

The
Economist

SPECIAL REPORT
SINGAPORE

July 18th 2015

A nighttime photograph of the Marina Bay Sands hotel in Singapore, featuring its iconic three towers and the Helix Bridge. The bridge is illuminated with blue lights and is crowded with people. In the foreground, a large crowd of people is gathered on a promenade, with a white tent and Coca-Cola banners visible. The water of the bay reflects the lights of the buildings and the bridge.

The Singapore exception



The Singapore exception

To continue to flourish in its second half-century, South-East Asia's miracle city-state will need to change its ways, argues Simon Long

AT 50, ACCORDING to George Orwell, everyone has the face he deserves. Singapore, which on August 9th marks its 50th anniversary as an independent country, can be proud of its youthful vigour. The view from the infinity pool on the roof of Marina Bay Sands, a three-towered hotel, casino and convention centre, is futuristic. A forest of skyscrapers glints in the sunlight, temples to globalisation bearing the names of some of its prophets—HSBC, UBS, Allianz, Citi. They tower over busy streets where, mostly, traffic flows smoothly. Below is the Marina Barrage, keeping the sea out of a reservoir built at the end of the Singapore River, which winds its way through what is left of the old colonial city centre. Into the distance stretch clusters of high-rise blocks, where most Singaporeans live. The sea teems with tankers, ferries and container ships. To the west is one of Asia's busiest container ports and a huge refinery and petrochemical complex; on Singapore's eastern tip, perhaps the world's most efficient airport. But the vista remains surprisingly green. The government's boast of making this "a city in a garden" does not seem so fanciful.

Singapore is, to use a word its leaders favour, an "exceptional" place: the world's only fully functioning city-state; a truly global hub for commerce, finance, shipping and travel; and the only one among the world's richest countries never to have changed its ruling party. At a May Day rally this year, its prime minister, Lee Hsien Loong, asserted that "to survive you have to be exceptional." This special report will examine different aspects of Singaporean exceptionalism and ask whether its survival really is under threat. It will argue that Singapore is well placed to thrive, but that in its second half-century it will face threats very different from those it confronted at its unplanned, accidental birth 50 years ago. They will require very different responses. The biggest danger Singapore faces may be complacency—the belief that policies that have proved so successful for so long can help it negotiate a new world.

In 1965 Singapore was forced to leave a short-lived federation with ►

ACKNOWLEDGMENTS

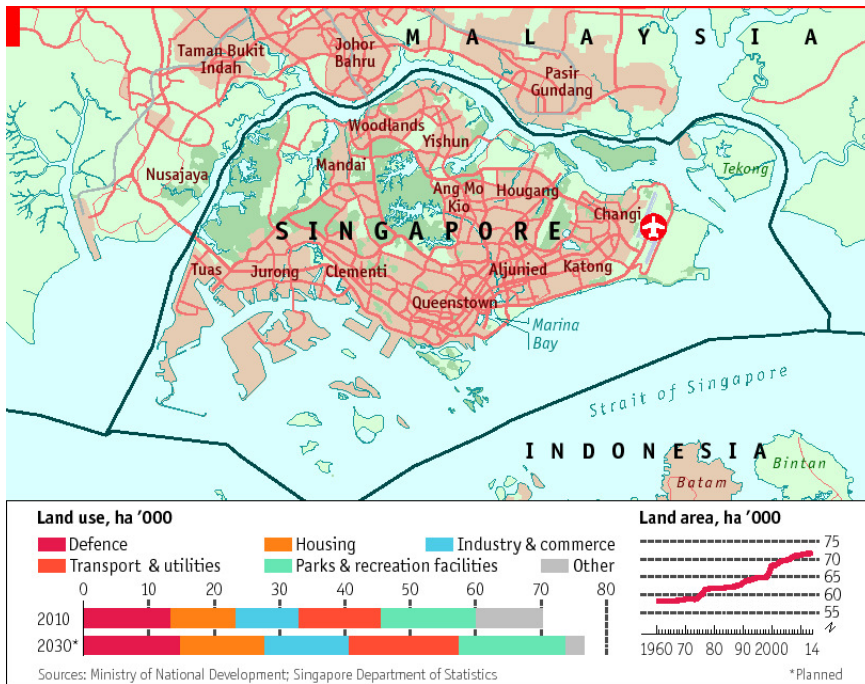
Besides those named in the text, and some who prefer anonymity, the writer would like to thank the following for their help: Jonathan Asherson, Au Kheng Sheng, Aparna Bharadwaj, Wolfgang Baier, Manu Bhaskaran, Chang Li Lin, Chay Pui San, Clement Cher, Albert Chua, Jeffrey Chua, Musa Fazal, Steve Forshaw, Foo Siang Luen, Gerald Giam, Hsieh Fu Hua, Philip Jeyaretnam, Parag Khanna, Jean Khong Lye Yee, Keith Lee Wuan Hong, Gina Lim, Lo Tak Wah, Kenneth Low Jen Tye, Hugh Mason, Robin Moroney, Ng Poey Eng, Tim Oei, Euben Paracuelles, Leon Perera, Cameron Priest, Farah Abdul Rahim, Fouziah Binte Abdul Rahim, Sylvia Sim, Satvinder Singh, Catherine Smith, Celine Tam, Claire Tan, Tan Beng Tee, Tan Kok Yam, Martino Tan and Simon Tay.

CONTENTS

- 3 Land and people**
Seven million is a crowd
- 4 Politics**
Performance legitimacy
- 6 Social policy**
The social contract
- 7 The economy**
The years that were fat
- 7 Inequality**
The rich are always with us
- 8 Business and finance**
Many spokes to its hub
- 10 Foreign policy and national identity**
A little red dot in a sea of green

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Action Party (PAP) took power, facing little immediate threat of losing it. The system has many defenders at home and abroad. Singapore has very little crime and virtually no official corruption. It ranks towards the top on most “human-development” indicators such as life expectancy, infant mortality and income per person. Its leaders hold themselves to high standards. But it is debatable whether the system Mr Lee built can survive in its present form.

It faces two separate challenges. One is the lack of checks and balances in the shape of a strong political opposition. Under the influence of the incorruptible Lees and their colleagues, government remains clean, efficient and imaginative; but to ensure it stays that way, substantive democracy may be the best hope. Second, confidence in the PAP, as the most recent election in 2011 showed, has waned somewhat. The party has been damaged by two of its own successes. One is in education, where its much-admired schools, colleges and universities have produced a generation of highly educated, comfortably off global citizens who do not have much tolerance for the PAP’s mother-

► Malaysia, the country to its north, to which it is joined by a causeway and a bridge. Lee Kuan Yew, Lee Hsien Loong’s father, who became Singapore’s prime minister on its winning self-government from Britain in 1959, had always seen its future as part of Malaysia, leading his country into a federation with its neighbour in 1963. He had to lead it out again when Singapore was expelled in 1965. By then he had become convinced that Chinese-majority Singapore would always be at a disadvantage in a Malay-dominated polity.

Mr Lee’s death in March this year, aged 91, drew tributes from around the world. But Mr Lee would have been prouder of the reaction in Singapore itself. Tens of thousands queued for hours in sultry heat or pouring rain to file past his casket in tribute. The turnout hinted at another miracle: that Singapore, a country that was never meant to be, made up of racially diverse immigrants—a Chinese majority (about 74%) with substantial minorities of Malays (13%) and Indians (9%)—had acquired a national identity. The crowds were not just mourning Mr Lee; they were celebrating an improbable patriotism.

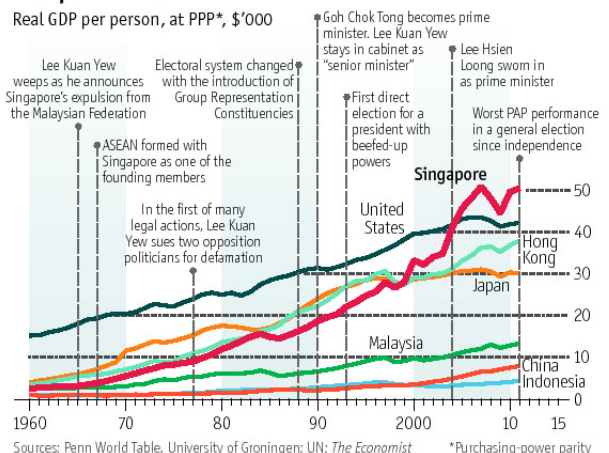
Lee Kuan Yew himself defined the Singapore exception. As prime minister until 1990, he built a political system in his image. In line with his maxim that “poetry is a luxury we cannot afford,” it was ruthlessly pragmatic, enabling him to rule almost as a (mostly) benevolent dictator. The colonial-era Internal Security Act helped crush opposition from the 1960s on. Parliament has been more of an echo-chamber than a check on executive power. No opposition candidate won a seat until 1981. The domestic press toes the government line; defamation suits have intimidated and sometimes bankrupted opposition politicians and hit the bottom line of the foreign press (including *The Economist*).

Singapore, it is sometimes joked, is “Asia-lite”, at the geographical heart of the continent but without the chaos, the dirt, the undrinkable tap water and the gridlocked traffic. It has also been a “democracy-lite”, with all the forms of democratic competition but shorn of the unruly hubbub—and without the substance. Part of the “Singapore exception” is a system of one-party rule legitimised at the polls and, 56 years after Mr Lee’s People’s

knows-best style of governance. In a jubilant annual rally to campaign for lesbian, gay, bisexual and transgender (LGBT) rights on June 13th, a crowd estimated at 28,000 showed its amused contempt for the illiberal social conservatism the PAP has enforced. Younger Singaporeans also chafe at censorship and are no longer so scared of the consequences of opposing the PAP.

The PAP’s second success that has turned against it is a big rise in life expectancy, now among the world’s longest. This has swelled the numbers of the elderly, some of whom now feel that the PAP has broken a central promise it had made to them: that in return for being obliged to save a large part of their earnings, they would enjoy a carefree retirement. And it is not just old people who have begun to question PAP policies. Many Singaporeans are uncomfortable with a rapid influx of immigrants. These worries point to Singapore’s two biggest, and linked, problems: a shortage of space and a rapidly ageing population. ■

Star performance





Land and people

Seven million is a crowd

Space on the island is getting tight. Singaporeans fear that foreigners are taking up too much of it

WHEN SINGAPORE SEPARATED from Malaysia, says Tan Kong Yam, an economist at the Lee Kuan Yew School of Public Policy, it was as if a brain had been deprived of its lungs and legs. An urban centre with a hinterland became a country with none, depending on Malaysia for its water supply and on the outside world for its food. As a country, it was acutely short of space. One solution has been to add some: since independence Singapore has expanded by over one-fifth, from 58,000 hectares (224.5 square miles) to nearly 72,000, by filling in the sea with imported sand. Marina Bay Sands itself, a number of massive office blocks and a golf course are all on land that used to be sea. The government expects the land area to grow by a further 8%, or 5,600 hectares, by 2030. But there is a natural limit to this growth.

Another option—to seek a hinterland elsewhere—has proved tricky. Wong Poh Kam, an economist at the National University of Singapore's business school, points out that Johor, the Malaysian state just over the strait, could be to Singapore what southern mainland China has been to Hong Kong, offering land and labour at far lower prices. Johor and Singapore are already closely linked economically. Every day an estimated 50,000 Malaysians commute to work in Singapore from Johor Bahru, the state capital. Increasing numbers of Singaporeans and expatriates do the same, from new dwellings that offer more space at lower rents. But although relations with Malaysia have been excellent in recent years, Singapore does not want to be dependent on goodwill that has at times proved fickle.

Nearby Indonesian islands also provide room for Singaporean investment. Great hopes were once placed in Batam, for example, an island in the Riau archipelago as big as Singapore but with less than one-fifth the population, where over 400 Singaporean firms have operations. However, optimism has faded as Indonesia has seen an upsurge in labour militancy. Farther

afield, in the 1990s Singapore had heady visions of replicating itself as a manufacturing power in China, on 8,000 hectares of an industrial park outside the ancient Chinese city of Suzhou. It was an unhappy experience, culminating in Singapore's ceding control of the project to the Suzhou authorities.

The shortage of land is compounded by government policy on how it is used. One-fifth of the total, mainly secondary jungle, is reserved for the armed forces. Once space is allocated for industry, reservoirs, housing, roads and parks (including golf courses, which cover about 2% of the country), the squeeze is obvious. Yet the population, of about 5.5m now, has doubled in the past 30 years and is still expanding. In 2013 a government white paper forecast that it would increase to 5.8m-6m by 2020 and 6.5m-6.9m by 2030.

The immigration dilemma

This, however, assumed that Singapore would continue to take in large numbers of immigrants. Of these, between 15,000 and 25,000 each year would become new citizens, but the total number of foreigners coming in would be much higher. By 2030 the population of long-staying "permanent residents" would climb from about 500,000 now to around 600,000, and the number of "non-resident" foreign workers would increase from the present 1.6m to 2.3m-2.5m, covering both the low-paid migrant workers who dominate the building industry, for example, and high-paid Western "expats".

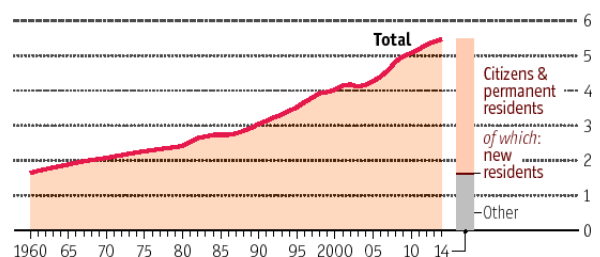
These projections have caused alarm. Already, probably more than half the people living in Singapore were not born there. That proportion seems likely to rise. Singapore has always been an immigrant society, quick to assimilate newcomers. But that openness and tolerance has frayed as some Singaporeans have felt crowded out, and foreigners are blamed for pushing up property prices and holding down wages.

The government argued the proposed levels of immigration would be necessary to maintain even moderate growth because Singaporeans are not reproducing themselves. Last year the "total fertility rate" (TFR), a notional estimate of the number of babies a woman will have over her lifetime, was 1.25, way below the replacement rate of about 2.1. Singapore is tumbling off a demographic cliff. From 2020 the number of working-age Singaporeans will decline, and by 2030 there will be only 2.1 workers for every citizen over the age of 64, compared with 6 last year.

Within the region, Hong Kong, Macau, South Korea, Taiwan and some mainland Chinese cities such as Shanghai have similar rates (Japan, a better-known example, is actually a little more fecund). What is exceptional about Singapore's TFR is that it has stubbornly resisted efforts to change it, stretching over more than 30 years, in contrast to other issues on which the government has focused its attention. In that time the country's Chinese citizens, ►►

It's getting crowded

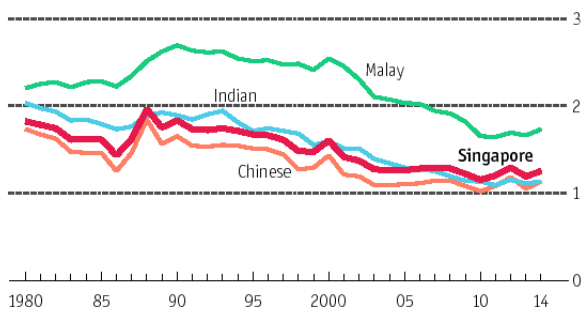
Singapore, population, m



Sources: Singapore Department of Statistics; NPTD, Prime Minister's Office

Baby bust

Singapore, residents' fertility rates by ethnicity



Source: Singapore Department of Statistics

▶ for example, have learnt Mandarin, which hardly any of them spoke as their first language. Many children, fluent in English and Mandarin, struggle to communicate with their grandparents, who speak other regional Chinese languages.

For such a persuasive government, the failure of the campaign to raise fertility suggests a lack of will. It has tried to make parenthood more attractive by offering “baby bonuses” and improved maternity and paternity leave, but if the aversion to babies has its roots in the economic cost of parenthood, maybe it is being sustained by an ideological opposition to increasing state support for child-rearing and by the psychological effects of living on a small, increasingly crowded island. Whatever its cause, it has presented the government with one of its biggest political challenges: high immigration. This has become a source of great discontent, but there is no plan B. ■

Politics

Performance legitimacy

When it comes to elections, the PAP leaves as little as possible to chance

DISCONTENT ABOUT IMMIGRATION contributed to an election result in May 2011 that was seen as a watershed, even though the PAP as usual romped home, securing 60% of the popular vote and 93% of elected seats in parliament (see chart, next page). After more than half a century in continuous office, an incumbent government could have figuratively shrugged and asked where else in the world a ruling party could secure such a ringing endorsement in an unrigged vote. Instead it acknowledged the result—its worst since 1965—as a serious rebuke.

Lee Hsien Loong promised some “soul-searching”, and indeed the government seems to have listened to Singaporeans’ biggest concerns, introducing some curbs on foreign labour and improved benefits for the less well-off and the elderly. It hopes this will help it at the next election, due by early 2017 but expected earlier, perhaps in September or October this year. The PAP may hope that the lavish celebrations to mark its birthday, dubbed “SG50”, will remind everyone what a good job it has done; and the patriotic glow that followed Lee Kuan Yew’s death in March will not have faded yet.

Voting is compulsory and secret, elections are held regularly and there is no ballot-box stuffing, blatant vote-buying or intimidation, so it is remarkable that the PAP always wins by a huge margin. Lee Kuan Yew once said he was not intellectually convinced that a one-man, one-vote system was the best (“results can be erratic,” he explained). Yet that was what Singapore inherited from the British and it has been faithfully followed, with subtle modifications, despite the fear of what is spoken of as a “freak” result: an opposition win.

Voters are well aware of the phenomenal economic advances PAP rule has brought. In a country where most of the population lives in homes bought from the government on long leases, the incumbent government also benefits from the power of its agencies to invest in improving housing estates. Moreover, the PAP has taken full advantage of the rule allowing the government of the day to choose the date of an election within the five-year term of a parliament. Incumbency helps in other ways too. The electoral-boundaries review committee, for example, is suspected of tinkering with constituencies to favour the PAP. It does not convene until just before an election, so the fragmented opposition parties are often not able to divide up constituencies among themselves until just before the campaign period, which is usually very short; in 2011 it was just nine days.

A decision in 1988 to move from a system of single-seat constituencies to one where most seats are filled by Group Representation Constituencies (GRCs) was justified by the need to ensure that ethnic minorities would be represented, which was done through a rule that slates of candidates must include at least one member of a minority. But it also made it harder for small opposition parties to come up with credible slates, and it enabled the PAP to have its own callow recruits swept into parliament on the coat-tails of cabinet ministers. In 2011, all but 12 seats were subsumed into four- to six-member GRCs. One reason that election was seen as transformational was that for the first time an opposition party, the Workers’ Party, won a GRC, in the district of Aljunied, defeating a slate led by the foreign minister, George Yeo.

The winners then found themselves up against another hurdle. Also in 1988, the government had taken away some of the functions of running its housing estates, such as basic maintenance, from the Housing Development Board (HDB) and handed them to new town councils, led by local MPs. In Aljunied, the Workers’ Party has found itself accused of financial irregularities, and it admits to making mistakes. Its supporters feel it has fallen into a trap.

The government also benefits from a tame mainstream press that is largely hostile to the opposition and rarely covers it between elections. During the campaign itself it tends to favour the government in the crudest way. “Is S’pore ready for a gay MP?” asked a headline in 2011 in the *New Paper*, a tabloid, about an opposition candidate.

The tenor of political debate, however, has been transformed by online and social media. The country boasts high rates of internet and, especially, smartphone penetration (with more than one phone per head of population). Facebook, too, is ubiquitous, with nearly 4m registered users. Most younger people follow the news (if at all) through social media. Where the official press is stuffy, tame and sanctimonious, cyberspace seethes with sarcasm and irreverent diatribes against the “gahmen” (government). This in turn has influenced the mainstream media.

Singapore’s government was swift in the 1990s to spot both the importance of the internet and the dangers it posed to its control over information. Early efforts to block pornography showed how hard it would be to limit access to the internet. But that has not stopped the government from trying to keep control, and cyberspace is no free-for-all. Amos Yee, a schoolboy with a ▶▶



The late, great Mr Lee

▶ loud mouth and a YouTube account, who this year combined the two in an expletive-laden rant celebrating Lee Kuan Yew's death, has ended up facing a custodial sentence. Roy Ngerng, a mild-mannered former health worker and activist, risks bankruptcy for defamatory blogs posted last year. A popular tabloidish news portal, "The Real Singapore", was shut down in May for sins such as whipping up "anti-foreigner sentiment". Defamation and contempt-of-court laws apply online as well as off. Bloggers are deemed responsible even for comments by readers on their posts. Sites that regularly cover news about Singapore have to apply for a licence and post a S\$50,000 (\$37,000) bond.

A career in opposition politics in Singapore has never looked attractive. The late J.B. Jeyaretnam, the first opposition member to win a seat in parliament (in 1981), faced a series of lawsuits and was disbarred from his legal practice, jailed and bankrupted. He also suffered the contempt of Lee Kuan Yew, who said he welcomed an opposition, but "we don't want duds" such as Jeyaretnam or Chee Soon Juan, leader of another opposition group, the Singapore Democratic Party (SDP). Oddly enough, Mr Chee was also bankrupted after failing to pay defamation damages to PAP leaders. "If we had considered them serious political figures," said Lee Kuan Yew in 2003, "we could have bankrupted them earlier." The late prime minister's ways of dealing with opposition were harsh—particularly so in the period before independence, currently much debated, when alleged communists were jailed. Political losers and victims suffered badly, but there were not that many of them. Compared with other countries, the human cost of Singaporean authoritarianism has been low.

PAP leaders have always been unapologetic. They argue

that the defamation suits—for slurs that would be ignored elsewhere—were not to suppress opposition but to protect the government's reputation. No writs flew after the 2011 election. This may be because the PAP had concluded that such suits look petty and vindictive and help the opposition. Or it may be that the history of relentless libel action has worked. Politicians know not to impugn the personal integrity of PAP leaders. Suggestions of nepotism are especially likely to result in a suit. To Lee Kuan Yew, success running in families proved not that the system is rigged but that talent is hereditary. Plausibly enough, he argued that the family connection actually delayed his son's accession to the top job until Goh Chok Tong finished his 14-year stint in 2004.

Another deterrent to opposition is the apparent hopelessness of the cause and the petty bickering of a camp that now includes no fewer than eight parties, some little more than vehicles for their leaders. Mr Jeyaretnam's son, Kenneth (who, endearingly, blogs as "Son of a Dud"), an economist, leads the Reform Party his father formed when he fell out with his Workers' Party colleagues. Tan Jee Say, a former civil servant, banker and presidential candidate, left the SDP to form the Singaporeans First party. And so on. There is even a risk that in the next election the opposition may split the anti-PAP vote in three-cornered fights, hampering the Workers' Party's bid to emerge as a serious and credible opposition party.

Looking for a Goldilocks opposition

In keeping with its repeated statements that it would welcome an opposition (just not this opposition), the government in the 1980s also introduced non-elected seats in parliament: at present three opposition legislators sit there as "best losers", alongside seven non-partisan MPs nominated by the president. Lee Hsien Loong has even mused aloud about creating an opposition by unorthodox means, splitting the PAP into two teams. But, he said, the PAP had concluded that Singapore did not have the depth of talent this bifurcation would require.

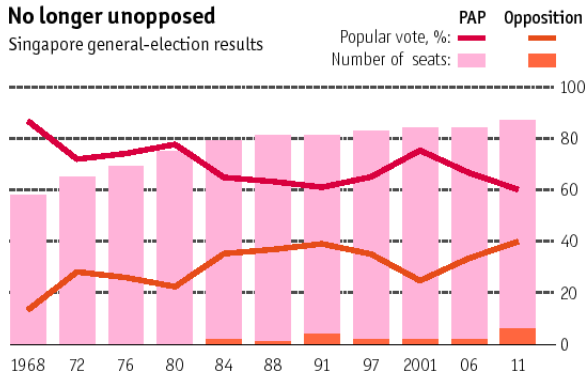
Correspondingly, you would expect the PAP to attract the best and brightest. It has deep roots in the housing estates, and it offers a near-certainty of winning and a chance of a ministerial job. As part of its "meritocratic" philosophy, and to render corruption redundant as well as professionally suicidal, Singapore pays its ministers handsomely, benchmarking their salaries to the senior private-sector jobs to which, it suggests, they would otherwise have risen. Many are drawn from the army or the civil service. Never having known anything else, many civil servants seem to confuse the ruling party with the government. For the party, perhaps the most worrying aspect of recent political developments is that it seems to be having trouble finding a parliament's worth of credible representatives.

In this context, getting 60% of the vote does indeed look like a defeat. The PAP's concern is understandable. Its success has been based on the conviction that it faces enough political competition—and internal discipline—to remain honest and committed to the national interest; but not so much that it might actually lose power. So it can resist pandering to the sort of populist demands that, in Singapore's view, sapped the dynamism from European economies, condemning them to slow growth, social unrest and unaffordable welfare states.

The 2011 result suggests that this delicate equilibrium may be at risk—not in the next election, nor probably the one after that, but soon enough to affect government policy already. Indeed, the changes introduced since the election are radical both in substance and in the tone in which the government has promoted them. It has expressed a new concern for the "Singaporean core" and presented itself less as a strict headmaster than as a benevolent parent caring even for its wayward children. ■

No longer unopposed

Singapore general-election results



Sources: Inter-Parliamentary Union; Singapore Elections Department

Social policy

The social contract

Two big, simple government promises—of a home and a comfortable old age—have become harder to keep

ON A RAINY Sunday morning, Chong Boon market is buzzing. This is “heartlands” Singapore, a housing estate in the district of Ang Mo Kio, row upon row of 12-storey blocks of flats with the usual playgrounds, shops and a market with a food court, where stalls serve local favourites at S\$3-4 a meal. One stand serving *char kway teow* (stir-fried rice noodles) is so popular it gives people a queue number.

This is the group constituency of the prime minister, Lee Hsien Loong, though some in the food court say they were not aware of that. Many, however, feel the government has done well by them through two linked policies, on housing and retirement security. Since the 1960s, when the new country inherited a housing crisis, the government’s Housing Development Board has built over 1m flats. Now some 80% of Singaporeans live in HDB estates like these, overwhelmingly as owner-occupiers. The estates tend to look alike and they certainly pack people in. But Singapore has no slums and virtually no homelessness, the estates are generally clean and well-maintained, and property values have soared over the years.

Owners mostly joined the property ladder thanks to the Central Provident Fund (CPF), into which a big chunk of everybody’s pay goes each month (at present 37%, made up of 20% from the employee and 17% as the employer’s contribution). People can then borrow from their CPF holdings to pay a deposit on a flat. The mortgages for the balance are repaid directly from their accounts. For first-time buyers, the prices of HDB flats, sold on 99-year leases, are heavily subsidised.

“Public housing”, says Donald Low, an economist at the Lee Kuan Yew School, “is our de facto welfare state.” It is a simple, elegant and effective scheme. A government opposed to handouts has transferred wealth to low-income families on a massive scale. The elderly enter retirement with a place to live and their own savings to live on. Almost all HDB owners aged 65 and over have repaid their mortgages.

However, the arrangement now faces three problems. First, the CPF has been tweaked so much it has become bafflingly complex. Second, many retired people have not saved enough to live on. Originally, people were allowed to withdraw all their savings when they reached 55. Now they have to keep a “basic retirement sum” in their account, calculated as the cost of buying an annuity from the age of 65 to meet the average living costs of those in the “second quintile” of incomes (the next tranche above the bottom 20%). In 2013, 45% of those reaching the age of 55 did not have that basic amount. Third, people’s money is tied up in their homes. To generate income, they can sublet part of their home, move to a cheaper flat or sell the final years of their



Singapore has no slums and virtually no homelessness, the housing estates are generally clean and well-maintained, and property values have soared over the years

lease back to the government, but many find all these options unpalatable. Singapore will face a growing problem of cash-strapped old people.

The government has always favoured self-reliance and family support over welfare handouts. Parents can sue children who fail to assist them. Means-tested schemes are available to help the needy and low-paid. The jobless are funnelled into “workfare” and training. Since the 2011 election, however, the government has discovered a new generosity. Last year it announced a package of benefits for the “pioneer generation” (those born before 1950) which it has already financed with an endowment from the government’s coffers. It has also introduced modest means-tested pension payments and extended subsidised medical care. But it seems unsure whether to boast about having found a heart or remind the world that its head is still in charge.

New nursing homes are being built and new ways found to care for the elderly at home. In a facility for the destitute in Ang Mo Kio, some 140 older people, including many suffering from dementia, live in part of an HDB estate, three to a two-room rented flat. It is a basic but inspiringly cheerful place, run by a charity, AWWA, but largely financed by the government. Singapore struggles with the idea that it still has some very poor people, but it accepts that some “social needs” remain unmet.

The HDB estates also represent what Singapore’s deputy prime minister, Tharman Shanmugaratnam, recently described as both the “most intrusive” and the “most important” of its social policies: the enforcement of racial quotas to prevent the formation of ethnic enclaves. Chinese, Indians and Malays are obliged to coexist at close quarters. Since a spate of race riots in the

1960s, Singapore’s government has consistently acted as though the country was just a few drinks and an inflammatory newspaper editorial away from vicious ethnic violence. But the one riot it has suffered, in 2013, was not race-related.

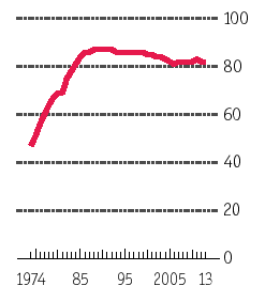
Immigration policy has likewise been managed to maintain the ethnic balance. Since Chinese tend to have even fewer children than Indians and Malays, this has meant an influx of Mandarin-speaking mainland Chinese who are sometimes resented by the Singapore-born. The most common dialect of the older generation of Singaporean Chinese was Hokkien. Mandarin was hardly anybody’s first language.

Strict laws prohibit speech or writing that might cause racial or religious offence. In fact, Singapore mostly presents a picture of racial harmony. Some suspect these laws are used to silence government critics. But many Chinese who queued up to pay their respects to Lee Kuan Yew commented that few Malays seemed to join in. Malays are poorer, less well educated and account for nearly half of all arrests for drug offences. A 2012 study of the Malay community at Nanyang Technological University noted fears of the emergence of a “hardened underclass”. ■

1974 85 95 2005 13

Everybody’s landlord

Singapore, resident population living in public housing, %



Source: Housing & Development Board

The economy

The years that were fat

After decades of prudence, Singapore is well prepared for most eventualities

FIFTY YEARS OF breakneck growth have left Singapore's economy in a position of enviable strength. Since 1976, GDP growth has averaged 6.8% a year. The past decade has seen vertiginous swings, from a slight recession in 2009 as the global crisis battered a very trade-dependent economy to a 15.2% leap in GDP in 2010. Since then growth has stabilised in the range of 2-4% a year, which the government expects to continue for the next few years. Unemployment is low, just under 2%, and prices are subdued without stoking worries about deflation. The national finances look just as robust. Thanks to the CPF, Singapore enjoys a very high saving rate: nearly 50% of GDP. With investment averaging a still impressive 30% or so of GDP a year, the country has a structural surplus on its current account which last year reached 19% of GDP, a higher proportion than in any other developed economy. It also maintains a consistent fiscal surplus in conventional terms. The constitution mandates that the budget must be balanced over the political cycle, but ring-fences half of the projected long-term investment income earned on the government's reserves. When all the returns were added in, estimated the IMF, the surplus for the fiscal year ending March 2014 was 5.7% of GDP, compared with the official figure of 1.1%.

The full extent of the country's reserves is a closely guarded secret. They are managed by the Monetary Authority of Singapore (MAS, the central bank) and two sovereign-wealth funds, the Government of Singapore Investment Corporation (GIC) and Temasek Holdings. The government defends the opaque structure as a necessity: should the Singapore dollar ever come under attack, it can keep the assailants guessing. Nevertheless, the secrecy gives rise to occasional rumours that the reserves are smaller—or more probably bigger—than most suspect.

Singapore seems well placed to withstand an external financial crisis. It is a diversified economy with a strong manufacturing base as well as many service industries. But it is, its officials like to say, "at an inflection point". It cannot continue as it has done because a growth model that relies on so many immigrant workers is unsustainable and has already become politically contentious. The government has been trying to prepare for change, with a typically intense focus on the core issue of labour productivity.

A white paper on population in 2013 made a number of assumptions about the productivity of Singaporean workers in order to calculate how many foreigners might be needed. It worked out that, even with the controversially high levels of immigration it projected, Singapore would have to reverse a long-term slide in productivity if it wanted to maintain GDP growth of 2-3% a year between now and 2030. Productivity grew at an annual average of 5.2% in the 1980s and 3.1% in the 1990s but just 1.8% in the 2000s. The White Paper set a target of a 2-3% annual increase in average productivity for 2010-30. If Singapore falls short of that target, it will have to get used either to slower economic growth or even more immigrants.

At the micro level, says Ravi Menon, managing director of the MAS, it is possible to see some "positive mindset shifts to increase efficiency", but "the macro productivity numbers are still not showing it." In 2013 productivity increased by just 0.3%, and last year it actually fell by 0.8%. Some of the structural changes being made to improve it—notably rebalancing the education system towards more vocational and skills training and greater emphasis on creativity—will take years to make a difference. But measures such as the establishment of a S\$2 billion fund to help businesses innovate and automate, and an increase in the levies

The rich are always with us

But we don't like them that much

MEASURED BY ITS Gini coefficient, Singapore is among the world's most unequal countries. The comparison is unfair: Singapore is also a city, and Hong Kong, New York and London all have higher Gini coefficients than it does. But Singapore measures its coefficient rather differently, excluding shorter-term foreign workers and non-working families. And, understandably, it includes employers' CPF contributions as income. Since these are capped for higher-paid workers, that narrows the income gap.

Egalitarians are troubled by Singapore's reliance on several hundred thousand low-paid foreigners. They are ubiquitous on building sites. Many live in crowded dormitories or worse. The frustrations some suffer were exposed by a riot in December 2013 after an Indian construction worker, on his Sunday off, was run over and killed by a bus. But such events are highly unusual.

Lee Hsien Loong thinks Singapore should not fret overly about its inequality rankings. "If I can get another ten billionaires to move to Singapore," he said in 2013, "my Gini coefficient will get worse but I think Singaporeans will be better off, because they will bring in business, bring in opportunities, open new doors and create new jobs." A generation ago people at all levels of society believed that a rising tide would lift all ships: they were better off than their parents, and knew their children would be better off still.

But that may no longer be true. In April,

in one of a stimulating series of lectures to mark SG50, Ho Kwon Ping, a successful businessman, discussed waning faith in meritocracy. He warned that "the original social leveller", the education system, may now "perpetuate intergenerational class stratification". Only 40% of the children in the most prestigious primary schools live in HDB flats, home to about 80% of all children.

Singapore's government, unlike New York's or London's, is its citizens' overall tax authority, and its tax system is regressive. It has no capital-gains or inheritance taxes, and income tax is low: even after a recent rise, the top rate is 22%. In future elections it will face growing pressure to redistribute wealth more actively. At every stage it will balk, wary of the "slippery slope" towards effete welfarism. But it has the resources.



▶ employers must pay to hire foreign workers, might have been expected to provide a boost already.

A big part of the solution, the government hopes, lies in cyberspace. Singapore has invested heavily in the infrastructure of the internet: exchanges and island-wide broadband access at home, and undersea cables that route much of the internet traffic between Japan and Europe through Singapore. But despite high internet usage and smartphone penetration, it scores less well on an “e-intensity” index developed by BCG, a consultancy, than countries such as South Korea, Denmark and even Britain. The index measures the availability of digital infrastructure, internet use by businesses, government and consumers, and spending on online commerce and advertising. Michael Meyer of BCG says Singapore falls short in three “output factors”—the adoption of e-commerce; the use of the internet in small and medium-sized enterprises; and in advertising spending.

One initiative that may help change that is the government’s “Smart Nation” drive, involving a further improvement of internet connectivity, the deployment of sensors all over the island to garner more big data and the use of those data to develop new applications. Some interesting ideas are in the works. In transport, these include point-to-point buses on commuting routes where demand is high, and driverless taxis for the “last mile” to the tube station; in health care there is already an app that alerts those trained in first aid of an emergency nearby; and in caring for the elderly, an alert might be sent to family or neighbours if, say, a tap has not been used for a while.

In the retail, hospitality and construction industries especially, the addiction to cheap foreign labour seems hard to kick. Government officials point to promising developments: online check-in for flights; restaurants offering iPads in lieu of waiters; supermarkets moving to self-checkout tills; security guards being replaced with cameras. But counter-examples are also legion: the handyman who used to do the job himself in 30 minutes but now employs two Sri Lankans to do it in an hour; the employers sometimes caught with “ghost” Singaporean workers on their books for whom they pay CPF contributions so they can get a foreign-worker quota. As one government official notes, it is a feature of inflection points that things can go either way. ■

Business and finance

Many spokes to its hub

In managing Singapore’s global business niches, the government still seems ahead of the game

THE COMPARISON WITH Hong Kong is inevitable. Both are thriving ports and financial centres; both have Chinese-majority populations and legal systems inherited from the British. But in the past 30 years Singapore and Hong Kong have trodden very different economic paths. With the opening of China, Hong Kong’s manufacturing industry shifted over the border, falling from about 20% of GDP in 1980 to just 1% now (see chart). In Singapore, it has dropped from about 28% a decade ago, but only to 19%. That is far below the 30% or so seen in places such as China, South Korea or Taiwan, but far above the levels in other developed countries such as America, Britain, France or Spain, let alone Hong Kong.

Yet Singapore faces many of the same pressures as its main

regional rival: land scarcity, a tight labour market and competition from lower-cost neighbours. The decision to retain a manufacturing base has been the government’s. It provides 420,000 jobs, many of them high-skilled. Rolls-Royce, for example, a British aerospace and marine-engineering firm, has what it describes as its most modern manufacturing, training and research facility in Singapore. Of the 2,200 people it employs there, 90% are natives, mostly graduates of technical institutes.

The government argues that manufacturing nurtures the “ecosystem”—a favourite word—that sustains a financial and business hub. It also reflects historical insecurities: the yearning for a degree of self-sufficiency. For example, despite having no hydrocarbon reserves, Singapore is the world’s third-largest producer of refined oil for export and has expanded into downstream petrochemicals.

Singapore has moved consistently up the value chain. Electronics is one example. In the 1980s, thanks to Seagate, an American firm, and other multinationals, Singapore accounted for 60% of hard-disk drives (HDDs) shipped globally. As production moved to Thailand, Malaysia and China in the 1990s, Singapore became the centre for production of higher-margin “enterprise HDDs”. By the early 2000s Singapore had 80% of this global market and had already begun to shift to the next level, hard-disk media, in which it now has a market share of about 40%.

The strategy has been to spot opportunities and to make investment irresistibly attractive for multinationals. Five priorities for future “growth clusters” were listed in this year’s budget: advanced manufacturing; aerospace and logistics; applied health sciences; “smart urban solutions”; and financial services. Singapore, says Beh Swan Gin, chairman of the Economic Development Board, which promotes inward investment, is now seeking a “much more expansive role” in the business activities of the firms located there—not just as an offshore manufacturing location but as home to many more of their functions.

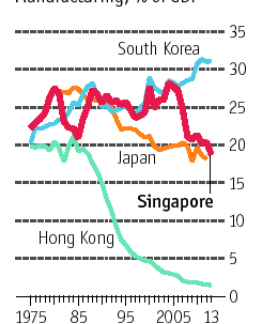
When it comes to domestic business, it is striking, in a country that boasts about keeping the state lean, how many of its most successful companies are “GLCs” (“government-linked”) in which, through Temasek, the government has a substantial stake. They include DBS (the largest domestic bank); NOL (shipping); SingTel (telecoms); SMRT (public transport); ST Engineering (high-end engineering services); CapitaLand (property); Keppel (marine engineering, such as jack-up rigs, in which Singapore has a 70% global market share); and SembCorp (marine engineering and utilities).

Besides thriving property developers, Singapore does have innovative and expansive private companies, such as BreadTalk, a baker with a presence in 15 countries; Charles & Keith, an international chain of shoe shops; and Hyflux, which is building an export market using Singapore’s expertise in power- and water-management. But Singapore’s best-known brand remains that of a GLC: Singapore Airlines, its flag-carrier.

There is another, however: its own, as a city that works. It sees great potential in marketing its urban services. Its second governmental joint venture in China, for example, after the ill-starred Suzhou industrial park, is to develop an “eco-city” in Tianjin. And a consortium of Singaporean firms is to design a ▶▶

Still making stuff

Manufacturing, % of GDP



Source: Thomson Reuters



One of the city's biggest failures has been that its public transport system has not kept up with population growth

According to a report by Deloitte, a professional-services firm, the volume of private wealth under management in Singapore increased by 24% last year, but in global rankings it was overtaken by Hong Kong, with a rise of 140%. Policymakers like to point to the paradox that Singapore's greatest disadvantage is being so far from China, the emerging regional economic superpower, yet that is also its biggest advantage. Over time, Hong Kong is steadily becoming more Chinese, even ahead of its scheduled full absorption into China in 2047. The struggle over constitutional reform also means that political stability there is no longer a given. Shanghai will become an ever more important financial centre, but, like Tokyo, it will be dominated by its local economy.

So in finance as in other businesses, Singapore should be able to keep its pivotal role. With plenty of English- and Mandarin-speakers, it can exploit opportunities with emerging Asia's two biggest economies, India and China. And its development, infrastructure and institutions remain years ahead of other cities in its neighbourhood. South-East Asia is itself a fast-growing region of over 600m people and an aggregate GDP of \$2.5 trillion. Singapore still retains the assets that made it an important trading hub in the 14th century, and again after Stamford Raffles selected it as a base in 1819: its geographical location at the end of the Malacca Strait and a fine natural harbour. Indeed, in keeping with Singapore's knack for building to meet expected demand, its harbour, already the world's second-biggest container port (after Shanghai) and busiest trans-shipment port, is being moved to the western end of the island, doubling its capacity. At the other tip of the island, a fourth terminal is being added to Changi airport; a fifth is planned. Capacity, currently 67m passengers a year, will double. (Last year 54m passengers used the airport.)

Given the economy's strengths, Singapore's officials can perhaps be forgiven for seeming smug at times. But they are also, as one of their diplomats puts it, "worst-case-scenario people", acutely aware of what could go wrong. One is that the quality of life—the "soft" factors that make Singapore so attractive to foreign investors—might deteriorate. The city's air is relatively clean (except when poisoned by fumes from forest fires in Indonesia); international schools of all sorts are available; taxes and crime are low; bureaucracy is efficient; things work.

Population growth might threaten that, particularly if it leads to traffic gridlock, "the easiest way to strangle Singapore", according to Kishore Mahbubani, dean of the Lee Kuan Yew School. One of the city's biggest failures, he argues, has been that its public-transport system has not kept up with population growth, despite the hectic pace of underground-railway construction. Buying a car is very expensive, thanks to the rationing and auctioning of licences (currently an exorbitant S\$66,000 for a small vehicle). But running costs are quite low, despite an electronic road-pricing system that penalises drivers in the centre of town and at peak hours, so there is a perverse incentive to drive. And car ownership is still part of the "Singaporean dream". Taxis are cheap but can be hard to find, especially when it rains. Space for new roads is scarce; precious heritage, such as the old national library, has already been lost to traffic-flow improvements. The government has recognised the dangers. With better public transport, it may be politically possible to steer Singapore away from the car. ■

▶ new capital for the Indian state of Andhra Pradesh.

Singapore is also trying to establish itself as a hub for tech start-ups. This seems ambitious. It is a much more relaxed place than it was, with a lively cultural and entertainment scene, but it lacks Berlin's vibes and Silicon Valley's appeal as a financial and technological hub. Singapore's government is throwing some money at the tech business and has attracted some venture capitalists and incubators as well. Its small size and excellent infrastructure makes it, they point out, a good place to try things out.

One place where they experiment is in Block 71, a once-condemned factory block near shiny new glass-and-steel edifices flaunting Singapore's new-industry ambitions. Block 71 is now full of young start-ups. In the office of the Joyful Frog Digital Incubator, they are working on ventures such as Hijab2go, an app that allows Muslim women to model hijabs on their selfies before they buy. Wong Meng Weng of Joyful Frog says that young Singaporeans are becoming more interested in starting their own businesses. But an anecdotal impression is that Block 71 is dominated by foreigners, attracted in part by government money. As a technology hub, Singapore still lacks critical mass.

The Wimbledon effect

In finance as in manufacturing, Singapore plays host to the world's biggest institutions but rarely wins prizes itself. Its three local banks—DBS, UOB and OCBC—are protected in their local market, a bone of contention when Singapore negotiates free-trade agreements and an irritation to foreign visitors, who find it harder to pinpoint a hole in the wall that will accept their debit cards than they do in Ulaanbaatar or Mandalay. In terms of market capitalisation, Singapore's stock exchange is dwarfed by those in Hong Kong, Shanghai and Tokyo, its main regional rivals as financial centres.

Yet the city has overtaken Shanghai and Tokyo to become the largest centre in its time-zone for foreign-exchange trading, and globally lags behind only New York and London. Asked how it has managed this, Marshall Bailey, president of ACI, the Financial Markets Association, points to its being English-speaking and having high standards of governance. It is also, of course, Chinese-speaking, and is the biggest offshore trading centre for the Chinese yuan outside Hong Kong. Besides that, it is a centre for derivatives-trading and for the insurance industry, as well as home to 14,000 commodity traders and a thriving base for asset management and private banking, fast catching up with Switzerland. It is also gaining in importance as a legal centre for international arbitration.



Foreign policy and national identity

A little red dot in a sea of green

A sense of vulnerability has made Singapore what it is today. Can it now relax a bit?

KISHORE MAHBUBANT'S MOST recent book was called "Can Singapore Survive?". Singaporeans are never allowed to forget that their country is small and its future fragile. If it does not remain exceptional, said the prime minister in that May Day speech, Singaporeans will be "pushed around, shoved about, trampled upon".

Fifty years ago the city state was born out of a row with one of its neighbours, Malaysia. The other, Indonesia, had been waging a campaign of *konfrontasi*—just short of open warfare—against Malaysia and Singapore. Those days seem long gone. The Association of South-East Asian Nations, formed in 1967, boasts of its success in lowering regional tensions. Singapore's relations with Malaysia and Indonesia are excellent. But for how long? The neighbours sometimes give Singapore reason to fret. In 1998 the then Indonesian president, Bacharuddin Jusuf Habibie, was quoted in a newspaper article as saying he did not see Singapore as a friend. Pointing at a map, he went on: "It's OK with me, but there are 211m people [in Indonesia]. All the green [area] is Indonesia. And that red dot is Singapore." Mr Habibie denied saying this. But, with a characteristic mixture of pride and paranoia, Singapore adopted "little red dot" as a motto.

Besides peace with the neighbours, the other pillar of Singaporean security has been the benign, American-led order in Asia and the Pacific that has prevailed since the end of the Vietnam war in 1975. That, however, is now in danger. China seems to see America's security presence as in part intended to thwart its own rise. Under Lee Kuan Yew, Singapore managed to position itself as the best friend in South-East Asia to both America and China. That makes a falling-out between the big powers especially ominous for it. It has already irritated America by joining the new Asian Infrastructure Investment Bank that China has set up. China, for its part, gripes about Singapore's links with Taiwan, where it sends its army to train.

So nervousness about the future is understandable. It is reflected in high defence spending (\$12.4 billion in 2014, or 3.3% of GDP, more than twice as much in money terms as in Malaysia,

which has a population more than five times bigger); and in the two years' national service for men which, according to the defence minister, Ng Eng Hen, enjoys 90% popular support among Singaporeans.

The sense of vulnerability and hence of the importance of national cohesion, instilled in Singapore's leaders by Lee Kuan Yew and his fellows, is at the root of many aspects of the Singapore exception described in this report: in the fear of tolerating an effective political opposition; in the anxiety about communal tension; in the retention of repressive colonial-era legislation such as the Internal Security Act. It has also influenced economic policy, including the ideological objections to welfare and its debilitating impact on the national psyche.

It can even be seen in the tough law-and-order policies for which Singapore is also famous. Its use of the death penalty is repellent to liberals, as is the resort to corporal punishment, for which the official terminology—"caning"—grossly understates the barbarity. But, say many Singaporeans, these policies have worked—and the system made by Lee Kuan Yew is presented as a package, as if the economic growth somehow justified the caning.

Lee Kuan Yew's defining characteristic, however, was pragmatism, a willingness to change his mind. He long opposed allowing casinos in Singapore, but was a member of the cabinet that in 2005 agreed to allow two to open, generating within a few years gaming revenues equivalent to the Las Vegas Strip's. He also, late in life, accepted that homosexuality was "not a choice", though for men practising it remains an offence.

Time for a sonnet

This report has pointed to plenty of reasons to be optimistic about Singapore's economic future—certainly for its well-educated, globally aware young people, who are in one of the best places in the world to ride the wave of Asia's rise. But they and their leaders need to decide what sort of society they want. The danger is that they will no longer be meritocrats sitting atop an unequal yet basically harmonious society, but an elite in a country that relies on increasing numbers of short-term migrants treated with little respect; and where an ageing, less educated group of fellow citizens feel disgruntled and let down.

Many countries in the world face similar dangers, but in Singapore they are especially stark because of its size and its severe ageing problem. As this report has also argued, Singapore is better equipped than most countries to avoid the worst outcomes. It can afford to relax politically without inviting chaos; it can afford to relax socially without causing unmanageable tension; it can afford to provide better for its needy and elderly without pushing the country down a slippery slope of welfare dependence; it can afford, in other words, to be less of an exception, more of a normal country; and, yes, it can afford even poetry. ■

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Singaporeans are never allowed to forget that their country is small and its future fragile