Southeast Asia: Singapore tests its success
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Party founded by Lee Kuan Yew is seeking to keep the economic miracle alive but faces challenges

Early commuters stream off the train at the station in Punggol, a district on Singapore’s east coast, as retired engineer Michael Ng and his wife hunt down a restaurant in the area known for its seafood.

Like many parts of the Asian city-state, Punggol has been transformed by the economic miracle that propelled Singapore from what was a southeast Asian backwater after independence from Malaysia in 1965 – two years after gaining independence from Britain in 1963 – into one of the world’s most successful economies.

The last pig farm in Punggol closed in 1990 as the area’s kampongs – a Malay word for village – gave way to dense developments of government housing, home for thousands of Singapore citizens and, increasingly, migrant workers from China that make up a large proportion of the island’s 1.3m population of foreigners.

The total population is 5.3m – about the same as Norway.

But Mr Ng, 67, says life has become “more stressful” of late. “My children have to work very long hours. People have to work hard to maintain their lifestyles, transport costs have already increased these past two years and housing has gone up a lot,” he says.

The Singapore in which Mr Ng’s children are working is a radically different place from the postcolonial years, when per capita gross domestic product was a mere $550. Thanks to an astonishing feat of nation-building under the iron leadership of Lee Kuan Yew, one of the 20th century’s most respected Asian statesmen, Singapore boasts GDP per capita of $55,000, according to the World Bank. That puts Singapore ahead of $47,000 for Ireland, with a comparable permanent population.

And for a tiny city-state whose land mass is about the same as a moderately sized Caribbean island, Singapore has for decades punched above its weight.

Its economy has grown at an average of 5-7 per cent for much of the past decade, helping to create a gleaming financial hub that is closing the gap with Switzerland as the world’s largest for wealth management. Singapore is Asia’s largest trading centre for both foreign exchange and commodities.

Low corporate taxes – averaging 17 per cent – have lured foreign investment, turning it into the undisputed business node for the fast-growing economies of southeast Asia. The ships moored in a narrow channel separating Singapore from Indonesia – visible from the top floors of the offices of Citibank and Standard Chartered – are evidence of Singapore’s role as the world’s largest bunkering port. Corruption is almost unheard of and such is the low rate of crime that uniformed police are rarely seen on the streets.

Yet as Singapore prepares to mark 50 years since independence next year, there is a pervasive sense of unease. The model that built Singapore – based on attracting foreign investment, a steady increase in the population to fuel economic expansion and paternalistic control – will not ensure that the economic miracle continues. “We are now at an inflection point, changing gears, changing pace,” says Lee Hsien Loong, the prime minister. “Today [we are] successful, prosperous, [but] not without issues which we have to deal with.”

Those issues have been multiplying – unlike Singaporeans. With a falling birth rate, Singapore has had to rely on foreign immigrants, such as mainland Chinese who drive public buses or work on building sites, to keep its economy on track. That has strained transport infrastructure and stirred resentment among some ordinary Singaporeans.

Income disparity has widened as Singapore has become a tax-friendly financial hub. Wealth-X, a research firm, estimates that there are 255 people with $30m or more in assets,
including property and business holdings, per 1m people in Singapore – more than eight times the average. One effect has been to make Singapore a magnet for upmarket carmakers including Maserati, Lamborghini and McLaren, which opened its first showroom there last year.

Meanwhile, a recent study by the Lien Centre for Social Innovation at Singapore Management University estimates 10-14 per cent of the permanent population live below a poverty line defined as monthly income of S$1,250 ($962) or less for a four-person household. Those statistics highlight a pressing existential dilemma: can this island country that has spent the past half a century on national development manage a transition to successfully tackling the dilemmas of being a world city?

Piyush Gupta, chief executive of DBS, Singapore’s biggest bank by assets, says: “Singapore, in a way, is still going through a crisis of identity. Does it really seek to embrace being a global city or not?” He adds: “For London and New York, the answer has been unequivocal over the past several decades. In Singapore’s case the jury is out because being a global city comes with attendant pluses and minuses. If you chose not to want to be a global city, that brings into question the economic and growth model that you seek to aspire to.”

Aside from rising living costs and a widening income gap, many Singaporeans feel that they are losing touch with a concept of national identity nurtured by the ruling People’s Action party (PAP).

Sudhir Thomas Vadaketh, a local writer, says the combination of globalisation, low birth rates and high immigration has “essentially overturned the very essence of a Singaporean identity that our forefathers tried to build”.

The government has been promoting ways to nurture a “core” Singaporean identity. Ministers argue that increased debate has bolstered a sense of identity, not eroded it. “This idea of a multicultural, multireligious and multiracial society has become a lot deeper, this sense of our shared identity and sense of shared destiny is a lot stronger,” says Heng Swee Keat, education minister and the politician in charge of the independence celebrations.

He points out that almost a third of school and university students spend some time overseas on exchanges, much of them funded by the government. That was rare when he was a student, says Mr Heng, 52.

Mr Lee has acknowledged the income gap. Last year the prime minister said, “We are not all Ronaldos” – a reference to Portuguese footballer Cristiano Ronaldo – “so the government must intervene more to keep ours a fair and just society”. That has involved bolstering social safety nets, with almost $S8bn set aside in benefits for senior citizens.

The government has also embarked on an economic restructuring that aims to boost productivity and reduce dependence on foreigners. Singapore’s productivity levels are about 70 per cent of those in the US, according to Credit Suisse, well behind Taiwan and Australia but just ahead of Britain.

Yet the jury is out on how well that strategy is working, as an International Monetary Fund report said last month. “The planned further slowing inflow of foreign workers, as part of the ongoing economic restructuring, could moderate potential growth and lower competitiveness,” it warned. “Productivity improvements might take some time to materialise.”

Yeoh Keat Chuan, managing director of the Economic Development Board, responsible for attracting investment, says the “inflection point” cited by the prime minister “is as much about going after new and exciting opportunities as well as restructuring the economy”.

Singapore has managed to shift up the value chain in areas such as storage technology, where it claims to account for 40 per cent of production of hard disc drives. It has also invested in higher education to ensure a steady stream of skilled staff for foreign companies such as Emerson, a US engineering company.

“They do continue to reinvent themselves and that’s why we continue to invest here because we see the universities and technical colleges coming out with the talent we need,” says Ed Monser, Emerson’s chief operating officer.

Multinational companies continue to choose Singapore to set up regional headquarters. This year Archer Daniels Midland, the US-based...
agribusiness, moved its regional headquarters from China, while General Motors shifted the bulk of its non-Chinese international operations from Shanghai.

All this highlights Singapore’s heightened importance as a southeast Asian hub while the fortunes of its northern rival Hong Kong are increasingly tied to China.

Yet with no economic hinterland of its own, Singapore may have to rely still further on financial services – currently about 11 per cent of GDP, compared with 15 per cent for Hong Kong – to drive much of the next phase of growth.

Productivity in Singapore’s financial sector has outperformed that in any other financial centre, according to the IMF, but Mr Gupta of DBS believes the sector’s output will have to rise perhaps as much as 20 per cent of GDP. Singapore’s emergence as an offshore hub for the renminbi, the Chinese currency, will help. Its English legal system will be even more important, he says.

“What creates a good financial centre is not just an aggregation of [financial] flows but a rule of law. In this context most of the other alternative sites in Asia still have a ways to go, and that’s something that Singapore really has got going for it,” he says. Early next year, Singapore plans to open an international commercial court, at which foreign judges will be allowed to sit. That will be the final building block in an effort to turn Singapore into a top commercial arbitration centre in Asia.

Yet the price Singapore will inevitably pay for expanding financial services is that “you have more bankers, you have more McLarens on the road – and then you have the social angle”, says one senior banker. Early this year, British wealth manager Anton Casey apologised in the face of public anger when he posted on Facebook of his relief at being able to “wash the stench of public transport” off him, having collected his Porsche from the car repair shop.

Such sensitivities have tested a ruling party that already had a taste of popular discontent over immigration in the wake of the 2011 general election. While the PAP won just over 60 per cent of the popular vote, it lost six parliamentary seats in what was its worst result since 1965. The PAP will be hoping for better at the next poll, expected either next year or in 2016.

“Whereas in the past you could be very confident that the PAP would win election after election, now for the first time there is some degree of political uncertainty,” says Kishore Mahbubani, dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore (NUS).

The PAP is also grappling with the rise of a noisy social media, where bloggers are openly critical of government policy and provide a popular alternative to the government-leaning traditional media.

“The hitherto pristine ‘policy lab’ that Singapore’s policy makers used to operate in is today being monitored by a more critical and sceptical public,” says Donald Low, an associate dean at the NUS and lead author of Hard Choices: Challenging the Singapore Consensus.

Few believe that the PAP will end up having to share power with the opposition at the next election. But Mr Mahbubani says: “After that? You cannot predict. But what I know for sure is that the PAP will have to keep reinventing itself.

“Because, if you’ve been so successful for so long, like any company you want to stick with your tried and tested formulas and then suddenly you have to change after 50 years of success. It’s not easy.”

This article has been amended since original publication to reflect the fact that Singapore gained independence from Britain in 1963, not 1965
Saudi view prevails as Opec decides not to cut production