

# Singapore

|  |        |             |                                      |          |             |
|--|--------|-------------|--------------------------------------|----------|-------------|
| <b>Status Index</b><br>(Democracy: 5.35 / Market economy: 9.21)  |        | <b>7.28</b> | <b>Management Index</b>              |          | <b>5.78</b> |
| <b>HDI</b>   | 0.907  |             | <b>Population</b>                    | 4.2 Mio. |             |
| <b>GDP p. c. (\$, PPP)</b>   | 24,481 |             | <b>Population growth<sup>1</sup></b> | 2.2%     |             |
| <b>Unemployment rate</b>   | 5.2    |             | <b>Women in Parliament</b>           | 16.0%    |             |
| <b>UN-Education Index</b>  | 0.91   |             | <b>Poverty<sup>2</sup></b>           | n/a      |             |
|  |        |             | <b>Gini-Index</b>                    | 42.5     |             |
| Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (1990-2003). |        |             |                                      |          |             |

## A. Executive summary

The city-state of Singapore is an economic success and a democratic failure. The economy is characterized by an open free market, while the political system is one of authoritarianism disguised as a democracy.

During the review period, the economy suffered severe setbacks. These were mainly induced by external circumstances, such as the global recession after the attack on New York's World Trade Center and the Pentagon on September 11, 2001, and the breakdown of regional tourism because of the SARS (Severe Acute Respiratory Syndrome) epidemic. The economy recovered towards the end of the period, however, and achieved a growth rate of 8.4% in 2004. Singapore is one of the world's most global economies, foreign trade contributes to growth largely, and the country regularly attracts foreign investment from all parts of the world. The population enjoys a high standard of living in relative security and a clean environment, and it is served by an efficient and honest administration.

With regard to democracy, Singapore regularly holds elections with universal suffrage, and these are conducted in a transparent and correct manner according to the rules in force. The latter are set by the ruling People's Action Party (PAP), which has won all but two or three seats since independence. The PAP has set the rules of the game in the political arena, including through the redrawing of electoral boundaries according to political expediency, by demolishing opposition candidates with the aid of a compliant judiciary, controlling the domestic media and restricting the circulation of the foreign press whenever it is deemed to have meddled in the country's internal affairs. In addition, the country makes use of a law inherited from the colonial masters, which permits the detention without trial of any persons deemed by the government to pose a security risk.

Singapore's political system permits good governance because the leadership has full control over political resources and need not bother with alternative policy options proposed by opposition parties. Precedence is given to economic

necessities, and all social and political issues are subordinated to this end. The leadership has no ambivalence about “western style democracy,” regarding it as unsuitable for developing countries in Asia and beyond.

Paradoxically, further economic progress will require a more creative and entrepreneurial approach by Singapore’s next generation. However, in a political environment in which the competition of ideas has been replaced by the accepted wisdom of the ruling party, this may be difficult to achieve.

## **B. History and characteristics of transformation**

The Republic of Singapore is remarkable for its transformation from a British colony with daunting political, economic and social problems to a well run city-state functioning as a Southeast Asian – and in some respects global – hub in trade, investment, finance, medical services and a number of academic fields. This transformation process has been achieved through a deliberate subordination of political goals - such as democratic and human rights - to economic growth and stability, by the suppression of religious and racial discord and by the transformation of the politicized trade unions to government-run organizations for the control of labor.

Singapore initially became independent of colonial rule as an integral part of the Federation of Malaya in 1963 but it was separated from the Federation in 1965 after the political differences between the predominantly Chinese populated Island of Singapore and the Malayan population in what is now Malaysia proved insurmountable. At the time of this separation, the economic and political situation in Singapore was precarious. It was characterized by a high level of unemployment, low education and health standards, a lack of adequate housing, political polarization between a communist party supported by diverse labor organizations operating in the political arena through strikes and demonstrations, and racial tensions between the local Malays and Chinese and Indian immigrant populations. All of these issues required immediate attention and sometimes-drastic measures. The small size of the city-state’s economy made it necessary to import the essentials of daily life from abroad, and the necessary foreign exchange could only be obtained through exports. A regime that facilitated foreign trade was therefore required, although at that time the predominant economic development philosophy of the day still advocated import substitution.

The People’s Action Party (PAP), under the leadership of a team of mainly British-educated men, many of them lawyers, came into power through a combination of political finesse, visible dedication to the wellbeing of Singapore and its inhabitants, personal honesty and incorruptibility, experience in legal matters and an unflinching and drastic application of undemocratic measures to suppress dissent against policies deemed necessary for Singapore’s political and

economic survival. In the infamous “Operation Cold Store” of 1963, the PAP had organized the arrest of many opposition politicians in order to press through Singapore’s initial integration into the Federation of Malaya. When the left-wing Barisan Socialist Party, which had split off from the PAP earlier, boycotted the first general elections of independent Singapore in 1968, the PAP won all the parliamentary seats. It has not relinquished its overwhelming supremacy in parliament since then. The leader of the PAP and its “Minister Mentor” to this day is the Cambridge-educated, 81-year-old Lee Kuan Yew, who first became Prime Minister in 1959, when Singapore was still under British rule but had been granted certain limited political rights to form a parliament consisting of both elected members and persons appointed by the colonial power.

Singapore’s economic success as a regional hub has made it the envy of many a developing country. According to the Heritage Foundation and the Wall Street Journal, the city-state has the second freest economy worldwide after Hong Kong. In a survey of potential global economic competitiveness done by the Japan Center for Economic Research (JCER), Singapore takes second place, behind only the United States. The Republic's infrastructure was rated number 1, thanks to its world-renowned airport and ports. Further boosts came from the large extent to which Singapore conducts trade with other countries and its high level of investment activities.

Over the years of PAP rule under Lee Kuan Yew, Singapore has achieved a rare degree of political stability. It has taken litter and graffiti off the streets, ended corruption, created an educated and disciplined workforce and witnessed the building of a shining glass and steel metropolis. Equally impressive, Singapore has managed to mould a disparate collection of people, notably Chinese, Malay and Indian, into a more or less harmonious whole and forged a collective feeling of nationhood.

Yet there was a price to all this. Singapore is run more like a company—Singapore Incorporated—than a democratic polity, although democratic institutions exist and they are maintained under close supervision and control of the top management. Criticism of company policies is interpreted as criticism of the system, and such dissent is discouraged by drastic measures, such as the bankrupting of opposition politicians through costly defamation suits that would not stand up in the courts of more democratic countries. Singapore has traded politics for wealth. It has embraced a way of life in which civil liberties, intellectual debate and partisanship have become the casualties of economic development.

## **C. Assessment**

### **1. Democracy**

The political elite in the Republic of Singapore continued to reject “western style democracy” during the review period. Political opposition continues to be restricted to a “lunatic fringe” that often plays only to a foreign gallery. This is in spite of the fact that the country holds general elections every four years and that all citizens of at least 21 years of age have the freedom to vote and choose their leaders. The Newspaper and Printing Presses Act allows authorities to restrict the circulation of any foreign periodical that publishes an article allegedly interfering in domestic politics. The author and publisher of an offending article can be required to pay damages to the ostensibly defamed political leadership. The level of damages is determined by the courts and generally supersedes levels observed anywhere else in the world.

#### **1.1. Stateness**

Territorial borders, citizenship and the state’s monopoly on the use of force are undisputed. All citizens have the same civic rights, and the wording of the constitution is not disputed. The government takes pains to prevent any disruption of religious and racial peace and harmony through the strict implementation of rules and regulations drawn up for this purpose. Nevertheless, there is a danger that the selective application of such existing rules can and sometimes do serve as an instrument to suppress dissent, and international human rights agencies have repeatedly criticized such state actions, particularly in the area of freedom of expression. There is currently a debate in the pages of the Straits Times on the appropriate use of “R and R words”, i.e. references to race and religion.

Singapore’s administration is characterized by integrity and efficiency. It is highly differentiated and it provides a sound administrative foundation for political, social and economic development.

#### **1.2. Political participation**

Singapore’s constitution provides for regular elections and universal active and passive suffrage to a unicameral parliament. The elections themselves are conducted according to the legal provisions in force and in a correct and transparent manner. In the November 2001 general election, the PAP won 82 of 84 seats. Only 29 of 84 seats were contested, meaning the PAP had already won

an absolute majority on nomination day. In the contested constituencies, the PAP obtained over 75% of the popular vote, but this amounted to little more than a fifth of the total electorate.

The reasons for the opposition's repeatedly poor showing in parliamentary elections are manifold: (1) The fate of opposition candidates who have fallen afoul of the government and have been bankrupted by defamation suits not only disqualifies them from election, but also instills fear in other potential candidates. (2) The ability of the PAP to change the rules at will, due to its absolute majority in the legislature, permits the manipulation of constituency boundaries, ostensibly to adjust for changes in population densities. A week before the announcement of the snap election, there was still speculation in the pages of the Straits Times as to what boundary changes could be expected for the forthcoming election. (3) The introduction of Group Representation Constituencies (GRCs), which require the fielding of teams with representatives of various ethnic groups, makes it difficult for the opposition parties to find a sufficient number of appropriate candidates. Only nine single seat constituencies remained in the 2001 election, all other 75 seats being in GRCs. (4) The short campaign duration gives the ruling party calling a snap election an organizational advantage. In 2001, the election was called two minutes before the end of the working day on 18 October. Nomination day was a week later, and voting was held on 3 November, thus barely complying with the absolute minimum period for campaigning required by law. (5) The fragmentation of the opposition in numerous parties, combined with the first-past-the-post system inherited from the colonial power, prevents proportional representation. (6) The control of the media by the government favors the PAP candidates in spite of superficial attempts to appear non-partisan. (7) The party in power has the resources at its disposal to provide the electorate with handouts immediately before and after the election. Five days before the announcement of the snap election by the Prime Minister, the government announced an economic stimulus package that included the distribution of New Singapore Shares worth hundreds of dollars to about 2.1 million Singaporeans aged 21 and above. The government, as in previous elections, once again promised to give priority to upgrading projects in housing estates in precincts that vote for the PAP candidates. (8) The evident success of the PAP in providing incomes, employment, housing, medical facilities and a well run, efficient and incorruptible administration in the past has made it an option that is hard to beat.

Opposition parties are not seen and, in effect, do not see themselves as offering an alternative government. For this reason, the average voter is likely to look upon opposition candidates as costly disturbances to the everyday operation of Singapore Incorporated.

### **1.3. Rule of law**

The Republic of Singapore is strictly regulated through legal provisions inherited from the British and from laws passed from time to time by parliament, which, essentially, is synonymous with the PAP. Anybody or any publication or broadcast publicly casting doubt on the independence of Singapore's judiciary is likely to be charged for contempt of court. People remember the case of Christopher Lingle, an American academic teaching at the National University of Singapore, who published an opinion piece in the *International Herald Tribune* in response to a previously published editorial comment. In his article, he suggested that some regimes in East Asia are able to thwart criticism by relying on a compliant judiciary. Within two weeks, he had been repeatedly interrogated by police detectives, which prompted him to resign his position, flee the country with nothing more than his overnight bag and notebook computer and seek refuge in the USA. Although Lingle had not mentioned Singapore by name, the legal profession agreed that only Singapore could have been meant, because only Singapore matched this description. The judge handed down a judgment in 1996 requiring Lingle to pay \$70,000 in damages to Lee Kuan Yew. The Singapore government seized his property in Singapore and sentenced him to jail in absentia. The judgment itself supports the view that Singapore's rulers use a compliant judiciary to bankrupt their critics.

In a small country such as Singapore, where the president appoints judges on the recommendation of the prime minister after consultation with the chief justice, it is not surprising to find that the current chief justice is a university friend of Lee Kuan Yew. According to Frances T. Seow, the former solicitor general of Singapore, now living in exile, the emoluments of the Chief Justice in Singapore add up to more than the combined stipends of the Lord Chancellor of England and the Chief Justices of the United States, Canada and Australia. As a Queen's Counsel pointedly queried: "Is this kind of money a salary or an income of permanent bribery?"

On the other hand, office bearers in the administration, police, etc. are seen to be honest. In Transparency International's latest Corruption Perceptions Index (CPI), Singapore was rated 5<sup>th</sup> of 145 countries surveyed after Finland, New Zealand, Denmark and Iceland.

### **1.4. Stability of democratic institutions**

Political and institutional stability were recognized early on as prerequisites for Singapore's economic development. It is therefore not surprising to find that institutional stability is one of the main pillars supporting the Singapore system. The quip from many a management textbook - that the best way to deal with an uncertain future is to create it - applies to Singapore's institutions as well. Though

Singaporeans complain about the high level of administrative fees and isolated instances of bureaucratic bungling, the authorities have learned to answer criticisms quickly and politely in the letters column of the national newspaper. Any remaining dissatisfaction may induce the complainant to leave Singapore rather than risk a confrontation with a seemingly invincible authority.

### **1.5. Political and social integration**

In a small city-state with a strong and efficient one-party government, political and social integration is always likely to be high. This is certainly the case in Singapore, even though the country's multiethnic and multicultural population contains the ingredients for powerful divergent tendencies and outbursts of violence. The containment of these forces has been a prime goal of Singapore's economic and social policies. The allocation and sale of Housing Board flats is therefore regulated to prevent too great a concentration of any of the minority ethnic groups in any particular housing block. In order to gauge the sentiments of the population and to react before things get out of hand, the government operates a number of feedback mechanisms in the form of meetings, letters columns, suggestion boxes etc.

The result of these and other measures of social integration is the perception of a strict, monolithic government apparatus, whose main task is to guarantee stability and the growth of economic opportunities for its citizens. The average Singaporean is unlikely to envisage any future other than one with the present system and the PAP and the Lee Kuan Yew family in the driving seats. In this sense, political and social integration has reached a high level in Singapore.

Although a number of opposition parties exist in Singapore, all of them have great difficulties in finding persons to engage constructively in the political process or to stand as candidates in elections. The erstwhile leader of the Workers' Party, J. B. Jeyaretnam, the first since 1968 to win a parliamentary seat for the opposition in a 1981 by-election, and the leader of the Singapore Democratic Party, Chee Soon Juan, who has consistently tested the Singapore system's restrictions on free speech, have now both been effectively bankrupted by defamation suits brought by government ministers. The declaration of bankruptcy disqualifies a person from candidacy in parliamentary elections. The third opposition party worth noting is the Singapore Democratic Alliance, which split off from the Singapore Democratic Party. The party's leader, Chiam See Tong, has pursued a moderate course of praising the government where praise is due and exercising opposition in a more constructive way than his former party colleague Chee Soon Juan. He is therefore tolerated by the government and held up to foreign observers as proof of the democratic nature of the political regime.

A party system exists in Singapore, but the “cut and thrust” of political bargaining takes place within the dominant party itself, rather than between the PAP and the opposition parties. It is therefore not surprising to find the PAP increasingly striving to create an opposition within its own ranks by choosing candidates “who, in fact want to be on the other side”. Of this group Prime Minister Goh Chok Tong said: “Their hearts are with us but, intellectually, they may not be with us. That’s good.”

## 2. Market economy

### 2.1. Level of socioeconomic development

The key indicators show a high level of development.

**Table 2: Development of socioeconomic indicators of modernization**

|      | HDI   | GDI   | GDP index | Gini index | UN Education index | Political representation of women <sup>a</sup> | GDP per capita (\$, PPP) |
|------|-------|-------|-----------|------------|--------------------|--|--------------------------|
| 1999 | 0.876 | 0.871 | 0.89      | ...        | 0.87               | 6.5  | 20,767                   |
| 2002 | 0.902 | 0.884 | 0.86      | 42.5       | 0.91               | 16.0   | 24,040                   |

<sup>a</sup> Percentage of women delegates in Parliament after 1997 and 2001 elections.

Sources: UNDP, Human Development Report, 2001 and 2004.

Among the group of transformation countries in Asia and Oceania, Singapore ranks first in terms of the Human Development Index (HDI). The unemployment level has traditionally been low. Nevertheless, in the review period the Singapore economy experienced its worst recession in 40 years. The goods producing sector contracted substantially in 2001, and even the services sector shrank. After contracting by 2.4% in 2001, the economy grew once more by 2.2% in 2002. Unemployment however, traditionally low in Singapore, rose to 5.2 and 5.4% in 2002 and 2003 respectively. A high growth rate of 8.4% was once again achieved in 2004.

Inequalities of household income have increased slightly over the years due to faster income growth among higher income households. This is seen as a reflection of globalization and Singapore’s transition into a knowledge-based economy.

### 2.2. Organization of the market and competition

Both macro- and microeconomic fundamentals of market competition are well developed in Singapore, and the open trade and investment environment ensures that domestic companies cannot inefficiently operate behind protective tariff barriers. However, the “government linked companies” (GLCs) appear to be



playing a bigger role in the Singapore economy than ever before. The government denies that it dominates the city-state's economy and maintains that GLCs constitute less than 13% of the GDP. Nevertheless, with Singapore experiencing its worst economic downturn since independence, the government has begun to re-examine the economic policies that have led to its deepening and broadening involvement in private enterprise.

An Economic Review Committee, set up by the government for the purpose of analyzing current policies, pinpointed the issues involved. The Ministry for Trade and Industry suggested that the government might in future do less "leading from the front" and the ministry proposed the introduction of competition laws to address the dominance of GLCs as well as a shift towards open, competitive markets and away from the state-driven industrial policies and the collusive domestic networks that have led to low returns on investment. But the then-Deputy Prime Minister Brigadier-General Lee Hsien Loong, who headed the Economic Review Committee, was less enthusiastic regarding the extent to which the government would withdraw from business. He said GLCs should continue to be "one of the thrusts forward" for Singapore's economy. Critical analysts have suggested that letting go is difficult because the government's withdrawal from business could hurt the employment, income and ownership interests of people closely connected to it, such as relatives of senior government leaders, former senior government officials, former senior military commanders, current senior government officials and current and former ruling party politicians. The outcome may also hurt the government's efforts to co-opt its politicians from the private sector.

Towards the end of the review period, the government enacted a new competition law in order to regulate monopolies and restrictive trade practices. The legislation covers both foreign-owned and domestic companies and has very recently come into force. The new law is meant to curb anti-competitive agreements, prevent the abuse of market dominance and regulate mergers and acquisitions that would lessen competition. However, some key industrial sectors, such as telecommunications, media, postal services, transport, power generation and water and waste management, are exempt. These sectors involve businesses, some of which are monopolies that are managed by the government directly or are controlled by Temasek Holdings, the state investment agency. While the government argues that state businesses could be excluded on national security, defense and other strategic grounds, or when there were "exceptional and compelling reasons of public policy," this in effect will create uneven standards. Both the chair and his deputy, appointed by the government to head the Competition Commission, are high officials of the Ministries of Finance and Trade and Industry respectively.

### **2.3. Currency and price stability**

The open nature of Singapore's economy, both in terms of trade and its traditionally welcoming attitude towards foreign investors, contributes greatly to its macroeconomic stability. The general weakness of the global economy in 2002 as well as continuing overcapacity in the high-tech sector provided little impetus for an increase in prices of traded goods during that year. Consequently, imported inflation in 2002 was weak. Domestic price pressures were also contained due to weak economic conditions and rising unemployment. Reflecting these developments, most broad indicators of prices in Singapore fell in 2002. The CPI fell by 0.4% in 2002, compared with a 1.0% increase the year before. The drop was attributed to both domestic and external factors. Domestic sources were responsible for 0.1% of the decline in the CPI while external factors reduced CPI by 0.3%. The main items contributing to the fall in overall prices were energy prices and accommodation costs. While the 1.0% decline in the transport and communications index was partly due to lower petrol prices, the reduction in road taxes implemented that year also helped to keep transport costs down.

Singapore's inflation remained benign in 2003. The recovery of economic activity during the second half of 2003 did not put enough strain on productive capacity to generate significant inflationary pressures. The CPI rose by 0.5% in 2003. External factors provided the main impetus. Goods that are more expensive drove consumer price inflation during 2003, especially oil-related products.

### **2.4. Private property**

Singapore's laws ensure well-defined private property rights and regulate the acquisition of property of both Singaporeans and foreigners. Compensation is provided when urban renewal necessitates the compulsory acquisition of real estate. The market economy is based overwhelmingly on private ownership, and government involvement, as mentioned earlier, is likely to be further reduced in the future. Property rights and the regulation of property are adequately defined. In tandem with Singapore's progress as a knowledge-based economy, the Intellectual Property Office of Singapore (IPOS) announced that it had started a wide and comprehensive review of the IP laws in Singapore. The review of the IP laws is part of a larger objective, namely that Singapore become an innovative creator of products and services and support the growth of new businesses and industries.

### **2.5. Welfare regime**

"Western type welfare regimes" are anathema to the Singapore government. The government takes the view that it owes nobody a living, that a welfare system

reduces the country's international competitiveness and that the immediate family is the core element of a caring society. A provident fund has been established, to which a Medisave scheme has been added. However, in contrast to most OECD countries, this is not based on a pay-as-you-go system or an inter-generational contract, but on a savings scheme to which employees and employers are compelled to contribute.

For cases of poverty and destitution, there is a "community chest," which relies mainly on private funds and helps to disburse assistance to needy persons who have no children to fend for them. A family court has been established to help needy persons obtain the assistance due to them from family members if necessary.

## **2.6. Economic performance**

After having contracted by 2.4% in 2001, Singapore's economy expanded by 2.2% in 2002. The recovery was primarily due to a turnaround in external demand. At the regional level, the performance was mixed. The manufacturing, wholesale and retail trade and transport and communications sectors registered higher growth, while growth in the other major sectors deteriorated. The manufacturing sector was the best performing sector, growing by 8.3%, a sharp reversal from the 12% contraction the year before.

The economy expanded by only 1.1% in 2003. This was mainly due to global economic uncertainties in the first half of 2003 as well as the impact of SARS on Singapore's tourism industry. All major sectors, except wholesale and retail trade and financial services, deteriorated from their 2002 levels. The year 2004 however, saw a rebound with growth at 8.4% and a return to the pre-recession strength of the economy. Growth in 2005 is projected at between 3% and 5%.

In a survey of potential global economic competitiveness conducted by the Japan Centre for Economic Research (JCER), Singapore moved up from third to second place after the United States by nudging Hong Kong into third position. The survey measures the growth potential of 50 economies by looking at indicators in several areas. Singapore's infrastructure was rated first, thanks to its world-renowned airport and ports. Further boosts came from the large extent to which Singapore conducts trade with other countries and its high level of investment activities. A moot point is the degree to which developments in China will cut into Singapore's competitiveness in the future.

## **2.7. Sustainability**

Overall, Singapore's political leadership has been very concerned about environmental problems, such as industrial and urban pollution. Its strict legislation in this area has earned it such pejorative epithets as "squeaky clean" and "sterile". The high percentage of services and the further shift from production-based to knowledge-based industries is likely to further reduce environmental problems. Singapore has occasionally suffered from haze generated by forest fires in Indonesia.

Singapore has excellent national and international education establishments of high repute, which attract foreign scholars and students from the region and beyond. Their only limitation is the fact that the educational philosophy values accumulation of knowledge over creative abilities and problem solving. This has generated public concern and debate within the government, fringe groups and the population at large.

## **3. Management**

This section analyses governance in the 13-month period from 1 January 2003 to 31 January 2004 as required – somewhat incongruously – by the Manual for Country Assessments. There were no important changes of government during this period. The last election that returned premier Mr. Goh Chok Tong in November 2001 and the handing over of the premiership to Mr. Lee Kuan Yew's son, Mr. Lee Hsien Loong, occurred in August 2004. However, the analysis is sufficiently general in nature to apply *mutatis mutandis* to the period 2001-2005.

### **3.1. Level of difficulty**

The structural difficulties that constrain the political leadership are those of any small nation exposed to the global economy and seeking niches that will enable economic survival. There is a need to prepare for the anticipated onslaught of Chinese competition in the years to come. In addition, the population's lopsided ethnic composition (75.4% Chinese, 12.6% Malay and 8.6% Indian) requires delicate handling to avoid confrontation and to foster the semblance of a Singapore identity. Moreover, the country's leadership has to keep its neighbors with large Muslim populations in view when operating in the international arena. Traditions of civil society are largely congruent with ethnic and religious groups (clan associations, church, temple and mosque congregations, some neighborhood groups, some charitable organizations), but apart from formulating community development programs and proposals they do not enter the political arena. The memory of the catholic social workers detained – and allegedly tortured – under

the Internal Security Act in 1987 for “communist front activities to overthrow the government of Singapore” is still very much alive.

### Profile of the Political System

|   |                              |                                     |                         |
|---|------------------------------|-------------------------------------|-------------------------|
| Regime type:  | <i>Autocracy</i>             | Constraints to executive authority: | <i>1</i>                |
| System of government:   | <i>Parliamentary</i>         | Latest parliamentary election:      | <i>03.11.2001</i>       |
|   |                              | Effective number of parties:        | <i>1.04</i>             |
| Head of State:  | <i>Sellapan Rama Nathan</i>  |                                     |                         |
| 1. Head of Government:  | <i>Goh Chock Tong</i>        | Cabinet duration:                   | <i>11/1990- 08/2004</i> |
| Type of government:   | <i>single party majority</i> | Parties in government:              | <i>1</i>                |
| 2. Head of Government:  | <i>Lee Hsien Long</i>        | Cabinet duration:                   | <i>08/2004- present</i> |
| Type of government:   | <i>single party majority</i> | Parties in government:              | <i>1</i>                |
|   |                              | Number of ministries:               | <i>15</i>               |
|   |                              | Number of ministers:                | <i>13</i>               |
| <p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = <math>1 / (\sum p_i^2)</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Number of ministries/ ministers denotes the situation on 1 January 2005.</p> |                              |                                     |                         |

### 3.2. Steering capability

The political leadership under the domination of the PAP certainly sets and maintains strategic priorities. However, it is fair to say that, while it is committed to an open market economy to a very great extent, it aims at constitutional democracy only in so far as it provides for regular elections with general active and passive suffrage. The domestic press is effectively under the control of Singapore Press Holdings (SPH) and practices self-censorship. Costly defamation suits, excessive damages payments and restrictions on circulation have subdued the foreign media. There is freedom from the press rather than of the press.

The population has experienced the leadership as generally highly competent and above all incorruptible and has come to accept the Singapore model as one that delivers the goods -- growing affluence, a clean environment, a low crime rate, no strikes, etc. As long as the leadership maintains this image, it can manage reforms effectively and can achieve its policy priorities. In line with the structural difficulties sketched earlier, the political leadership is constantly reminding itself and citizens of the need to remain flexible and to be able to react quickly to changes in the global economic environment.

### **3.3. Resource efficiency**

The government of Singapore generally makes very efficient use of the financial and organizational resources at its disposal and avoids wasteful policies. This is certainly the case with regard to the general operation of the open market economy. Nevertheless, there has been some criticism in the foreign press regarding the investment of savings generated by tax revenues, fees and provident fund deductions from income earned by workers and employers. According to some sources, the investments made by the government linked companies under the umbrella of Temasek Holdings have not been as profitable as they might have been under a regime of private companies and individuals.

The country's gross national savings rate of 51.5%, including the fiscal surplus and the national pension scheme, is the highest in the world. Singapore has huge fiscal surpluses that even the International Monetary Fund says are well in excess of what the government needs. A key to unleashing entrepreneurial forces is to free up and redirect some of the enormous pools of capital held by both the government and individuals and to make more domestic savings available for investment within Singapore itself. The government appears to have recognized the need to improve the performance of GLCs and has established an Economic Review Committee under the chairmanship of the (then deputy) prime minister, Lee Hsien Loong.

### **3.4. Consensus-building**

In the case of Singapore, it is necessary to distinguish consensus by conviction of the general public through persuasion from the conviction of dissenters in court. Whatever debates may be held behind closed doors within the PAP, the message of its leaders to Singapore's public and, for that matter, to the world, is that Singapore's success is founded on a rejection of western type democracy. This view is certainly rejected – or at least questioned – by many individuals, particularly among academics, but their voice is muted by the realization, that within the authoritarian system, the cards are stacked against them. Potential “reformers” are branded as “dissenters” who endanger the Singapore model, unless they enter the political arena by forming or joining a political party. Otherwise, they can have their influence terminated by the authorities at will. In this way, the authorities prevent the escalation of political conflicts whose aim is a greater degree of democracy.

The success of Singapore's economic system is lauded even by opposition parties and candidates, with differences of opinion concentrating merely on issues of income and wealth distribution, which the PAP calls the “politics of envy.” The active development of social capital among citizens and social groups by the political leadership is confined to this area, in which charitable organizations are

encouraged to operate as long as they do so within the system and do not try to influence the political process.

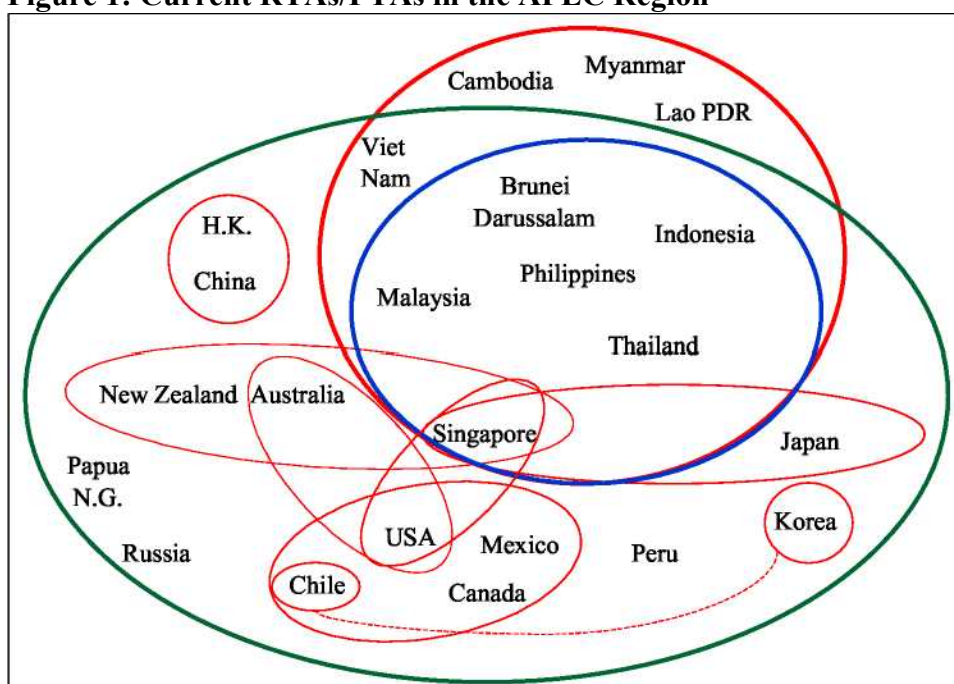
A global survey by a market research firm recently ranked the PAP first in the political party category. Some 35,000 people from over 40 countries were polled in the international survey. The Corporate Reputation Index reflects the perceptions of people towards their own country, both politically and economically. Among the thousands polled across the globe, 500 Singaporeans were selected to share their views. They were so satisfied with their government that the country came out on top in the political parties category. People are looking for material goods, and the government delivers. At the same time, over the last couple of years, the notion of good governance has changed. The people experience good governance, accountability, no corruption and growing openness, and they therefore accept soft authoritarianism. The government has also been exceptional in crisis management, reflected in the way it dealt with SARS and the tsunami. There is pride in associating oneself with a successful government.

The political leadership does not recognize any past injustices, so the question of reconciliation does not arise. Characteristic of the regime's cynicism was then Prime Minister Lee Kuan Yew's public expression of respect for Chia Thye Poh, a dissident imprisoned for 23 years without trial, for his refusal to admit any wrongdoing, which prevented the authorities from releasing him without loss of face.

### **3.5. International cooperation**

Singapore commands respect in the international arena for its record as a credible and reliable partner. It does not require or seek support from international partners for its domestic policies. On the contrary, its leadership takes every opportunity to advise foreign governments (for instance the Philippines or Indonesia) on how to solve their perceived problems.

Singapore was quick to assist Indonesia, Malaysia and Thailand in the relief activities after the tsunami in the Indian Ocean, not only providing funds, equipment and specially trained teams to assist in immediate relief operations, but also in offering logistic support to other countries by placing its military airport and other facilities at their disposal. Singapore has signed numerous bilateral and multilateral cooperation treaties and agreements with individual countries and groups of countries, many of them in the area of trade.

**Figure 1: Current RTAs/FTAs in the APEC Region**

Source: Van Grastek, (2004), in APEC Economic Outlook 2004, Singapore.

#### 4. Trend of development

##### 4.1. Democratic development

Stateness, political participation and the rule of law experienced little change in the Republic of Singapore in the period 2001-2004. The general election in 2001, while run transparently and correctly, witnessed the marginalization of the opposition parties by the now traditional means of redrawing constituency boundaries, further reducing the number of one-person constituencies, making the upgrading of neighborhoods contingent on voting behavior and calling a snap election with a very brief campaigning period. All this is justified by reference to the unsuitability of western type democracy for Singapore and by pointing to the success of the city-state's economy in comparison to other countries with more democratic regimes.

The domestication of the press and muzzling of free speech and free expression of opinion continued. The right to peaceful demonstration and freedom of assembly continued to be curtailed. The establishment of a speaker's corner gave some hope, but the need for speakers to register with the police in advance and the exclusion of topics deemed sensitive by the authorities as well as the prohibition of sound amplification in an environment with a high level of traffic noise soon reduced initial enthusiasm. The opposition politician Chee Soon Juan went to prison after refusing to pay a fine imposed for speaking on a religious topic,



namely the tudung, or head scarf, worn by Muslims and disallowed in school by the authorities. After questioning the prime minister, Goh Chok Tong, on the payment of a \$10 billion loan to Indonesia (which, it turned out, had been offered but not accepted) Chee was sued for defamation by Lee Kuan Yew and Goh Chok Tong. The latter were awarded damages totaling an equivalent of almost \$300,000, an amount that effectively bankrupted Chee, who was also disqualified from standing for election.

In August 2002, news and information provider Bloomberg LP agreed to pay libel damages totaling \$340,000 to three Singapore government leaders following the publication of an article about the appointment of Madam Ho Ching, (then deputy) Prime Minister Lee Hsien Loong's wife to executive director of Temasek Holdings, the government's powerful investment agency.

## **4.2. Market Economy Development**

During the review period, Singapore experienced its deepest recession since independence with a negative growth rate in 2001 and very low growth in the two years thereafter. Economic growth picked up again in 2004, attaining a level of 8.4% over the year before.

Two interrelated problems have become clearer in the review period. First, the state-owned businesses in Singapore, while profitable, are generally not producing returns comparable to privately-owned businesses in other markets. Singapore has a fabulously wealthy base, but too much of it is in the wrong hands – the government. Unless Singapore transfers a large slab of it to the private sector, its prosperity might prove to be a plateau rather than a base from which to move to the level necessary to prosper in the world economy. The government has begun a steady process of selling shares of its companies on the open market and exposing these companies to competition.

Second, although Singapore's leaders know that growth and enterprise in free market economies comes from entrepreneurship, they initially seemed to think that this could be generated best by special business schools or courses on how to be an entrepreneur, which Singapore has fostered over the years. In the wake of China's growth as an important competitor on world markets, Singapore's political leaders now talk openly about the need to instill a spirit of risk-taking and entrepreneurship if the island-state is to remain competitive. Lee Kuan Yew himself explains this with reference to an "East Asian reverence for scholarship: the Chinese typically value education above all, so the ultimate aim is to become a mandarin – a shi, or scholar. Second in esteem is the nong, or farmer; third is the gong, or worker; and fourth and last is the shang, or merchant – the entrepreneur." Instead of guaranteeing economic security and an atmosphere of certainty in exchange for popular support, the government is now telling its people they need

to think and act for themselves. However, in a society where the influence of government is so pervasive and where it is commonplace for people to look to government to engineer solutions to problems, this will require radical change.

Singapore's structural reform agenda is aimed at developing a globalized, diversified and entrepreneurial economy. Broadly, there are several points that are the focus of the strategic thrusts: (1) expanding external ties, which means embracing globalization through the multilateral trading framework of the WTO; (2) maintaining competitiveness and flexibility, which entails keeping the burden of taxes and the Central Provident Fund on the economy as low as possible, reviewing the labor market and wage system to make them more flexible and pricing factors of production competitively; (3) promoting entrepreneurship and Singapore companies, which encourages people to be innovative and thus improves the ability of firms to develop new ideas and businesses, tap new export markets and broaden their economic base; (4) growing manufacturing and services, which means upgrading these sectors by improving cost competitiveness, equipping the labor force with relevant skills and developing new capabilities and industries; and (5) developing human capital, which entails investing in education, helping workers train and upgrade and welcoming global talent to augment the indigenous talent pool.

**Table 3: Development of macroeconomic fundamentals (2000-2003/2004)**

|                                      | 2000 | 2001 | 2002 | 2003 | 2004 <sup>b</sup> |
|--------------------------------------|------|------|------|------|-------------------|
| Real GDP Growth in % p.a.            | 9.7  | -1.9 | 2.2  | 1.1  | 8.4               |
| Real export growth in % <sup>a</sup> | 15.4 | -5.2 | 7.9  | 14.3 | 22.2              |
| Real import growth in % <sup>a</sup> | 13.9 | -9.4 | 2.5  | 6.5  | 25.2              |
| Inflation in % (CPI)                 | 1.3  | 1.0  | -0.4 | 0.5  | 1.7               |
| Investment in % of GDP               | 32.6 | 31.8 | 28.0 | 26.6 | n.a.              |
| Tax Revenue in % of GDP              | 15.6 | 15.8 | 13.2 | 12.6 | n.a.              |
| Unemployment in %                    | 4.4  | 3.4  | 5.2  | 5.4  | 5.3               |
| Budget deficit in % of GDP           | 2.5  | -1.8 | -0.1 | -1.1 | 3.6               |
| Current account balance % of GDP     | 14,3 | 18,7 | 21,4 | 30,9 | n.a               |

<sup>a</sup> Based on trade in goods and services at 2000 prices.

<sup>b</sup> Forecast based on provisional figures for first 9 months of 2004.

Sources: Singapore Department of Statistics, <http://www.singstat.gov.sg/abtus/contactus.html> accessed 3 Feb 2005.

#### **D. Strategic perspective**

The general picture of transformation in the Republic of Singapore in the review period is one of stagnation.

Although a flourishing economy is the *raison d'être* for Singapore's authoritarian style of government, economic growth slumped to its lowest values during the period under review after turning negative in 2001.

However, the Singapore government could take some comfort in the fact that the downturn was externally induced by the events following the terrorist attacks on the USA in September 2001 and the SARS epidemic and not a consequence of inappropriate economic policies. Nevertheless, the problem areas that will need to be addressed in the future became evident during the downturn. They include a speedier privatization of the government linked companies and changes in the education system in favor of greater creativity in problem solving and greater readiness to take risks.

However, can Singapore pull off this commercial and cultural metamorphosis? Letting go of the government linked companies is certainly easier said than done, given the powerful economic interests of the many decision-makers in influential positions in these companies.

To be sure, Singapore has had to be flexible before, shifting from textiles to rudimentary electronics and then to sophisticated electronics, chiefly computer gear. However, the transformation to an entrepreneurial mindset is of another magnitude culturally, and some think that the city-state's rigid society may have irreparably blunted its people's entrepreneurial spirit. Risk-taking is not part of the local culture, and creativity does not flow naturally. Maybe Singapore's authoritarian system of governance is incompatible with an innovation-led economy.

For this reason alone, there has been talk of the need to expand the areas of freedom in which young minds can experiment with new ideas and innovations. This obviously must include the freedom of expression of ideas, and these cannot be restricted to apolitical matters. Indeed, generating new ideas on governance issues would seem to be important components of any social innovation and cannot be limited to new means of governance of the existing Singapore system. The issue of a move to a more democratic system of operation, where ideas and arguments compete with each other and compromises are sought between different priorities is obviously germane to this debate.

Intense competition is a hallmark of Singaporean life. Students are "streamed," schools are subjected to rankings, local labor to foreign "talent" and local businesses to the government-linked companies and multinational corporations.

Yet, the one institution that is not subject to any serious competition in Singapore is the PAP. In its quest for supremacy and its fear of a constructive opposition, it has restructured the election system, with the result that new candidates inducted into the PAP do not face contested elections.

The absence of competition over time might well lead to a flabby party led by those who benefited from walkovers and continue to stay in power by making the field even less level for a diminishing opposition. This cannot be in the interest of Singapore in the long term.