Chapter 11

SINGAPORE'S SUCCESS: AFTER THE MIRACLE*

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Singapore has long been widely recognised as possibly the most successful case of development among emerging economies in the 20th century. This has resulted in a large literature—both academic and popular—on the country's economic development, quite out of proportion to its small size and unique circumstances.[1] This chapter will not repeat or synthesise this literature, since it is well-known. Instead I will (1) provide a brief retrospective summary of the country's economic policy and performance in the 20th century since independence in 1965, considering the extent to which these are replicable (or not) in other countries; (2) discuss the many developmental challenges the now-rich country faces in the 21st century, reflecting on whether they cast doubt on the wisdom and sustainability of some of its past and current policies, and the prospective implications for other developed as well as emerging economies which may seek to emulate Singapore as a "model".[2]

Given this focus, the chapter draws heavily on current public policy debates in Singapore and recent research by Singapore-based economists and other social scientists. A collective conclusion is that industrial policy, population policy, immigration policy, housing, health, social security, monetary and fiscal policy are all heavily interconnected and interdependent in a "complex system", such that operating one policy lever has consequences (including unintended and undesirable consequences) for other policy arenas and the system as a whole. This reality limits both the replicability of the Singapore model in other economies, whether emerging or developed, and the policy options for Singapore as it struggles to emerge from its current development dilemmas.

The 'Miracle' Economy: From Independence to Maturity in the 20th Century

Singapore's transformation from colonial port-city to newly-industrialised economy in the 20th century shared much with the experience of the other "Asian Tigers" of South Korea, Taiwan and Hong Kong, as

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[1] My own early contributions to this literature include: Pang Eng Fong and Linda Lim, "Rapid Growth and Relative Price Stability in a Small Open Economy: The Experience of Singapore," in Vittorio Corbo, Anne O. Kreuger and Fernando Ossa, eds., *Export-Oriented Development Strategies: The Success of Five Newly Industrializing Countries*, Boulder, Colorado: Westview Press, 1985, pp. 79-110; Linda Lim, Pang Eng Fong and Ronald Findlay, "Singapore," in Ronald Findlay and Stanley Wellisz, eds., *Five Small Open Economies,* New York: Oxford University Press for the World Bank, 1993, pp. 93-137.

[2] The Singapore "model" has been praised and singled out for emulation (often for different reasons) by a wide range of noted economists, including Michael Porter, Robert Reich, Paul Romer, Joseph Stiglitz, Lester Thurow and many media columnists; some of these will be considered later in this chapter.

noted in the voluminous scholarly literature of the time, the World Bank's 1993 study of *The East Asian Miracle*[3], and continued policy reflections since, focused on lessons for other emerging economies.[4]

From a market perspective, these economies in the 1960s and 1970s developed through free trade by specialising in the export of labour-intensive manufactures based on comparative advantage (relative resource endowments). From a "developmental state" perspective, they relied heavily on state-interventionist policies which used industrial policy of selective protection and subsidies to direct capital investment to particular sectors, and provided public investment in infrastructure and education to increase productivity. Industrialisation was further facilitated by conducive macroeconomic policy (including fixed and undervalued exchange rates, and high domestic savings[5]) and authoritarian political regimes which ensured labour peace and "affordability", and efficient centralised policy-making with effective implementation.

Singapore resembled Hong Kong, but differed from Korea and Taiwan, in continuing with the free trade and capital flows of the British colonial era, including openness to foreign direct investment (whereas both trade and FDI were only selectively "free" in Korea and Taiwan). It resembled Korea and Taiwan, but differed from Hong Kong, in practising industrial policy.[6] Significantly, it also differed from all three other "Tigers" in relying much more heavily on multinationals than local enterprises, and on imports of foreign labour and talent, in addition to tight state control of land and the domestic labour market.[7]

Political democratisation in Taiwan in 1987 and Korea in 1988 accelerated the shift in resource-based comparative advantage that both economies experienced, as now-permitted labour activism raised wages, currencies were allowed to float upward (but remained "managed"), the influence of state industrial policy and enterprises moderated (but did not disappear), and local private enterprises rapidly expanded and globalised their operations. There were no similar political changes in Hong Kong and Singapore, but China's opening around 1980 facilitated the relocation of Hong Kong's labour-intensive manufacturing there, to be replaced by finance and other services.

In Singapore, manufacturing competitiveness was maintained through the 1980s and 1990s by state industrial policy that encouraged the substitution of capital for labour, and technological upgrading, even as foreign labour imports preserved some labour-intensive parts of the manufacturing value chain. Exchange rate management also helped, with Singapore running globally unprecedented current

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[3] World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press, 1993.
[4] See, for example, Dani Rodrik, "Normalizing Industrial Policy", Commission on Growth and Development, Working Paper No. 3, The World Bank, 2008.
[5] For a summary explanation of high East Asian savings, see, for example, Linda Y.C. Lim, "Rebalancing in East Asia", in Stijn Claessens, Simon Evenett and Bernard Hoekman, eds., *Rebalancing the Global Economy, A Primer for Policymaking*, London: Center for Economic Policy-Making 2010, pp. 32-35.
[6] See, for example, Robert E. Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press, 1990; Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization*, Columbia University Press, 1991; Linda Y.C. Lim, "Foreign Investment, the State and Industrial Policy in Singapore", in Howard Stein, ed., *Asian Industrialization and Africa: Case Studies and Policy Alternatives to Structural Adjustment*, London/New York: St. Martin's Press, 1995, pp. 205-238
[7] Linda Y.C. Lim, "Singapore's Success: The Myth of the Free Market Economy", *Asian Survey* 26 (1983) 756-764, summarises the role of the state in Singapore's early economic development.

account surpluses of around 25% of GDP every year for over 30 years in a row. This has maintained manufacturing at over 20% of GDP[8]—again unprecedented among high-income countries—largely by attracting huge amounts of FDI into particular targeted sectors ranging from petrochemicals in the 1960s to pharmaceuticals in the 2000s, with electronics in between. It has also maintained and even expanded the economic role of the state, with a proliferation of government-linked companies or GLCs (resulting from the partial privatisation of state agencies and enterprises) and two of the world's leading sovereign wealth funds, GIC (Government of Singapore Investment Corporation) and Temasek.[9]

This state-driven development model succeeded in delivering high rates of GDP growth over nearly four decades, such that Singapore now ranks as one of the world's richest countries by per capita income[10]. It also ranks high globally in many private sector comparative indices, such as for "competitiveness"[11], "economic freedom"[12], "business environment"[13], "science and mathematics education"[14], among others. But the model is of limited relevance to other countries today, given recent changes in the dynamics of the world economy (and political economy), and peculiarities of the Singapore case itself.

When Singapore and the other Asian Tigers embarked on their export manufacturing development strategy, they were individually and collectively small players in a world market where there were few other open-economy competitors with the same market comparative advantage (relative labour intensity) and policies to develop sector-specific competitive advantage (investment incentives, industrial targeting, export promotion). Today, there are many more large emerging economies with similar market advantages (most notably China), while the evolution of WTO trade rules has limited international tolerance for "export subsidies", "trade-related investment measures", "currency manipulation" and other "beggar-my-neighbour" policies. Singapore gets away with continuing many of these policies because it is both relatively small, and very open in trade and capital flows; because its policies benefit multinationals, their home countries are unlikely to protest "unfair competition".

From the 1960s through the 1980s, Singapore and the other Asian Tigers also found ready access for their exports in the robustly-growing and open U.S., other developed Western and Japanese markets, at a time when those countries' companies were rapidly internationalising their production networks amid

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[8] Manufacturing was over 25% of GDP until the downturn following the 2008-09 global financial crisis.

[9] GIC's funds come from government surpluses, which include foreign exchange reserves accumulated from balance of payments surpluses, and other government cash surpluses. Temasek developed from a holding company for entities such as DBS (Development Bank of Singapore), Singapore Airlines and other GLCs, often referred to as TLCs (Temasek-linked companies).

[10] In 2010 Singapore had a per capita income of $40,070 in nominal terms, and $55,790 in purchasing power terms, which ranked seventh in the world, according to the World Bank's *World Development Indicators* 2012 Table 1.1 www.worldbank.org

[11] Singapore perennially ranks second (to Switzerland) in the annual *Global Competitiveness Report* rankings of the World Economic Forum, most recently in 2012-13 www.weforum.org.

[12] Singapore perennially ranks second (to Hong Kong) in the Heritage Foundation's annual *Index of Economic Freedom*, most recently in 2013 www.heritage.org.

[13] Singapore ranked first in the World Bank and International Financial Corporation's *Doing Business 2013* report www.doingbusiness.org.

[14] Singapore typically ranks among the top ten countries in the OECD's Program for International Student Assessment, including in 2012 www.oecd.org/pisa.

global trade liberalisation. Today, most rich countries face stagnant or slow-growing economies burdened with ageing populations and unsustainable fiscal burdens, making them less tolerant of imports from countries perceived as not observing “a level playing field”. Following the global financial crisis of 2008-09, tightening financial regulations and reduced tolerance for “tax havens” may also reduce the scope of offshore financial services and industrial investment incentives that countries like Singapore can offer international capital.[15] And with political liberalisation accompanying market economic reforms around the world since the 1990s, many emerging economies today also have limited tolerance for the type of state-heavy policies that propelled authoritarian Singapore’s economic development.

Behind the ‘Miracle’ in the 20th Century

Singapore’s economic development benefited from many favourable “initial conditions”, including an excellent geographical position and deep-water port at the crossroads of intra-Asian and international maritime trade, good infrastructure and commercial institutions developed by the British colonial authorities, free trade and capital flows which facilitated its role as a regional entrepot within Southeast Asia, and an entrepreneurial largely immigrant population engaged in trading networks with their neighbouring countries of origin.[16] Despite this, GDP growth was slow and unemployment high at independence in the mid-1960s, when the city of 1.5 m. was already middle-income (with the second highest income in Asia after Japan). The beginnings of offshore sourcing in labour-intensive manufacturing by Western and Japanese corporations, and the experiences of Puerto Rico, Mexican border *maquiladoras*, and Korean and Taiwanese export-processing zones, provided a model for industrialisation and employment creation that was also adopted in the 1970s by some of Singapore’s Southeast Asian neighbours, especially Malaysia and the Philippines in the electronics industry.

As in these other economies, government policies and institutions in Singapore played an important role in attracting FDI in labour-intensive export manufacturing. The role in investment promotion of Singapore’s lead development agency, the Economic Development Board (EDB), is well-known[17], but perhaps less attention has been paid to the complementary roles of other government agencies and policies in facilitating rapid industrialisation. The efficiency-enhancing role of infrastructure agencies—the Port of Singapore Authority, Changi Airport, Jurong Town Corporation (industrial estates), Public

[15] In the short term, regulatory tightening benefited Singapore’s financial center as tax-avoiding global capital fled there from Switzerland and other Western countries. The bulk of Singapore’s private wealth management services are accounted for by Asian investors, so its “strict bank-secrecy laws and a poor record on exchanging information” (*The Economist* Special Report on Offshore Finance, 16 February 2013, p. 14) may continue without detriment to this sector. A potentially more serious concern is the international effort to require that taxes on MNCs be assessed in the geographical location where particular activities occur, such that transfer pricing to shift income (e.g. attributable to intellectual property) to low-tax jurisdictions like Singapore is limited.

[16] Singapore also had unfavourable initial conditions, such as lack of natural resources and domestic market, labour unrest, and the withdrawal of British military services accounting for a third of GDP, which conditioned its choice of development strategy. See, for example, Richard F. Doner, Bryan Ritchie and Dan Slater, “Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective”, *International Organization* 59 (2005) 327-361.

[17] www.edb.gov.sg

Utilities Board, Urban Redevelopment Authority etc.—is obvious, but social policy has also played a less obvious role in increasing productivity and creating the conditions for successful growth.

Most notably, Singapore's Housing Development Board (HDB) has housed some 85% of the population since the 1980s, building and maintaining "public" housing units which most residents own. The provision of affordable housing helped keep wages low, while the integration of industrial premises into residential housing estates provided an easily accessible supply of factory labour.[18] Investments in public health and education increased labour productivity and skills, while a vigorous family planning campaign encouraged low fertility and greatly increased female labour force participation. Social security was provided through a Central Provident Fund (CPF) or "forced savings" scheme under which employers and employees contributed mandated proportions (ranging from 20% to 50%) of employees' salaries to individual accounts managed by CPF. Though meant to be savings for retirement, employees could and did use these funds to purchase housing—and later, also for medical and (limited) educational expenses, and equity investments in certain "blue chip" GLCs.[19]

Such institutional innovations enabled the Singapore government to provide high-quality public and social goods and services without running public sector deficits. It frequently articulated its abhorrence of "subsidies" and a "welfare state" even while extending the long arm of the state, directly and indirectly, into more and more sectors of the economy.[20] Most public sector agencies earned surpluses through user charges, and the government budget itself was almost always in surplus, with revenues exceeding expenditures nearly every year. "Singapore Inc." became a frequently-invoked moniker in the international business press, even before the privatisations of the 1990s and 2000s turned monopolistic state agencies into publicly-listed corporations (e.g. Singapore Airlines, Neptune Orient Lines, Singapore Telecoms, Singapore Mass Rapid Transit etc.) dominating the market capitalisation of the Singapore Stock Exchange. State agencies and GLCs (in which the government holds controlling minority shares) essentially prosper by providing goods and services at profit-making prices to the private sector.[21]

The government also influences wages and salaries in a number of ways. First, it controls the supply of labour through visa and immigration policies. Second, it influences the demand for labour through its investment promotion activities. Third, it is a major employer through the public sector and GLCs (influencing both demand and the supply price of labour). Fourth, it is the dominant participant in the

[18] HDB was particularly successful in rebuilding communities dislocated by extensive urban redevelopment. Its public housing estates included community centres, residents' committees, child-care and recreational facilities, all of which helped to form new communities and promote peaceful social relations in a multi-racial and multi-religious society (though an alternate interpretation was that these social goods and the "grassroots" organisations which managed them were designed to consolidate the ruling party's popularity and power).

[19] Linda Y.C. Lim, "Social Welfare in SIngapore" in Kernial Singh Sandhu and Paul Wheatley, eds., *Singapore: The Management of Success*, Oxford University Press, 1989, pp. 171-197 describes the rationales (including ideological rationales) for Singapore's housing, education, health and social security policies from the 1960s to the 1980s.

[20] One example is the National Trades Union Congress (NTUC), nominally an autonomous labour movement cooperative, but controlled by the ruling party for decades, headed by PAP cabinet ministers or Members of Parliament and widely seen as an extension of the government. NTUC runs many enterprises including the island's largest supermarket chain, insurance, taxis and resorts.

[21] See, for example, Linda Low, *The Political Economy of a City-State: Government-Made Singapore*, Oxford University Press, 1998.

tripartite (government, unions, employers) National Wages Council which comes up with annual wage increase guidelines for the private sector. Fifth, it controls the labour movement[22] and exerts considerable influence on the private business sector.[23]

The state's early ability to organise itself efficiently enabled it to "get the basics right" with lightning speed and limited political backlash as it embarked on an "extreme makeover" of the city. Being able to quickly deliver good infrastructure, low inflation, fiscal balance, political stability,[24] policy predictability and low corruption enabled it to outcompete cheaper neighbours to become the preferred regional headquarters of multinationals. This then developed agglomeration and other firstcomer advantages that became part of its competitive advantage in later years.

The fact that Singapore has been politically a "one-party state" for three generations has much to do with the social and institutional underpinnings of its economic success in the 20th century. Unchallenged political authority enabled the ruling People's Action Party (PAP) to undertake many developmental policies that in more pluralistic democracies might have encountered opposition, including from vested interests, and threatened a loss of power. Potentially contentious policies included labour controls, compulsory land acquisition and allocation, and the "crowding out" of the local private sector in both product and factor markets by multinationals and the state sector (which has not happened in the other Asian Tiger economies). The country also ranks far below its per capita income rank in comparative rankings which include variables such as "political freedom", "human development" and "well-being".[25]

After the 'Miracle': Developmental Challenges of the 21st Century

Singapore's development model of the 20th century might not be replicable in other emerging economies because (1) They do not face the same favourable initial conditions that Singapore and other Asian Tigers enjoyed then, and/or (2) They do not possess the political will or institutional capacity necessary to enact and implement the comprehensive social as well as economic policies that Singapore could undertake in the 20th century. (3) Another reason why countries might not follow the Singapore

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[22] See footnote 20. Strikes are also illegal throughout the economy; in 2012, the "first strike in 25 years" resulted in striking bus-drivers from the People's Republic of China being arrested, prosecuted, jailed and deported; one subsequently complained of "lack of freedom" and workers' rights in Singapore, and the unfriendliness of Singaporeans, and claimed that some Bangladeshi workers were paid so little that they went without food. http://sg.news.yahoo.com/former-smrt-bus-driver--why-we-went-on-strike--part-ii--083616951.html. But earlier, control of the labour movement facilitated adjustments such as redundancies, as argued in Yuen Chi Ching and Lim Ghee Soon, "Globalization, labour market deregulation and trade unions in Singapore", in Chris Rowley and John Benson, eds., *Globalization and Labour in the Asia-Pacific*, London: Frank Cass, 2000, pp. 154-173.

[23] For example, membership of the Singapore Business Federation is compulsory for all businesses in Singapore, and it is often headed by former civil servants (including currently).

[24] This was achieved in part through vigorous suppression of a left-wing labour movement and political opposition.

[25] For example, Canada's Fraser Institute ranks Singapore as "partly free" (4 out of 7 where 1 is most free) in terms of political and civil liberties www.fraserinstitute.org, the United Nations' Human Development Index ranks it far lower in HDI than in per capita income (though granting a major jump since 2011 based on political liberalisation) www.hdr.undp.org. Charles I. Jones and Peter J. Klenow, "Beyond GDP? Welfare Across Countries and Time", National Bureau of Economic Research (NBER) Working Paper No. 16352 (September 2010) find that Singapore has the greatest (negative) gap between per capita GDP and well-being of any of the 134 countries studied, with a welfare score less than half that of Hong Kong despite a slightly higher per capita GDP.

model is that 21st century internal and international developments have revealed the model's own shortcomings in continuing to deliver positive results for its population.

The most critical shortcoming of Singapore's growth model is its sustainability—or lack thereof. Almost from the beginning, studies have shown that GDP growth in most periods was achieved mainly through increasing the quantum of inputs—of capital, labor, even land[26]—rather than their productivity.[27] This strategy may have been efficient in developing a middle-income economy with underutilised resources (e.g. the high unemployment of the 1960s), and the ability to "borrow" internationally (e.g. by participating in multinational networks) to "catch up" to the global technological frontier. It becomes much more difficult in a high-income (and thus high-cost) economy with fully-employed resources now at the global technological frontier, but lacking the domestic market size, production scale and indigenous entrepreneurs to innovate for global markets.

The logic of international economics is that resource-based comparative advantage shifts, sometimes rapidly, such that activities that are competitive in one location at one period of time eventually become uncompetitive as domestic and international factor markets change. Given its small size and extreme openness to and dependence on world markets (with exports, including re-exports, accounting for over 200% of GDP), Singapore would be particularly vulnerable to shifts in comparative advantage. Indeed, barely half-a-dozen years after the launch of its labour-intensive export manufacturing strategy in the late 1960s, the country reached full employment and began importing foreign labour (initially from Malaysia) as a means of delaying the loss of comparative advantage in labour-intensive manufacturing. A few years later (1979-82), the government switched course, launching what it called a "second industrial revolution" with a "high-wage policy" aimed at increasing labour productivity and upgrading technology through capital-labour substitution. Ever since, variable labour importation has been an important policy tool in creating competitiveness and in counter-cyclical management (with "tightening" taking place in times of weak GDP growth and slack labour market demand, to limit domestic unemployment, and "easing" taking place when demand was strong, to reduce inflationary pressures). This has arguably delayed the "economic restructuring" to higher productivity levels that the government itself has called for more than once a decade since the 1970s.[28]

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[26] Singapore has thus far reclaimed about 20% of its land from the sea, a process which is slowing due to the technical difficulties of reclaiming land from deeper waters, and the difficulty of obtaining reclamation materials (sand, rocks, earth) from neighbouring countries, most of which have now banned the export of such materials.

[27] See, for example, Lee Tsao Yuan, "Growth without productivity: Singapore manufacturing in the 1970s", *Journal of Development Economics* 19 (1985) 25-38; Alwyn Young, "A Tale of Two Cities: Factor Accumulation and Technical Change in Hong Kong and Singapore", in O.J. Blanchard and S. Fischer, eds., *NBER Macroeconomics Annual 1992*, MIT Press 1992, 13-54; Alwyn Young, "The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience", *Quarterly Journal of Economics* 110 (1995) 641-80; Paul Krugman, "The Myth of Asia's Miracle", *Foreign Affairs* 73/6 (1994) 62-79; Koji Nomura and Tomomichi Amano, "Labor Productivity and Quality Change in Singapore: Achievements in 1974-2011 and Prospects for the Next Two Decades", KEO Discussion Paper No. 129 (September 2012), Keio Economic Observatory, Keio University.

[28] See, for example, Pang Eng Fong and Linda Lim, "Singapore's Foreign Workers: Are They Worth The Costs?" *Asian Wall Street Journal* 4 August 1981; Pang Eng Fong and Linda Lim, "Foreign Labour and Economic Development in Singapore," *International Migration Review* 16 (1982) 548-576; Pang Eng Fong and Linda Lim, "Wage Policy in Singapore," in *Government Wage Policy Formulation in Less-Developed Countries: Seven Country*

In seeking to manage and facilitate inevitable shifts in comparative advantage, the modus operandi of Singapore state development agencies, led by the EDB, has been to pick particular "new" sectors they think are promising, then attract foreign companies in these sectors to Singapore by showering them with investment incentives (tax breaks, R&D and training subsidies, employment subsidies, cheap land, special buildings). Since these are capital- and skill-intensive industries, offering capital subsidies and the freedom to hire specialised employees from around the world are effective inducements. Singapore has also worked on constantly improving its competitive advantages of location, infrastructure, logistics, legal, regulatory and tax regimes, and the general business environment—all of which contribute to its popularity as a global financial center and regional headquarters for multinationals. But these efforts have not been entirely successful,[29] given the high capital cost and risks of picking new industries at the uncertain technological frontier, Singapore's chronic lack of the scale required to develop robust long-lived clusters, and the rising local costs inevitably associated with the simultaneous development of many different sectors competing for scarce land, labour and talent resources, and with the privatisation (and hence profit-seeking higher prices) of some previously publicly-provided goods and services.

The turn of the 21st century saw Singapore's economy suffer in quick succession from several external shocks—the late 1990s Asian financial crisis which hurt financial services, the early 2000s crash of the dotcom bubble which hurt high-tech and IT, and the SARS near-epidemic which temporarily devastated tourism and hospitality. An Economic Review Committee in 2003[30] affirmed the continued importance of manufacturing, particularly the "four key clusters" of electronics, chemicals, biomedical sciences and engineering, as well as the development of educational, medical, financial and tourist services, and "creative industries", for a growing Asian middle-class. Following the global financial crisis of 2008-09, an Economic Strategies Committee in 2010[31] expanded these activities to include "green urban solutions" and developing Singapore as a global "hub" and "node" for financial and business services, R&D, consumer research, "commercialisation and innovation", and "complex manufacturing and manufacturing-related services", on top of established industries like trading, logistics and ICT, though

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Studies, Geneva: International Labour Office, 1989, pp. 75-101. For a more recent study, see Hui Weng Tat and Aamir Rafique Hasmi, "Foreign Labour and Economic Growth: Policy Options for Singapore," *Singapore Economic Review* 52 (2007) 53-72. For a gender perspective, see Linda Y.C. Lim, "Beyond Gender: the Impact of Age, Ethnicity, Nationality and Economic Growth on Women in the Singapore Economy", unpublished manuscript presented at the 25th anniversary of the Association for Women in Action and Research (AWARE) at the National University of Singapore, 5 March 2011, revised 13 July 2011.

[29] The Singapore government claims that it is quick to stop supporting sectors which fail to perform, for example, scaling back on support for life sciences (biomedical) research when this cluster was (predictably) slow to deliver on commercial results, and when some of the "international research stars" recruited from abroad to lead the effort left the country. However such a trial-and-error method of choosing sectors to subsidise has a high opportunity cost. In my field research in Singapore in 2012 and 2013 I came across partially or completely empty new buildings in dedicated technology research parks, and what other tenants told me were "white elephant" operations soon to leave the premises which were occupied. Both local and foreign technology start-ups I visited, as well as larger multinationals with hundreds of employees, said that as many as 85% of their employees were foreigners, including recent Asian scholarship graduates from Singapore universities, who could obtain Permanent Residence (PR) status "in one month", before foreign labour visa rules were tightened beginning in 2011.

[30] www.mti.gov.sg/ResearchRoom/Documents/app.mti.gov.sg/data/pages/507/doc/1%20ERC_Main_Committee

[31] www.mti.gov.sg/ResearchRoom/Documents/app.mti.gov.sg/data/pages/885/doc/ESC%20Full%20Report.pdf

the most visible addition to the economy was the opening of two major casinos (called "integrated resorts").

Despite (or perhaps because of) this proliferation of diversified new sectors, GDP growth declined, volatility increased (particularly in the highly capital-intensive and "lumpy" pharmaceuticals sector), and productivity growth slowed as GDP growth was achieved largely by input-intensive means (increasing capital and labour). While the government was mainly concerned with maintaining GDP growth, economists (and even some ruling party "backbencher" MPs) were already questioning the quality of growth and distribution of its benefits, noting (a) increased volatility (and its negative impact on domestic investment, employment and growth),[32] (b) the very low ratio of wages and of domestic consumption (about 35% each) in GDP and concomitantly high savings (45%) occurring disproportionately in the highly profitable multinational and state corporate sectors,[33] (c) stagnation in median incomes and decline in incomes of the bottom decile, (d) worsening income inequality with one of the highest Gini coefficients among rich countries (0.478 before and 0.459 after government taxes and transfers) [34] and declining social mobility,[35] (e) persistent consumer price and asset inflation particularly of land and housing,[36] and (f) Singapore's relatively poor performance in newly-popular measurements of "well-being" that include non-income metrics such as working hours, consumption, inequality and life expectancy.[37] (g) Environmentalists added concerns over high energy consumption,

[32] Choy Keen Meng, "Singapore's Changing Economic Model" in Terence Cheong, ed., *Management of Success: Singapore Revisited*, Singapore: Institute of Southeast Asian Studies 2010, pp. 123-138. See also various essays in Choy Keen Meng, *Studies on the Singapore Economy*, Singapore: World Scientific Publishing, 2012.

[33] Tilak Abeysinghe and Choy Keen Meng, "The aggregate consumption puzzle in Singapore", *Journal of Asian Economics* 15 (2004) 563-578; Linda Y.C. Lim and Lee Soo Ann, "Globalizing State, Disappearing Nation: The Impact of Foreign Participation in the Singapore Economy" in Terence Chong, ed., *Management of Success: Singapore Revisited*, Singapore: Institute for Southeast Asian Studies 2010, pp. 139-158; Hoon Hian Teck (Singapore Management University, Economics), "The future of wages in Singapore", *The Straits Times*, 5 February 2013.

[34] Department of Statistics, Singapore, cited in Goh Chin Lian, "Gap widens but Workfare helps", *The Straits Times* 21 February, 2013 and Fiona Chan, "Reducing inequality", *The Straits Times* 9 March 2013; this represented a worsening since 2000 (0.430) and 2010 (0.452), during which time the ratio of the average income of the top quintile of employed households to that of the bottom quintile also increased, from 10.1 to 12.9. For discussions of the causes of high and rising inequality, see Donald Low, "The Four Myths of Inequality in Singapore", 26 April 2011, https://sites.google.com/site/reflectionsingapore/Downhome/Topic1/thefourmythsofinequalityinsingapore; Manu Bhaskaran, Ho Seng Chee, Donald Low, Tan Kim Song, Sudhir Vadaketh and Yeoh Lam Keong, "Inequality and the Need for a New Social Compact" in Kang Soon Hock and Leong Chan-Hoong, eds. *Singapore Perspectives 2012 Singapore Inclusive: Bridging Divides*, Singapore: World Scientific Publishing 2013, pp. 125-178, and other chapters in this volume from the Institute of Policy Studies, Lee Kuan Yew School of Public Policy, National University of Singapore; Hui Weng Tat, "Economic Growth and Inequality in Singapore: The Case for a Minimum Wage", *International Labour Review* 152 (2013) 107-123; Linda Y.C. Lim, "Beyond Gender" (2011). For an early analysis, see Pang Eng Fong, "Growth, Inequality and Race in Singapore", *International Labour Review* 25 (1975) 508-523.

[35] Irene Y.H. Ng, "The political economy of intergenerational income mobility in Singapore", *International Journal of Social Welfare* 22 (2013) 207-218; Irene Y.H. Ng, "Education and intergenerational mobility in Singapore", *Educational Review* (forthcoming, posted online April 2013).

[36] Tilak Abeysinghe and Gu Jiaying, "Lifetime income and housing affordability in Singapore", *Urban Studies* 48 (2011) 1875-1891.

[37] Jones and Klenow, "Beyond GDP" (2010). "In 2010 full-time resident male workers worked 50.7 hours a week…..sales and service workers worked 52.5 hours (54.2 hours for those aged 50-59) and plant and machine

the loss of green and wild spaces, and the intensifying negative externalities of congestion, pollution and loss of cultural heritage sites in what was already the most densely-populated country in the world (7,253 people per sq. km. in 2010).[38]

Several factors appear to have contributed to the real or perceived decline in Singaporeans' well-being even as the country climbed the charts of the richest nations in the world, ranking first in the proportion of households with over US$1m in assets under management (15.5%).[39] (1) Pushing growth in many different new high-tech, high-skill sectors divided Singapore's already limited talent pool, preventing the development of critical mass in any given industry, while requiring heavy dependence on specialised foreign talent, given the desire to "develop new capabilities in emerging technologies such as micro-electromechanical systems, nanotechnology and photonics".[40] (2) The vast expansion in numbers of foreign workers admitted in a very short space of time[41] led to inevitable national clustering in workplaces and residences, alleged discriminatory hiring practices, a perceived "glass ceiling" for Singaporean professionals, and extreme congestion in transportation and housing scarcity as the government's physical planning fell behind the numbers it admitted. (3) A massive influx of low-skilled foreign workers (in construction, domestic service, cleaning and other services), and of white-collar clerical and retail workers, depressed wage growth among low- to middle-income Singaporeans, while a similar influx of highly-skilled "global talent" attracted with above-world-market salaries, and ultra-wealthy tax-haven-seeking capital owners/investors[42] contributed to visibly widening income and wealth disparities in the already densely-packed island city-state.[43]

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operators 52.1 hours (54.7 hours for those aged 50-59)," Singapore labour force data cited in Linda Y.C. Lim, "Beyond Gender" (2011).

[38] For one of many examples, see Geh Min, "Singapore: Home or Hotel?" *The Straits Times*, 4 March 2013, and an earlier commentary by Linda Lim and Geh Min, "When less is more", *The Straits Times*, 30 June 2008. See also www.bukitbrown.org, www.bukitbrown.com and other sites on the government's plan to demolish part of Singapore's oldest cemetery, a green area, to make way for roads, mass rapid transit, and new housing for an expanded population, similar to the planned demolition of a historic downtown school complex for condominium development www.facebook.com/saveoldschool.

[39] Boston Consulting Group, 2010, reported in *Bloomberg News* 4 April 2012 with this caveat: "Singapore is ending a program that allowed wealthy foreigners to "fast track" their permanent residency if they kept at least S$10 million in assets in the country for five years. The moves are aimed at slowing the rapid surge in property prices, which have been driven in part by wealthy investors and which have rankled Singaporeans."

[40] Economic Review Committee, 2003. For example, the expansion of financial services diverted local university students from engineering to business and finance, resulting in university engineering departments recruiting students from China and other countries, who then fulfilled their scholarship bonds by working for the required number of years in Singapore's semiconductor, petrochemical and other industries. Many of these subsequently left Singapore for China or other countries (such as the US, Canada and Australia).

[41] About two-thirds of jobs created in Singapore between 2006 and 2011 went to foreigners, or well over 100,000 per year; together with their dependents, it is likely that the foreign population grew by nearly 1 million (or 25% of Singapore's total population) in just 6 years. The increase slowed to 32,200 in 2012 (excluding construction and domestic service workers), Amelia Tan, "Inflow of foreign workers slows down", *The Straits Times* 16 March 2013. In 2010, the foreign-born accounted for 45% of the population and 38% of the total labour force.

[42] The government and media have been particularly proud that Brazilian Facebook co-founder Eduardo Saverin and American investor Jim Rogers both left the U.S. to take up residence (instantly granted) in Singapore.

[43] A slew of recent articles in the international press have highlighted Singapore's attractiveness to ultra-wealthy global elites. See, for example, Shibani Mahtani,"Singapore takes a gamble on glitz", *Wall Street Journal* 3 October 2012 and "Singapore: Wealth over the edge" in *WSJ Money* Spring 2013. A recent report ranks Singapore third

(4) At the same time, the ruling party stuck to its longstanding aversion to social (but not corporate) subsidies, raising a consumption tax while maintaining low income tax rates, and privatising what were previously public goods like healthcare, housing, transportation and utilities. With only a few large, now profit-seeking, players in what might be considered "natural monopoly" sectors, the predictable result was rising user charges and oligopolistic rents.[44] The impact on social welfare was particularly noticeable in healthcare.[45] In housing, a change around 2000 in the goal of public housing policy from "affordability" to "asset enhancement" penalised new buyers, resulting in large and long mortgage burdens for young couples whose starting professional salaries have increased only fractionally relative to the cost of public as well as private housing over the past decade. "The government itself has acknowledged that the emerging homelessness problem is due in part to some who gambled on asset appreciation and lost."[46] Not surprisingly, Singaporeans complain that they are "paying more and more for less and less" (including residential housing space in HDB flats), while living costs (pushed up in part by foreign demand) escalate much more rapidly than average wages (held down by foreign supply, and the related low productivity gains), resulting in a sense of "downward mobility"[47] in what residents are constantly reminded is one of the world's richest countries."

That the situation had become politically and socially, if not economically and environmentally, unsustainable, was revealed by two elections in 2011. In the May general election, the PAP which had ruled since the 1960s with only a token number of (one or two) opposition parliamentarians, saw its share of the popular vote drop to 60% (the lowest since independence), while its share of parliamentary seats dropped from 98% to 93%.[48] In the four-way contest for the elected Presidency in August, the government's candidate won with 35% of the vote, or a 0.3% margin. These unprecedented results

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(behind London and New York) among cities "important to high net-worth individuals", predicting that it will outrank New York in 10 years with property continuing "to feature strongly in the investment portfolios of the rich", Cheryl Ong, "Singapore 'set to be No. 2 wealth centre in the world'", *The Straits Times* 12 March 2013.

[44] At one time minimum rentals were set for hawker stalls in food centres, benefiting landlords at the expense of small entrepreneurs and relatively low-income consumers. However telecoms charges did fall with privatisation and increased competition.

[45] Singapore lacks a comprehensive health insurance program, such that a high proportion of citizens' medical costs are borne out-of-pocket. Public health services have been squeezed by the deliberate expansion of the high-earning private medical sector, an "exportable service" catering disproportionately to wealthy foreigners, and overwhelmed by the sudden large increase in population, such that wait-times as well as service quality are perceived to have declined, even before population ageing has increased demand.

[46] Irene Y.H. Ng, "Can we fix inequality?" www.salt.org.sg 23 September 2010. It is not known how many of the growing numbers of homeless and poor are the victims of "problem gambling" following the opening of the casinos, which have delivered high profits to their foreign owners (Las Vegas Sands of the U.S. and Genting of Malaysia) and large tax revenues to the government, including from the entrance fee imposed on Singaporeans (but not on foreigners) in an effort to discourage their visits.

[47] Tan Ern Ser (National University of Singapore, Sociology), quoted in Joyce Hooi, "Singapore's emigration conundrum", *Business Times* 6 October 2012.

[48] Decades of gerrymandering explain the large discrepancy between the popular vote and parliamentary representation. Besides some genuine appreciation for the government's achievements, tight media control, pre-election distributions (popularly known as "goodies"), a limited nine-day election campaign, and lingering fears from the past persecution of opposition politicians, explain what in other countries would be considered a respectable popular vote share for the government.

were seen by the ruling party as a loss of popularity; the Prime Minister apologised to the population, the cabinet was reshuffled with some of the most unpopular ministers replaced, and many new policies hurriedly announced, particularly to increase the availability of public housing and transportation. Also politically significant was the decision to reduce cabinet ministers' salaries—then and still today the highest in the world.[49] Since then, two by-elections were also won by the main opposition Workers' Party, most recently in January 2013 with a 55% majority against the PAP candidate.

Right after this last by-election loss, the government released a White Paper on Population Policy,[50] which met with overwhelming public opposition, including some from ruling party backbenchers (reflecting the views of their electoral constituents).[51] It laid out plans for what Singapore might be in 2030, with a 6.9m. population (vs. 5.3m. currently) of whom 45% would be immigrants or temporary foreign workers (with 15,000 to 25,000 new Permanent Residents a year, down from 79,000 in 2008[52] and on top of a current stock of 500,000 PRs), required because native Singaporeans' abnormally low Total Fertility Rate of 1.2 children per woman and rapidly ageing population would make it otherwise impossible to achieve 3-5% GDP growth (high for a developed economy). The government later acknowledged that a lower GDP growth rate was likely, given the maturity of the economy, that it would focus on increasing productivity and reducing (but not eliminating) reliance on foreign labour, and that the 6.9m. figure was not a target, but a "planning parameter" for infrastructure purposes, and even "a worst-case scenario". It also enacted yet more pro-natalist policies to encourage Singaporeans to have more children, including shorter waits for HDB housing for young couples, and cash bonuses for each baby, though such policies have been around for 30 years without having much impact (though one could argue that without them, the birth rate might be even lower).[53]

Many of Singapore's problems today are shared by other high-income developed economies, especially by their dense urban areas. These include low birth rates, rising income and wealth inequality, reduced social mobility, traffic congestion, expensive housing and reliance on an immigrant labour force. The difference in Singapore is mainly one of degree--its birth rates are lower, income and wealth inequality greater, housing more expensive[54], and reliance on foreign labour most extreme. Because its economy is

[49] No. 1 ranked Singapore Prime Minister Lee Hsien Loong's annual salary of US$2.85m. in 2011 was five times that of No. 2 ranked Donald Tsang of Hong Kong, seven times that of No. 5 President Barack Obama of the U.S., and 40 times that of average per capita GDP in Singapore (as calculated by *The Economist* 5 July 2010). As part of the post-2011 salary revision, political leaders' and senior civil servants' annual bonuses are now linked to unemployment and median and bottom quintile wage increases, as well as to GDP growth which previously was the sole metric.
[50] *A Sustainable Population for a Dynamic Singapore* www.population.sg.
[51] See, for example, Donald Low, Yeoh Lam Keong, Tan Kim Song and Manu Bhaskaran, "Economic Myths in the Great Population Debate" www.ipscommons.sg; Linda Lim, "How land and people fit in Singapore's economy", www.sg.news.yahoo.com 21 February 2013; and numerous traditional media articles and blogposts from January through March 2013. On February 17, 2013, a protest rally against the White Paper attracted 4,000 people at Hong Lim Green; the gathering was the "largest in forty years", given strict limitations on freedom of assembly.
[52] For comparison, note that the much larger U.S. grants only 65,000 H1-B visas a year for highly-skilled foreigners, though this number has been as high as 180,000 in the past and is expected to be raised in the near future.
[53] For more on this subject, see Youyenn Teo, *Neoliberal morality in Singapore: How family policies make state and society*, London: Routledge 2011, and the White Paper on Population Policy (footnote 50).
[54] See, for example, www.Economist.com/houseprices for international comparisons by various metrics.

also more state-driven (e.g. with the government housing 85% of the population, admitting the large numbers of foreign workers, and actively pursuing industrial policy), public policy must explain some of the differential, though the ultimate constraint may simply be the country's extreme land shortage.

The government's growth and investment promotion policies, and their requirement for large inputs of foreign labour and talent, probably have the greatest impact on the economy, since they distort the allocation of resources by influencing relative prices. In terms of sectoral targeting, the White Paper mentioned the government's intention to grow the following "new industries": biomedical, digital media, petrochemicals, advanced electronics, green energy, in addition to existing sectors of logistics, fashion, food, marine and environmental engineering. Not mentioned were the already large established sectors of trade, finance and tourism/hospitality, other sectors identified (above) by the Economic Review Committee (2003) and Economic Strategies Committee (2010), or the new sectors of "space industries" and "Big Data" analytics and storage, announced after the release of the White Paper (2013). All these sectors require investment incentives or corporate subsidies (because they would not be market competitive otherwise); all would compete with each other for scarce local resources including land and skills, pushing those costs up; all would require heavy recruitment of foreigners (with the resultant negative externalities of congestion, asset inflation and social unease); while simultaneous development of multiple sectors would undermine the likelihood that each would be able to reach the critical size and scale required for global market competitiveness. Since these sectors are selected for being capital- and skill-intensive, their returns would accrue disproportionately to high-income owners of capital and skills (mostly foreigners), thus worsening income inequality. Large inflows of capital would either cause currency appreciation that would reduce the competitiveness of more labour-intensive export sectors (such as tourism) or aggravate (already rising) domestic inflation (if the currency were not allowed to appreciate). Some sectors would add to Singapore's already high energy consumption, and consume scarce land, with negative consequences for environmental sustainability and "spatial justice".

The impact of these industrial and labour policies on birth rates probably works through the housing market. Young dual-income couples needing to both work longer and save more to purchase housing[55] delays the age of marriage, while the need to service housing loans, the high costs of childcare, limited living space (especially for those who take in renters to help pay for their mortgages) and expensive and inconvenient transportation, discourage childbearing. This is true also in other cities around the world. To the extent that children are an "inferior good" (for whom demand falls as income rises) in a materialist consumerist society and among the highly-educated, this trend should continue in Singapore as the proportion of university-educated Singaporeans rises from the current 27% to the targeted 40% of the age cohort, and population density increases. Some scholars also argue that corporate career pressures, long working hours and a highly stressful school system are responsible for young Singaporeans' low marriage and fertility rates.[56] High housing prices, the use of CPF retirement savings

[55] Tilak Abeysinghe (National University of Singapore, Economics), research reported in "Move beyond economics to boost fertility", *The Straits Times* 25 January 2013.

[56] See, for example, reports on The Population Conundrum Roundtable on Singapore's Demographic Challenges, Institute of Policy Studies, Singapore, 3 May 2012, www.spp.nus.edu.sg, especially remarks by Pauline Straughan (National University of Singapore, Sociology).

to pay for them, and the erosion of CPF savings given the low interest rate they earn relative to inflation, also causes many Singaporeans to fear that they will be unable to support themselves in retirement, with a recent survey revealing that 56% of 2,000 respondents would like to emigrate.[57] Complicating the situation, several GLCs are now dominant players in private property development of high-end commercial and residential properties, with their REITs (Real Estate Investment Trusts) profiting handsomely from soaring prices and rentals.[58]

In their criticisms of the White Paper and its vision of Singapore in 2030, Singaporeans have generally called for slower GDP growth with better distribution, including a higher share of the proceeds of growth for Singaporeans (vs. foreign workers and employers) and the low-income; a recent poll by the government's "feedback unit" found that nearly nine in ten Singaporeans support measures to tighten the inflow of foreign workers.[59] The government itself proposes higher productivity growth as a means to assuring higher incomes. But it appears to assume continued dependence on low-skilled foreign workers and labour-intensive methods in sectors such as construction, food-and-beverages and domestic service, even though this itself discourages investments in productivity improvements, technological and institutional innovations,[60] and sociological transformations that are commonplace in other rich countries, and discourages Singaporeans from entering these occupations because they remain low-wage, low-status, and populated by low-skilled foreigners. Instead the government's approach, as revealed in its 2013 Budget, for example, is a two-pronged one: lifting more Singaporeans into what are called PMET (Professional Management Executive and Technical) jobs that pay higher wages (rather than allowing wages for non-PMET jobs to rise), and providing more social subsidies to low-income households (rather than enabling them to earn higher wages through the market), in direct contradiction of its longstanding opposition to income transfers because they make people "lazy". In short, its plan appears to be to continue with resource allocation distortions and then to compensate those who lose by such distortions (such as the wage repressing effects of low-wage foreign labour imports) through fiscal handouts (known locally as "giveaways").[61]

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[57] Mindshare survey reported in Joyce Hooi, "Singapore's emigration conundrum" *Business Times* 6 October 2012. 65% of respondents did not believe that they would be able to retire comfortably in Singapore, 73% thought that public housing prices are "getting out of hand", 75% agreed that "I should not be spending my entire working life paying off my housing loan", 72% said they "could not afford to get sick due to high medical costs", and 69% said that "there are too many foreign workers taking up job opportunities in our society today". According to the World Bank, there are 300,000 Singaporeans living and working abroad (about 9% of the total native population—though government figures put the number at 200,000 or 6%, a third of whom left in the last 10 years), with Malaysia the top destination, followed by Australia, UK and US (all with lower per capita incomes than Singapore).
[58] GLCs in the property development and REIT business include Capital Land, Mapletree, Keppel (core business: shipbuilding and marine services) and Singapore Press Holdings (core business: media).
[59] Tessa Wong, "'Most support curbs' on foreigner inflow", *The Straits Times* 19 March 2013.
[60] "Has the ideas machine broken down?" in *The Economist* 12 January 2013 reviews work by Paul Romer and others that suggests that the availability of abundant cheap labour not only discourages investment in productivity but also reduces innovation and increases income inequality.
[61] The recent appearance of credit and training programs for small-scale entrepreneurs like hawkers is a potentially hopeful sign of a different philosophy emerging.

Apart from local objections, and the questionable wisdom of "growing new sectors" which mainly provide jobs for foreigners, and can only survive by hiring them, there is concern that foreign workers may not be available in the medium to long term. As the gap between employment and living standards in Singapore and migrant source countries like China, India, Malaysia and the Philippines narrows, and as the multinationals who employ these workers increasingly move to their home locations because they have larger labour and talent pools, as well as lower costs and larger, more rapidly growing, markets, it may become harder for Singapore to attract such workers, while those who do come may not stay permanently since they have family in their home countries and eventually better economic opportunities there for themselves and their children. It is possible, even likely, that "new industries" heavily subsidised by the Singapore state may eventually move to the larger origin countries of their migrant employees. Thus the strategy of attracting investment by providing capital subsidies and ease of hiring foreign labour and talent is probably not sustainable. Already multinationals say that inflation, rising costs and expensive property prices, as well as shortages of staff, are making Singapore a less attractive location for investment.[62] Local businesses, which tend to be more labour-intensive, are also challenged by rising costs and labour shortages[63]; the government has instituted a variety of assistance schemes to help them upgrade, and will cover wage increases for most of their workers over the next three years.[64] Like multinationals, some will have to relocate as businesses have always done with shifting comparative advantage.[65]

These 21st century developments suggest that the past success of Singapore's economic model is not sustainable. Even the government argues in support of its policies that the country has "no choice" but to import large numbers of foreigners, and does not have a strategy for what it can and should do after 2030, since then there will be even more rapidly diminishing returns to the policy of adding yet more capital and labour to the already overcrowded island.[66] Singapore's accumulation of excess foreign reserves and its early establishment of sovereign wealth funds to manage government surpluses and invest them abroad was originally designed to provide the country with a financial cushion against external shocks and domestic downturns. It appears now that foreign reserves will be further increased "to strengthen our social safety nets, and to cope with volatility and uncertainty",[67] since the

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[62] Survey by *The Economist* Corporate Network, reported by Yasmine Yahya in "S'pore losing shine among MNCs: Poll", *Business Times* 8 January 2013. In February, eight international chambers of commerce signed a letter to the government expressing their concerns with the tightening of employment visas for foreigners.
[63] Aaron Low, "Bosses fear further curbs on foreign manpower", *The Straits Times* 31 January 2013.
[64] Note that local SMEs, like MNCs, have long received a variety of government subsidies, mostly for upgrading and retraining; however because they are less capital-intensive than MNCs and less likely to be in the targeted high-tech and "new industries" which receive the bulk of "incentives", they receive fewer subsidies each.
[65] Besides productivity growth, moderating property prices, rents and inflation from a slower-growing population, and slower appreciation of the Singapore dollar with lower inward FDI, could partly compensate for rising labour costs. Linda Lim, "Can slower growth lead to a stronger nation?" *The Straits Times* 22 February 2013.
[66] In addition to replacing 20-storey buildings with 50-storey ones, the government is also promoting joint development of the Iskandar project in the neighbouring Malaysian state of Johor, and exploring more ways for Singaporeans to live and work underground.
[67] Prime Minister Lee Hsien Loong at the first Singapore Summit, quoted in Teh Shi Ning, "S'pore to build up its foreign reserves shield", *Business Times* 22 September 2012.

government continues to be averse to raising revenues through taxes (which range from 12 to 17 % of GDP, compared with the 34% OECD average).[68]

Lessons for Emerging Economies

Many lessons have been, and continue to be, drawn from Singapore's economic development experience for other emerging economies; they range from the general[69] to the specific.[70] There is certainly much to admire and emulate from public policy in Singapore. Two recent books by former Singaporean civil servants engaged in policy-making are particularly recommended. *Dynamics of the Singapore Success Story: Insights by Ngiam Tong Dow* outlines the political and institutional, educational and social, financial and banking "pillars" of Singapore's building of a knowledge-based economy, and also considers the implications of its experience for China.[71] The chapters in *Behavioural Economics and Policy Design: Examples from Singapore* show how behavioural economics informs policies such as traffic management, environmental management, electricity retail, discretionary transfers, health and retirement policy, and provide useful lessons for developed countries as well.[72]

In terms of the broader themes of this volume, another book, by a long-time International Monetary Fund economist on Southeast Asia, *Singapore's Success: Engineering Economic Growth*, perhaps best captures international development agencies' enthusiasm for Singapore's development as a model for developing countries.[73] It concludes with these words:

> Key themes emerged from Singapore's success story. These include: the role of saving in allowing the buildup of first-rate infrastructure; the growth potential of increased labor force participation and immigration; the central importance of economic development among national goals; sharing opportunities for growth widely to make people more productive through better health and education; the macroeconomic resilience and employment-creating

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[68] Chia Ngee Choon (National University of Singapore, Economics), "How progressive is the new tax structure?", *The Straits Times* 28 February 2013, also notes that overall social spending is "just above a third of the OECD average"; the 2013 Budget raises various levies on luxury car and investment housing purchases, mainly to reduce traffic congestion and housing price inflation, but they also have a progressive distributiuonal impact.

[69] For example, Mac Margolis, "The Next Singapore: Honduras ponders an extreme economic makeover" *Newsweek* 8 October 2012 reports on an effort to create a "semi-autonomous, free-market charter city" like Hong Kong or Singapore "to tap investment, migrant workers and innovation from around the world", an idea inspired by Paul Romer (New York University, Economics) www.chartercities.org.

[70] Ravi Velloor, "S'pore held up as model in reducing trade barriers", *The Straits Times*, 24 January 2012, notes the World Bank's and Bain & Co.'s praise for Singapore's "strategic initiatives to cut trade barriers" which facilitate the globalisation of multinational supply chains.

[71] Zhang Zhibin, ed., *Dynamics of the Singapore Success Story: Insights by Ngiam Tong Dow*, Singapore: Cengage Asia Learning, 2011. Note that in the past several years, Mr. Ngiam, once Singapore's top civil servant in charge of economic development, has been publicly critical of the government's more recent 21st century policies, including the emphases on property and finance as sources of employment and income.

[72] Donald Low, ed., *Behavioural Economics and Policy Design: Examples from Singapore*, Singapore: World Scientific Publishing 2012 for the Civil Service College.

[73] Henri Ghesquiere, *Singapore's Success: Engineering Economic Growth*, Singapore: Thomson Learning, 2007. Dr. Ghesquierre served on the staff of the IMF from 1978-2005, and was Director of the IMF's Singapore Regional Training Institute from 2004-05.

> potential provided by flexible wage policy; competent civil service and integrity of governance; fiscal discipline and setting aside surpluses during boom years; win-win relations with MNCs and labor; maintaining racial harmony; learning from others pragmatically; the rule of law; and well-designed policies…..
>
> Singapore followed an integrated approach to development. Outcomes, policies, institutions, social and cultural values, and the political dynamics of implementation all reinforced each other. The government pursued this comprehensive strategy across a range of areas such as fiscal, monetary policy, education, health, transportation, housing, finance, wage policy, legal system and law enforcement, labor markets, and political stability and legitimacy…..[74]

From this expert practitioner perspective, then, Singapore's economic development was a success because it was comprehensive and integrated across all dimensions of public policy, and social and cultural institutions. This alone can be a daunting and difficult path for other emerging economies to follow, which is presumably the reason for Paul Romer's suggestion of establishing a separate city-state.[75] Ghesquierre and other foreign admirers of the Singapore model skirt around the one institution which has arguably been essential to the "growth-enhancing institutions" and "political economy of implementation" which enabled its economic success—and that is the political institution of the one-party authoritarian state. A very different view is projected by some other Western writers focused on the country's non-economic institutions, where they find governance a problem due to its concentration in a small interrelated elite.[76] It is beyond this author's expertise and this chapter's scope to consider governance issues, except to note that in other emerging economies such a concentration of political and economic power is typically considered antithetical to rather than supportive of successful economic development.[77]

More interesting, in my view, is how and why the Singapore model—so admirable in so many respects and for so long—has stumbled in the 21st century, in terms of maintaining high living standards, economic opportunity and social satisfaction for its citizen population, requiring a return to the input-intensive growth which is typically associated with less-developed economies that have fewer strategic choices. After four decades of rapid GDP and income growth, Singapore's economy today is even more dependent on increasing inputs of foreign labour and talent, foreign capital and technology, and even

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[74] Ibid., pp. 167-168.

[75] But see also Jonathan Watts, "Plans for Honduras start-up city hit by transparency concerns: Blow to plan's credibility as NYU professor Paul Romer says he has been unable to act as its guarantor and watchdog", *The Guardian* 7 September 2012.

[76] See, for example, Ross Worthington, *Governance in Singapore*, London/New York: RoutledgeCurzon, 2003; Michael D. Barr and Zlatko Skrbis, *Constructing Singapore: Elitism, Ethnicity and the Nation-Building Project*, Copenhagen, Denmark: Nordic Institute of Asian Studies (NIAS Press) Democracy in Asia No. 11, 2008. One of the well-known facts about governance that these authors note is that Singapore has had only three Prime Ministers since 1959, with the third, current Prime Minister Lee Hsien Loong being the son of the founding Prime Minister Lee Kuan Yew, while his wife Ho Ching is the longtime head of the sovereign wealth fund Temasek.

[77] As Ghesquierre also notes, "Good institutions can take a variety of forms. Each country must fashion the specifics of its policies and institutions tailored to its own local geographical and historical conditions." (p. 168) Singapore's model differs from those of South Korea and Taiwan, but all had the political will and determination to impose their chosen models on their populations in the early stages of industrial development.

increasing land area by artificial means, at the cost of increased inequality, reduced social mobility, rising inflation, greater risk and volatility, and declining quality of public and social goods and services (all of which the government, to its credit, acknowledges). It has failed to develop a model of sustainable growth despite achieving a highly-educated population (human capital) and accumulating huge amounts of financial capital through the world's highest savings rate and foreign exchange reserves (which indicate that wages and consumption continue to fall behind top-line GDP growth, or that Singaporeans are much less well-off than their nominal or even real GDP per capita suggests). Seen in this light, the ruling party's declining political popularity is unsurprising.[78]

Theories about domestic causes of these public policy shortcomings relate mainly to failures of governance arising from the single-party system and its concentration/overlap of political and economic power, leading to lack of diversity of thought and competition of ideas ("groupthink"), the persistence of cognitive ideological biases long after they have ceased to be valid, and the self-interest of an academically-selected elite of lifetime civil servants heavily networked with state and quasi-state agencies and GLC senior management, all of them highly-compensated for their responsibilities over the allocation of public resources.[79][80] But for the purposes of this volume, it is more useful to consider if any general lessons may be derived from the Singapore experience for economies that are still "emerging".

A first possible lesson is the limitations of globalisation as a development strategy. There is no question that Singapore and other emerging economies would not have succeeded as they did in industrialising, raising incomes, and moving towards post-industrial status, without participating in globalisation, particularly liberalising trade and foreign direct investment, and exporting to global markets. But the 21st century has also revealed some of the downsides of globalisation especially for small open economies like Singapore. These include: extreme volatility arising from external GDP shocks;

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[78] With rising affluence, education, and the spread of the internet and social media, especially among youth and post-Arab Spring, it is tempting to suggest that this unpopularity is due to a desire for greater political freedoms. However the public discourse and popular rhetoric including online is heavily weighted toward so-called "bread-and-butter" issues of stagnating incomes and worsening distribution, housing and health care costs, etc. for which government policy allowing the massive influx of foreigners is held partly to blame. Singaporeans did not seem to mind high salaries for political leaders and senior public officials, when their own economic situation was good, and the public sector appeared to be performing well; their ire was raised only when several repeated failures in public services (escape of a terrorist suspect from jail, mass transit overcrowding and breakdowns, frequent severe flooding, high cost and reduced availability of housing and healthcare etc.) called into question the competence of highly-compensated civil servants whom "we pay well to do the job". As many of the commentators cited here note, the past "social compact" in which Singaporeans supposedly accepted curbs on their political freedoms in exchange for economic and social advancement has broken down because of the state's failure to deliver the latter, even as political freedoms have gradually improved.

[79] For thoughtful reflections on post-2011 governance challenges in Singapore, see the following essays by former civil servant Donald Low: "What went wrong for the PAP in 2011?" https://www.facebook.com/notes/donald-lows-fc/what-went-wrong-for-the-pap-in-2011/209993849034597; "Sustaining good governance in an era of rapid and disruptive change", speech at the IPS Singapore Perspective Conference February 2013; "Reframing the National Conversation", IPS Commons http://www.ipscommons.sg/index.php/categories/politics/86-reframing-the-national-conversation; "Governing in the new normal", *The Straits Times*, 10 September, 2011.

[80] Singapore justifiably ranks as the least corrupt country in Asia, No. 5 globally in 2012 www.transparency.org, though recent years have seen a rise in high-profile cases of corruption related to government procurement contracts.

vulnerability to destabilising global capital flows resulting from other countries' monetary and currency policies; and the unreliability of multinational investors as long-term members of a national private sector, since their own corporate fortunes and strategies change with globalisation and the accompanying shifts in comparative and competitive advantage, such that"piggy-backing" on specific multinationals is no longer an assured path to growth given heightened technological dynamism, business cycle volatility and general uncertainty in the world economy.[81]

Singapore's attempt to deal with export volatility through industrial diversification has had limited success, while its accumulation of foreign reserves managed by sovereign wealth funds has been variously criticised for (a) maintaining currency undervaluation, (b) depriving the economy of funds that might be better used for domestic consumption, investment and a more robust social safety net, (c) resulting in financial losses from bad investments overseas, (d) undermining the sovereignty of other nations.[82] Singapore's extreme openness to capital inflows puts upward pressure on its currency (undermining export competitiveness), contributes to domestic inflation (including politically-sensitive housing price inflation)[83] and income and wealth inequality, and has exposed it to criticisms at home and abroad of being a tax haven and money-laundering center.[84]

The heavy and prolonged reliance on multinationals is what most differentiates Singapore from other successful Asian emerging economies—Taiwan, Korea, Hong Kong, even Malaysia, Thailand and China—all of which have developed large local private enterprises with the capacity for competitive survival at home and successful globalisation abroad as national comparative and competitive advantages have shifted. Singapore, in contrast, has remained heavily dependent on foreign multinationals, not simply by being open to FDI, but actually attracting specific state-chosen investments with extensive subsidies of capital expenditures and of labour (through liberal labour importation policies, training and education).[85] The subsidies required to attract and retain such foreign investment tend to increase with capital- and skill-intensity and technological specificity, yet are no assurance that the companies will remain, since from a corporate perspective subsidies are only one variable in location and investment

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[81] See, for example "Here, there and everywhere", *The Economist* Special Report on Outsourcing and Offshoring, 19 January 2013.

[82] For example, during the financial crisis Singapore's sovereign wealth funds incurred large losses from their investments in Western financial institutions such as Citigroup, Merrill Lynch and UBS; their telecommunications investments in Indonesia, Thailand and Australia caused political controversy and also resulted in losses.

[83] Emerging economies suffering from the same problems have in recent years imposed a variety of capital controls that are increasingly sanctioned by the IMF; see for example Dani Rodrik, "Global capital rules", www.project-syndicate.org 7 April 2013. This is not possible for Singapore, given the reliance of its financial services sector on open capital flows, but in 2012 the Monetary Authority of Singapore added macroprudential measures to what had previously been only exchange-rate management in its monetary policy.

[84] For example, in 2013 Singapore was found to be the center of a global soccer-fixing syndicate, presumably facilitated by the ease of money transfers.

[85] At the extreme, the Singapore EDB has paid for the salaries of engineers and other skilled employees of multinationals such as Microsoft and Hewlett-Packard; such jobs tend to disappear when subsidies are withdrawn, since by definition they do not make market sense for the employing multinationals. There have also been media reports of young Singaporeans graduating with previously encouraged "life sciences" degrees being unable to find suitable employment (e.g. the celebrated case of a Stanford PhD "new citizen" from China found driving a taxi).

decisions.[86] Providing subsidies to any company or industry also diverts scarce resources (land, labour, talent, capital) from other companies and industries. While multinationals do provide supply-chain opportunities for local companies, they also "crowd out" or compete with them for scarce resources, given limited land, and full employment. This is one reason why many local Singapore companies are "much bigger abroad than at home", given larger markets and more resources in neighbouring countries, and competition at home from MNCs and GLCs. Concerns have also been expressed that the heavy dependence on foreigners may distort economic development and hamper the continued evolution of participatory democracy.[87]

A second possible lesson for emerging economies is the limitations of state industrial policy as a country moves up the technology and income ladder, and it becomes more costly, risky and difficult to pick sectors in which to "strategically invest" (or subsidise). Some sectors may not survive when subsidies are withdrawn, and the resources e.g. labour and skills they leave behind might be too specific (geared to fill niches in MNCs' global value-chains) to be transferable to other sectors. There are also other risks associated with industrial policy, such as vested business interests (lobbying for subsidies), bureaucratic entrenchment (of state agents responsible for industrial policy), and the "crowding out" of private business by state agencies and GLCs as well as MNCs. The main problem is that after decades of resource allocation distortions, downsizing the state and "unwinding" to market forces is difficult, and there may be few local entrepreneurs available to drive the growth of a market economy.[88] But public policy in a market economy is supposed to focus on the well-being of (domestic) consumers, not (foreign) producers. A national economy should begin with its domestic resource base, paying attention to both comparative advantage and strategic differentiation in the sectors it chooses to develop. In a developed economy, this resource allocation decision should be made by private enterprise actors risking their own money in response to (local and global) market forces, not by state actors. The transition from a state-driven to a market-driven economy which comes with development is a difficult one, which Singapore has not yet shown itself successful at. Fortunately, the government's new focus on "inclusive growth" shows that it recognises that it is important that growth benefit everyone; unfortunately (in my view), it seems to want to achieve this by continuing with its problematic growth model to date (subsidise foreign skills and capital) and then compensating locals who do not benefit, out of the public purse.

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[86] During my 2013 research visit to Singapore, more than half of the taxi-drivers I engaged were in the business (which, unusually, is limited to Singapore citizens only) after being laid-off (after 8-20 years as production managers, logistics and procurement officers, warehouse supervisors, sales and marketing managers, even an engineer) from MNCs, mostly in electronics (e.g. disk drives) but also in consumer goods; many blamed age discrimination for the loss of their previous jobs.

[87] "Foreigners beholden to the state for its beneficence and their own presence are unlikely to challenge its authority, in the way that an independent, globally competitive and non-state-dependent domestic entrepreneurial class—still weak and largely absent in Singapore—might", Linda Y.C. Lim and Lee Soo Ann, "Globalizing State, Disappearing Nation", p. 155. Some Singaporeans (particularly active online) go further in subscribing to the "conspiracy theory" that the goal of the government's immigration policy is to "dilute" native Singaporean votes with those of "new citizens" who are much more likely to support the ruling PAP.

[88] Linda Lim, "Why local entrepreneurs are vital" *The Straits Times* 12 May 2009 makes the case for local entrepreneurs as agents of economic growth going forward.

A third possible lesson, somewhat counter to the previous one, is that privatisation is not always the answer, certainly where public goods and social services are concerned. Since the 1990s, the Singapore state has progressively privatised what used to be social goods, even as it continued with and even ratcheted up its subsidies of the multinational (and local) corporate sector. The housing, transportation, health and education sectors have been liberalised or corporatised to allow prices to be set by international market forces, including foreign demand, prioritising returns to foreign as well as local shareholders, with social goods being "commoditised" as export products. This has contributed to rising costs of living for Singaporeans, whose wages did not rise in tandem, in part because of increased labour market competition from foreign workers, culminating in the problems already identified.

Lessons for and from Developed Countries

Singapore has become something of an icon for many "policy wonks" in developed countries. In the West, conservative politicians and economists like it for its low taxes, lack of welfare spending, big budget surpluses[89], free trade and capital flows, corporate subsidies, labour controls, pro-business policies and pro-market rhetoric; liberals like it for its activist state and industrial policies, what they think are social subsidies, good education, and anti-market fundamentalism; everyone likes the absence of corruption and regrets the lack of political freedoms. What, besides an impressively successful state public relations apparatus, explains the dissonance between the foreign plaudits and the local dissatisfactions highlighted in this chapter?

A recent *New York Times* blogpost by Nobel prizewinning economist and Columbia University professor Joseph Stiglitz,[90] widely reprinted in Singapore and elsewhere, illustrates some of the reasons. First, foreign commentators are often inadequately if not wrongly informed about Singapore. For example, Prof. Stiglitz asserts that a quarter of the Singapore labour force was unemployed at independence in 1963—it was half that (at 12%); he praises Singapore for having a progressive tax system when it is less progressive than that in the U.S. and Western Europe, with a top corporate tax rate of 17% and top personal income tax rate of 20%; his claim that the government's intervention in wage bargaining between workers and firms "tilts the balance towards groups with less economic power" is unsubstantiated, certainly given the stagnation and decline of median and especially low-decile wages since 2000; he totally disregards the hundreds of thousands of low-wage foreign workers with no bargaining rights; his claim that the education system ensures that it is "not just the children of the rich" who have a chance at upward mobility is contradicted by the government's own efforts to counter demonstrated low social mobility, which it considers troubling.

Second, information about Singapore is selectively and uncritically presented, primarily to serve the foreign commentator's own policy agenda in his home country. Thus Prof. Stiglitz lauds the fact that 90% of Singaporeans own their own homes, paid for by their CPF savings, which he praises for

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[89] Conservatives do not seem to realise that public sector surpluses are derived from private sector deficits, since they mean that the state collects more in revenues from the population than it delivers in expenditures.

[90] Joseph E. Stiglitz, "Singapore's Lessons for an Unequal America", *The New York Times* 18 March 2013. http://opinionator.blogs.nytimes.com/2013/03/18/singapores-lessons-for-an-unequal-america/. Prof. Stiglitz has been a frequent visitor to Singapore over many years.

inculcating “individual responsibility” for personal welfare. He does not note that the conflation of savings for retirement and home payments has become a serious social issue given housing price inflation and population ageing, with 47% of Singaporeans over the age of 60 having insufficient CPF savings to support themselves in retirement; he fails to note that this “individualised” solution to social welfare needs disadvantages those—particularly women—who are unable to have continuous lifelong full employment, and being tied to earnings, translates wage differentials into unequal access to healthcare (also provided out of CPF forced savings) and retirement income. And he disregards the disadvantages that lower-income parents and children suffer in the education system, which has given rise to large private investments in expensive out-of-school tuition and enrichment classes that they are less able to afford.[91]

Third, there is a tendency by Western commentators especially to judge Singapore by different (and lower) standards than they uphold for themselves and other Western societies. For example, Stiglitz says of Singapore that

> It’s true that Singapore, a highly centralized state, has been ruled for decades by Mr. Lee’s People’s Action Party. Critics say it has authoritarian aspects: limitations on civil liberties; harsh criminal penalties; insufficient multiparty competition; and a judiciary that is not fully independent. But it’s also true that Singapore is routinely rated one of the world’s least corrupt and most transparent governments, and that its leaders have taken steps toward expanding democratic participation.

while he says of the Nordic countries that

> I believe the economic achievements of the Nordic countries are in large measure a result of the strongly democratic nature of these societies. There is a positive nexus not just between growth and equality, but between these two and democracy.[92]

Prof. Stiglitz is not alone among liberals in his infatuation with Singapore. *Washington Post* and NPR (National Public Radio) commentator Matt Miller is a self-described “gushing fan of Singapore’s public policy achievements”, recently praising its high ministerial salaries, low expenditure on healthcare (just 4% of GDP), home ownership policies, transport facilities, “fiscal stewardship” based on a “culture of self-reliance” and “no redistributions”, and “low-tax, business-friendly environment”.[93] For former Democratic Governor of the state of Michigan, Jennifer Granholm, it is Singapore’s practice of industrial policy to attract foreign investment which is attractive, recounting that a panel of multinational CEOs she interviewed all agreed that Singapore “has the best formula for attracting their investment”.[94]

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[91] These arguments were cogently made by Teo You Yenn (Nanyang Technological University, Sociology), “How Stiglitz Weakens Change in S’pore” http://www.todayonline.com/print/98231, one of many critical comments on the Stiglitz article.

[92] Stiglitz, “Singapore’s Lessons for an Unequal America”.

[93] Matt Miller, “What Singapore can teach us”, *Washington Post* 2 May 2012.

[94] Cited in Sharon Chen, “Can the Singapore model solve US unemployment crisis?” www.asiancorrespondent.com 21 October 2011.

This, then, is the reason for the dissonance. As U.S. liberals have long argued, what is good for the corporation—minimal regulation, offshore tax havens, outsourcing--is not necessarily good for the country. Singapore ranks high on indices which measure the business environment for multinational investors—low taxes, no corruption, lots of state subsidies, freedom to take capital in and out and hire people from anywhere in the world.[95] But this is not the same as the well-being of native Singaporeans, as measured by income, inequality, working hours, access to affordable housing, healthcare, social security, education and social mobility—without even considering negative externalities like congestion, environmental degradation, loss of cultural heritage and even "nationhood".

Interestingly, many Singaporean social scientists find themselves attracted to the "Scandinavian model" of small open economies with modest growth, low income inequality, strong social safety nets and high measurements of well-being, even "happiness". But in a speech to economists and parliamentarians in June 2012, Prime Minister Lee Hsien Loong said this would not work because "higher taxes would likely be unpopular among Singaporeans and make the economy less competitive." Some of his audience (including ruling party MPs) argued that a "middle ground" is possible, since Singapore can increase public spending over the current 17% of GDP (perhaps to the over 20% ratio that prevailed up to the late 1990s), and that tax rates alone are not the only source of Singapore's competitiveness.[96]

Conclusion

In this chapter I have reviewed one of the most successful cases of economic development in modern times, one that, unusually, has been held up as a model for both emerging and developed economies, and has won plaudits from all sides of the political spectrum. I argue, in line with other development researchers and practitioners, that Singapore's economic success in the 20th century was the product not just of "the right" policies, but also of favourable initial conditions (domestically and internationally), and "the right" institutions, for the times. I further argue, as some others have, that Singapore's policies and institutions worked to deliver the results they did because they were *integrated* across economic, social and political arenas. Thus the relevance for other countries is limited, since few if any can (or want to) marshall and implement such a complex, interrelated set of public policies under the aegis of a strong centralised state whose political power has been unchanged for over half-a-century.

I deviate from the international development establishment consensus, but concur with local Singaporean scholars and analysts, in noting that the results of Singapore's public policy complex have been less positive for average Singaporeans than they have been for international business, and for global and local elites, in the 21st century; that this view is widely shared in Singapore is reflected in

[95]For example, as noted by Hoon Hian Teck (in footnote 33 above): "The ready access to the supply of foreign workers kept labour costs low while the increase in value-added per worker boosted the profitability of manufacturing firms. This boost to profits very likely benefited both multinational corporations (MNCs) as well as small and medium-sized enterprises (SMEs)."

[96] Robin Chan and Aaron Low, "Find middle ground: Economists, MPs", *The Straits Times* 11 June 2012. See also Donald Low, "Squaring the Circle the Scandinavian Way" https://www.facebook.com/notes/donald-lows-fc/squaring-the-circle-the-scandinavian-way/389281347772512.

recent electoral results and a much more open public discourse.[97] I further argue that the past Singapore growth model is unsustainable, because of changes in the international environment, and domestic resource and social constraints.[98] In particular I note the limits of globalisation, state industrial policy, and privatisation of social services as contributors to growth and welfare, especially for a high-income country; and like other Singaporeans, I question the efficiency and equity of growth based on continuous large imports of foreign capital and labour induced by ever-expanding corporate subsidies.

The Singapore government is nothing if not responsive to the developmental and political challenges it faces, and is finally embarking on policies (long recommended by local economists) to limit foreign labour dependence, increase productivity, and increase social subsidies for Singaporeans, even if it means slower GDP growth and "painful restructuring". It has accepted that manufacturing's share of the economy will continue to decline. The low productivity of the services sector (measured by value-added per employee, and as compared with other high-income countries) offers many opportunities for increased efficiency, growth and higher incomes,[99] as does the continued growth and rising incomes of Singapore's 600m. Southeast Asian neighbours, for whom it will continue to serve as a regional financial, commercial, trade, transport, information and recreational "hub".

The public policy dilemma the government now faces arises from the very interdependence of economic and social policies and institutions which led to the country's past success; it turns out that they cannot be easily disentangled and restructured. Take, for example, housing policy which once contributed to economic growth but is now a drag on it due to asset inflation. Turning housing from an affordable social good into a financial asset interacts negatively with demographics—both on fertility rates of the young, and on consumption of retirees who have "nowhere else to go". Allowing the free inflow of foreign capital and labour also contributes to housing price inflation,[100] reducing cost competitiveness while undermining social stability, all of which discourage investment, growth, entrepreneurship and innovation.[101] CPF "locks up" individuals' forced savings, channeling them disproportionately into housing (and state assets), leaving inadequate amounts for healthcare and retirement subsistence, and inhibiting the development of a healthy domestic (as opposed to global) financial services sector that

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[97] Contrary to Prof. Stiglitz's attributing Singapore's recent political liberalisation to its "leaders" having "taken steps to expand political participation", this is more the result of the spread of the internet and social media, and the emergence of a "new generation", as acknowledged by Prime Minister Lee Hsien Loong in a recent *Washington Post* interview, reported by Andrea Ong, "Govt will need to be more open, says PM", *The Straits Times* 17 March 2013. There has been a notable increase in well-educated young professionals participating in the political opposition, motivated in large part by the perception of declining living standards and economic opportunities for themselves and their fellow citizens in 21st century Singapore.
[98] For details, see Linda Lim. "Singapore's Economic Growth Model: Too Much or Too Little?" *Ethos* 6 (May 2009) 32-38
[99] See, for example, Choy Keen Meng, "Rethinking Singapore's growth model", *Today* 7 November 2009.
[100] For example, residential property (and REITs) are major investment asset classes for foreigners attracted to Singapore as a "safe haven" for international and offshore capital (private banking and wealth management are promoted as part of the financial services sector), while Permanent Residents compete with citizens for scarce public housing, and foreign workers crowd and push up rents in both the public and private housing sectors.
[101] An example of resulting resource misallocation was the discovery that government-subsidized industrial space was being illegally converted into dormitories to be rented out to foreign workers (also with "nowhere else to go") for a much higher return than manufacturing could yield.

could channel savings into local value-creating enterprises. HDB and GLCs in the property development business employ large numbers of low-wage foreign construction workers and earn their profits (and senior management bonuses) off the increased costs of households and businesses, creating potential conflicts-of-interest. This results in Singaporeans, as they get richer and older, saving more and more—now, nearly half their income—for basic subsistence (housing, healthcare), which limits the growth of the domestic consumer sector and the entrepreneurship it could generate. The government is now taking steps to reduce housing speculation and inflation (by increasing supply, increasing transaction and mortgage costs for those with more than one private property, and limiting the increased demand from more foreign workers), but this risks diminishing the asset values (and retirement savings) of property-owning households, as well as the profits and equity values of property GLCs in which citizen savings and offshore capital are invested. Encouraging and rewarding state agencies (and their management) for earning surpluses (a source of pride for "Singapore Inc.") also transfers income from households and the private sector to the state, which then invests the surpluses offshore in sometimes-risky private investments in foreign countries rather than in public or social goods at home. Meanwhile a well-compensated state and quasi-state bureaucracy and GLC management have little incentive to restructure themselves out of their high-earning jobs to relinquish scarce resources and market space for private sector investment.

From a governance perspective, the expansion of the state and the proliferation of individual ministries and agencies and their activities has resulted in duplication, competition and a weakening of the central coordination function of the state.[102] The recent launch of the Population White Paper from the National Population and Talent Division in the Prime Minister's Office revealed a lack of coordination and consultation among different government departments, most notably exemplified by the controversial (and hastily withdrawn) identification of nurses (a short-supplied profession into which the Ministry of Health has long been trying to attract more students and workers) as "low skilled". Multinational employers have also mentioned their frustration with conflicting messages they get from different ministries: for example, the Ministry of Trade and Industry's EDB promises them they can hire skilled foreigners freely while the Ministry of Manpower rejects their applications for employment visas.[103] Equally important, a now larger but less centralised state is less able to impose its own perhaps more divided political will on an increasingly politically restive and active citizenry.

Perhaps then the main quandary in Singapore's current economic policy conundrum is what to do about the role of the developmental state *after* the Miracle of Growth has been achieved. As other rich countries have found upon maturity, it is extremely difficult to "stay on top", especially without a

[102] For example, nearly every ministry has its own research and training units which both conduct in-house activities and outsource them to private sector (often foreign) consultancies, professional service providers and commercial market research firms (e.g. McKinsey, KPMG, Gallup, Nielsen etc.). Anecdotally it appears that Singapore government agencies and GLCs may account for as much as one-third of the business in the professional services private sector; their custom (like their capital) is also a reason for other companies to set up in Singapore e.g. U.S. start-ups with which I have had contact, in the medical technology, IT and telecoms sectors.

[103] Meanwhile, the Ministry of Home Affairs grants Permanent Residence (permission to immigrate and settle permanently, not just to work temporarily) on other criteria, including education and race, given the government's longstanding belief that the racial proportions of the population existing at independence should be preserved.

vibrant indigenous entrepreneurial class. How should and can the state reduce and reshape its role at a stage and era when innovation and not imitation or superior execution is the source of sustainable competitiveness? How does it deal with the limits to changing comparative and competitive advantage through state action (e.g. immigration policy, capital flows, technology and infrastructure development, and tax and regulatory regimes)? How does the state balance its political obligation for the social welfare of its citizenry with its economic goal to be "No. 1" in servicing international capital? How does it manage the challenges that both bureaucratic division and democratic pluralism pose to economic growth? What is the proper nature of a state, or a nation, in a globalised era which some argue is increasingly defined by competing state—or even national private--capitalisms? It may be that Singapore's development conundrum is a general one after all, not just for economies which are still "emerging", but also for all high-income open economies. But there is a special poignancy to the Singapore case given the apparent belief of its longtime political leaders that here, subordination of the hitherto carefully-nurtured nation is necessary for economic survival. The resulting tension is perhaps best summed up by this recent foreign comment on a local heritage-conservation controversy:

> This is what Singapore's government has always done: look around corners on behalf of its people and plan ahead, confident enough in the infallibility of its policymaking and in the inevitability of its re-election to ignore pressure groups and to scorn pandering to populism. Even its critics contend it has been successful. But times have changed. Social media have turned silent, isolated dissent into more concerted, vocal protest. The political opposition—with less than 10% of the seats in parliament—seems a long way from power. But with 40% of the popular vote in 2011, it can no longer be dismissed as irrelevant. For its part, the government makes much these days of its willingness to "listen".
>
> In this context, the struggle over Bukit Brown takes on a wider meaning. The improbable coalition of birdwatchers, conservationists and heritage buffs trying to stop the road are testing the government's promises of a new responsiveness, or, put another way, the strength of its conviction that it still knows best. The argument over the fate of the graveyard may look like a tussle over Singapore's past. But it is really about its future.[104]

[104] Banyan, "Grave concerns", *The Economist* 6 April 2013. See also Linda Lim, "Singapore: Place or Nation?" *The Straits Times* 16 June 2006; Linda Lim, "Can money ease loss of memories?" *The Straits Times* 21 June 2007; Geh Min, "Singapore: Home or Hotel?" (2013).