANHE ZAOBAO



## Ask NUS economists

# Will fewer foreign workers help low-wage Singaporeans?

Policies restricting number of foreign workers lead businesses to adjust in several ways

**Chua Yeow Hwee, Ivan Png and Kelvin Seah**

For *The Straits Times*

**Q:** Does restricting the number of foreign workers help to raise the pay of low-wage local workers?

**A:** Since 2010, the Government has increased the foreign worker levy, reduced the foreign worker quota and raised the local qualifying salary threshold (the minimum

wage for local workers to count towards the allowed foreign worker quota).

Such policies lead businesses to adjust in several ways: hire more local workers, invest more in automation and IT, adjust the scale of operations, or a mix of the three.

Businesses seeking to recruit more local workers might offer higher wages, and so, one consequence of tighter foreign worker policies by the Government might be higher wages for local workers.

Consider the recent experience of the food and beverage (F&B)

industry.

It employs large numbers of foreign workers.

Using data from the Ministry of Manpower, we analysed the relationship between the average monthly wage of local workers and the ratio of foreign workers relative to the total workforce in the industry.

F&B businesses vary substantially in their reliance on foreign workers.

In 2011, the maximum legal proportion of foreign workers was 50 per cent.

While some businesses hired foreign workers to the maximum, others had relatively fewer foreign workers. Around half employed less than 40 per cent.

What this indicates is that it is entirely feasible to run an F&B

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business in Singapore with fewer foreign workers.

We also found that F&B businesses which employed more foreign workers paid lower wages to local workers.

At the maximum 50 per cent

foreign workers, the average local wage was about \$1,300 per month, while at 40 per cent foreign workers, it was slightly less than \$1,500 per month.

Effective from 2012, the Government has tightened the foreign worker quota, reducing the maximum percentage in two steps, from 50 per cent to 40 per cent.

This cut obviously affected businesses which employed more than 40 per cent foreign workers.

This prompted us to analyse the relationship between the average monthly wage of local workers and the ratio of foreign workers in the F&B industry as of 2016.

We found that there was a less pronounced negative relationship between the wages of local

workers and ratio of foreign workers compared with 2011.

In particular, in 2016, among businesses that employed 40 per cent foreign workers, the average local wage was about \$1,600 per month. That is \$100, or 7 per cent, higher than in 2011.

More research is needed to uncover the extent to which the changes in the wages of local workers are due to each of the various foreign worker policies – levy, quota and local qualifying salary threshold for local workers.

Still, the lesson for policymakers is clear: Tighter foreign worker policies can effectively raise wages for low-wage Singaporeans.

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Their opinions do not represent those of the Government or any party that supplied the data.

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