

# BTI 2010 | Singapore Country Report

<b>Status Index</b>	1-10	<b>7.25</b>	# 28 of 128	
Democracy	1-10	5.37	# 68 of 128	➔
Market Economy	1-10	9.14	# 4 of 128	➔
<b>Management Index</b>	1-10	<b>5.98</b>	# 35 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	4.6	HDI	0.94	GDP p.c.	\$	50295
Pop. growth	% p.a.	4.2	HDI rank of 182	23	Gini Index		42.5
Life expectancy	years	80	UN Education Index	0.91	Poverty <sup>2</sup>	%	-
Urban population	%	100.0	Gender equality <sup>1</sup>	0.78	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

In his National Day speech in August 2008, Singapore's prime minister, Lee Hsien Loong, acknowledged that the Internet is transforming societies and economies everywhere and that Singapore must adapt itself to it. Subsequently, the government announced a number of measures designed to give Singaporeans more space for debate and the expression of alternative views. The ban on political films was relaxed and demonstrations will be permitted. However, the latter will only be allowed at the Speakers' Corner, a public space for free speeches, and speakers there will only have to register with the parks department rather than with the police. It remains uncertain whether this is the first tentative step in a general move to greater openness, such as was promised in 2004 when Lee Hsien Loong took over as prime minister, or merely a reaction to the fact that the government cannot easily control the use of cyberspace. Whatever the case may be, the signal seems to have been taken up by an increasing number of academics, who are gradually probing the limits of what is acceptable in their writings and statements.

On the other hand, the repressive regime has continued to react with draconian measures both against the more vocal members of the opposition parties and the foreign press, using both the potent weapon of defamation suits with horrendous damage payments and contempt of court proceedings against those who express doubts about the judiciary's independence (which is something new in this review period). In July 2008, in a 72-page report, the human rights arm of the world's largest legal association, the International Bar Association (IBAHR), expressed concern over the limitations of freedom of expression and the independence of Singapore's courts and recommended that Singapore should free its courts from governmental influence and elevate human rights standards to international levels.

The leader of the opposition Singapore Democratic Party (SDP), Chee Soon Juan, after having already been bankrupted by court cases in 2007, was convicted on numerous counts of speaking in public without a permit, as is required by the Public Entertainment and Meetings Act. Unable

to pay the fines, he received jail terms. Chee maintains that all his applications for a permit to speak had been turned down. The conviction of other party leaders for similar offences has effectively crippled the SDP.

On the economic front, Singapore has already been hit hard by the global recession due to its extreme dependence on foreign trade. Its sovereign wealth funds, which have invested heavily in financial institutions in the past, lost billions of dollars in 2008. The economy is in recession, and the future remains bleak because the country faces a potential contraction rate of 5%. On the other hand, Singapore has excellent economic-management capabilities to steer through bad times successfully.

## History and Characteristics of Transformation

Singapore initially gained independence from British colonial rule as an integral part of the Federation of Malaya in 1963 but separated from it in 1965 after political differences between the predominantly Chinese island of Singapore and the Malayan population in what is now Malaysia proved insurmountable. Since then, the Republic of Singapore has undergone a remarkable transformation from a British colony with daunting political, economic and social problems to a well-run city-state that is currently a Southeast Asian – and, in some respects, global – hub in trade, investment, finance, medical services and several academic fields. This has been achieved through a deliberate subordination of political goals (e.g., democratic and human rights) to economic growth and stability, the suppression of religious and racial discord, and by turning the initially politicized trade unions into government-controlled organizations.

When Singapore left the federation, its economic and political situation was fragile. It faced several problems, including high unemployment, low education and health standards, inadequate housing, political polarization and racial tensions between the Malay, Chinese and immigrant Indian populations – all of which demanded immediate attention and drastic measures. The small size of the city-state's economy required the importation of everyday basic goods, and the necessary foreign exchange could only be obtained through exports. As a result, a regime that facilitated foreign trade was required, although 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 English-educated lawyers, came to power through a combination of political finesse, visible dedication to the well-being of Singapore and its inhabitants, personal integrity, experience in legal matters and an unflinching and drastic application of undemocratic measures to suppress dissent against policies that they deemed necessary for Singapore's political and economic survival. In the infamous Operation Cold Store of 1963, the PAP organized the arrest of several opposition politicians in order to press through Singapore's integration into the Federation of Malaya. When the left-wing

Barisan Socialist Party, which had previously split off from the PAP, boycotted the first general elections of the independent Singapore in 1968, the PAP won every seat in parliament. Since then, it has not relinquished its overwhelming parliamentary dominance. To this day, the Cambridge-educated octogenarian Lee Kuan Yew is leader and “minister mentor” of the PAP. He 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 developing countries. According to the Heritage Foundation and the Wall Street Journal, the city-state has the world’s second-freest economy after Hong Kong. In a survey of potential global economic competitiveness conducted by the Japan Center for Economic Research, Singapore took second place only to the United States. With globally renowned air- and seaports, Singapore’s infrastructure has been rated number one in the world. Further boosts have come from Singapore’s massive levels of 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 removed litter and graffiti from the streets, ended corruption, created an educated and disciplined workforce, and witnessed the building of a shining glass-and-steel metropolis. Equally impressive is the fact that Singapore has managed to integrate a diverse population of Chinese, Malays and Indians into a more or less harmonious whole while simultaneously forging a collective sense of nationhood.

Still, this has come at a price. Singapore (which is often referred to as “Singapore Incorporated”) is run more like a company than a democratic polity. Although democratic institutions exist and are maintained, they do so under the close supervision and control of the top political leadership. Criticism of state policies is interpreted as criticism of the system. Drastic measures (e.g., bankrupting opposition politicians through defamation suits), which would not stand up in the courts of more democratic countries, are used to discourage dissent. Singapore has traded democracy for wealth and embraced a way of life in which civil liberties, intellectual debate and political parties have become casualties of economic development.

In August 2004, when Lee Hsien Loong followed in his father’s footsteps as Singapore’s prime minister, many hoped he would break with Lee Kuan Yew’s authoritarian tendencies. He initially encouraged citizens to “feel free to express diverse views, pursue unconventional ideas or simply be different.” Still, strict control of the media and the expression of criticism of official policies have only recently been somewhat relaxed and, then, only in response to the government’s decreasing ability to control the use of modern information technologies.

# Transformation Status

## I. Democracy

### 1 | Stateness

Territorial borders, citizenship and the state's monopoly on the use of force are undisputed throughout the territory of Singapore. Territorial disputes with neighboring countries, such as Malaysia and Indonesia, are settled through negotiation and, if necessary, through recourse to international arbitration. For example, in May 2008, the International Court of Justice in The Hague declared that the disputed island of Pedra Branca, which is home to one of the first lighthouses built in Asia, belonged to Singapore.

Monopoly on the use of force

All citizens have the same civic rights, and the wording of the constitution is not disputed. However, expatriates with the status of "permanent residents" are required to carry identification cards, are not called up for military service and are exempted from making the same contributions to the central provident fund as Singapore citizens. This has created a feeling of injustice among the latter.

State identity

Official statistics show that there are at least 900,000 foreigners living and working in Singapore. They make up nearly one-third of the city-state's workforce, up from 14% in 1990. While nearly one-third of these foreigners are well-paid experts with permanent residency status, the majority is made up of migrant workers in the lower strata of the labor market, who are not only paid low wages, but also do not enjoy basic rights, such as being allowed to become members of labor unions.

The government takes pains to prevent any disruption of religious and racial peace and harmony between the major religious groups by strictly implementing rules and regulations drawn up for this purpose. Certain religious processions may be banned or restricted to specific routes and, at times, marginal groups also face restrictions on their operations. For example, Jehovah's Witnesses are kept on a short leash, and several of them have been imprisoned for being conscientious objectors to military service. Likewise, in July 2006, a 73-year-old Chinese woman and two men in their forties were arrested after the trio unfurled a red banner bearing the words "Stop persecution of Falun Gong in China" and meditated in front of the Chinese

No interference of religious dogmas

Embassy. The woman was subsequently deported; the men were charged with “harassment by displaying insulting writings – with common intention.”

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

Basic  
administration

## 2 | Political Participation

Elections to the unicameral Westminster-type parliament are held at least every five years, and suffrage is universal, equal and compulsory for all resident Singaporeans who are at least 21 years old. Names of persons who do not exercise their vote are expunged from the register of electors, but they can be reinstated after the individuals have provided credible and acceptable reasons for having not voted and have paid a fine. The voting rights of expatriate Singaporeans are limited to persons having a residential address in Singapore registered with the Commissioner of National Registration. This rule was relaxed during the period under review, and the amount of time such individuals need to spend in Singapore so as to qualify to vote has been slashed from two out of the five years preceding a general election to 30 days in the three years before voting takes place.

Free and fair  
elections

The most recent parliamentary general elections were held on 6 May 2006. The PAP again won 82 out of 84 seats, but the percentage of votes won by the ruling party dropped from 75.3% in the last election (2001) to 66.6%. In addition to the 84 elected members of parliament, the constitution provides for up to six non-constituency members “to ensure the representation in Parliament of a minimum number of Members from a political party or parties not forming the Government,” and up to nine nominated members. These non-elected members may not vote on motions related to amend the constitution, on bills related to supply or money issues, in a vote of no confidence in the government or in a vote on whether to remove the president from office.

In public, the government claims that it “encourages contests in elections so issues can be debated and voters can make a conscious choice as to who should be their MP.” Nevertheless, the ruling People’s Action Party maintains its dominance in part by intimidating organized political opposition and circumscribing the bounds of legitimate political discourse and action. The belief that the government might directly or indirectly harm the employment prospects of opposition supporters inhibits opposition political activity. Vocal opposition politicians have been sued for defamation on grounds that would not stand a chance of being accepted in any other country. The judiciary justifies the horrendous amounts of damages awarded to government politicians by claiming that it needs to protect their reputations. In the process, government opponents have been bankrupted, which makes them

ineligible to contest elections. This has happened, for example, to J.B. Jeyaretnam (deceased in 2008) and, most recently, to Chee Soon Juan of the Singapore Democratic Party. Others have gone into voluntary exile to escape this fate, such as former Solicitor-General Francis T. Seow and Tang Liang Hong of the Workers' Party. The PAP's ability to change the rules at will due to its absolute majority in the legislature (e.g., changing constituency boundaries, introducing Group Representation Constituencies (GRCs) and legislating extremely short campaign durations) has led to the suspicion that such changes are made so as to make the fielding and election of opposition candidates more difficult.

By virtue of the PAP's dominance, the elected rulers have what is effectively complete control over governing the country.

Effective power to govern

The freedom of association and assembly continues to be severely constrained by rules allegedly required to maintain political sustainability in a politically fragile environment. Public assemblies of more than four people must have police approval. However, since 2005, people have no longer needed a permit in order to hold private, indoor gatherings as long as the topic of discussion is not race or religion. In August 2008, the ban on public outdoor demonstrations was partially lifted; demonstrators are now allowed at the Speakers' Corner, a public space for free speeches, as long as they adhere to basic rules of law and order and stay away from issues of race, language or religion.

Association / assembly rights

Although some liberalization has been promised, the ban on political films and televised programs continues to put constraints on the activities of opposition parties. The fact that developments in IT technology and usage have made it possible to show things in real time on the Internet makes it very difficult for the government to control them. The government restricts the expression of political opinion to actors in the political arena, but even they must contend with the general sense of fear brought on by the looming threat of libel or slander suits. The free expression of opinions at the Speakers' Corner is curtailed by the exclusion of topics the authorities deem to be sensitive. In January 2009, the deputy prime minister stated that the island state, which is hosting a summit of Asia-Pacific leaders this year, may further tighten laws against public protests. The government is reviewing public order laws and may pass legislation to deal more effectively with illegal protests and other acts of civil disobedience.

Freedom of expression

The fact that the domestic media are closely controlled results in self-censorship. Foreign media deemed to be interfering in the internal affairs of Singapore are routinely restricted in terms of their distribution within the country, and their writers, editors and publishers have been sued for defamation by Singapore leaders, who fear that their reputations have suffered damage. The net result is that there is no freedom of expression and no effective opposition to speak of.

### 3 | Rule of Law

The Republic of Singapore is strictly regulated through legal provisions inherited from the British and from laws passed in parliament. Since the PAP has a virtual monopoly of power and permeates all state institutions, the legal separation of powers is not always effective in practice. This has led dissenters to accuse the government of supplanting the rule of law with rule by law.

Separation of  
powers

By virtue of its dominant role in parliament, the PAP is in a position to amend the constitution whenever it appears expedient to do so.

In a small country like Singapore, where the president appoints judges based on the recommendation of the prime minister after he or she has consulted with the chief justice, it would be surprising to find judicial appointments that were solely based on criteria of jurisprudential qualifications and experience. For example, the current chief justice is a friend of Lee Kuan Yew from their student days. However, it is not clear whether the government pressures judges or simply appoints ones who already share its conservative philosophy. Many judges have ties to the PAP and its leaders. According to Francis T. Seow, Singapore's former solicitor-general who now lives 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. A queen's counsel pointedly queried: "Is this kind of money a salary or an income of permanent bribery?"

Independent  
judiciary

Anybody or any publication or broadcast publicly casting doubt on the independence of Singapore's judiciary is likely to be charged with contempt of court. In June 2008, a judge ruled that Chee Soon Juan, secretary-general of the Singapore Democratic Party (SDP), had been in contempt because, during a defamation case filed by Singapore's leaders against him, he said that justice had been "raped" and "kicked." Chee was sentenced to 12 days in jail. In the same month, a U.S. citizen named Gopalan Nair was charged with insulting a Singapore judge in his blog by saying she was "prostituting herself." In the blog, Nair criticized a recent legal hearing at which Singapore's founding father, Lee Kuan Yew, and his son, Prime Minister Lee Hsien Loong, testified in a defamation case that they had filed against an opposition party. Nair was subsequently jailed for three months.

In July 2008, in a 72-page report, the human rights arm of the world's largest legal association, the International Bar Association (IBAHR), expressed concern over the limitations on the freedom of expression and the independence of Singapore courts and recommended that Singapore should free its courts from any governmental influence and elevate human rights standards to international levels. The Asian edition of the Wall Street Journal reported this within a commentary. Then, in



September 2008, the office of Singapore's solicitor-general initiated legal action against two of the newspaper's editors for allegedly casting doubt on the judiciary's integrity. In November 2008, the publisher of the Asian edition of the newspaper was found to have been in contempt of court and ordered to pay more than \$16,000 in damages. In October 2008, three men were taken to court for wearing T-shirts depicting a kangaroo dressed in a judge's robes in the Supreme Court. They were subsequently jailed for 15 days and ordered to pay over \$3,000 each in costs.

Individuals holding positions in the administration, police and other state organization are considered to be honest. The government is generally known for its transparency and its lack of corruption. As was the case in 2007, in 2008, Singapore was ranked the fourth least corrupt country in Transparency International's global corruption survey. It also retains its status as Asia's least corrupt country on the Corruption Perceptions Index.

Prosecution of  
office abuse

Singaporeans of most faiths can worship freely, but Jehovah's Witnesses and the Unification Church are banned. Faculty members at public universities and political research institutions are not entirely free from governmental influence. The PAP prohibits public discussion of sensitive racial and religious issues, and it closely regulates political speech. Foreign speakers and academics fall under particular scrutiny. For example, in April 2007, Singapore denied seven members of the European Parliament, who were traveling with a Cambodian and a congresswoman from the Philippines, permission to speak at a forum about the development of democracy in Asia and Europe.

Civil rights

The government restricts freedom of association through the Societies Act of 1966, which includes a provision that permits only groups registered as political parties or associations to engage in organized political activities. Unions are permitted under the Trade Unions Act, and restrictions on their formation are relatively narrow. Almost all unions are affiliated with the National Trade Unions Congress, which freely acknowledges that its interests are closely aligned with those of the PAP.

The government can detain suspects without trial under both the Internal Security Act (ISA) and the Criminal Law Act (CLA). The ISA was once applied mainly against suspected communist security threats, but the government has recently used the law to detain suspected Islamist terrorists. It allows authorities to detain suspects without charge or trial for an unlimited number of two-year periods. A 1989 amendment to the constitution prohibits judicial review of the substantive grounds for detention under the ISA and of the constitutionality of the law itself. At present, the ISA is used against suspected Islamist militants, many of whom have been detained for long periods without trial. As of April 2008, some 30 suspected Islamist militants were being held, almost all of whom were members of Jemaah Islamiah. Another 25-30 former detainees live under restriction orders.

Between 2004 and 2008, 366 people were detained under the Criminal Law (Temporary Provisions) Act, while 272 were released. The act, which was passed in 1955, is used to maintain public order, to prevent strikes and lockouts related to essential services, as well as to detain and supervise persons in the interests of public safety, peace and good order. Allegedly, it is only used as a last resort when a serious crime has been committed and a prosecution in court is not possible because witnesses are unwilling or afraid to testify in court. Most cases dealt with under the act concern secret societies, drug trafficking or loan-sharking.

#### 4 | Stability of Democratic Institutions

Early on, political and institutional stability were recognized as prerequisites for the economic development of Singapore. It is therefore not surprising to find that institutional stability is one of the main pillars supporting the country's system.

Performance of democratic institutions

The formal democratic institutions in place in Singapore are generally respected. Though Singaporeans complain about the high level of administrative fees and isolated instances of bureaucratic bungling, the authorities have learned to respond to criticism quickly and politely in the letters column of the national newspaper. Any remaining dissatisfaction may result in people leaving Singapore rather than risking a confrontation with a seemingly invincible state authority.

Commitment to democratic institutions

#### 5 | Political and Social Integration

There is a moderately stable, one-sided party system in Singapore in the sense that it is and has been dominated by the People's Action Party (PAP) for the last 45 years. Although a number of opposition parties exist in Singapore, all of them experience great difficulty 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 (deceased in 2008), who was the first person since 1968 to win a seat for the opposition in parliament in a 1981 by-election, and the leader of the Singapore Democratic Party, Chee Soon Juan, who has repeatedly tested Singapore's system of restrictions on free speech, have both been effectively bankrupted by defamation suits brought by government ministers. A declaration of bankruptcy disqualifies an individual from running in parliamentary elections. After paying off damages in defamation suits brought by government leaders, Jeyaretnam was discharged from bankruptcy and won back his license to practice law in September 2007. Nevertheless, the Reform Party, which he founded, took over a year to receive approval from the Registry of Societies for its application. Barely three months later, the veteran politician passed away, and the party's future is uncertain. The third opposition party worth noting is the Singapore Democratic Alliance, which has split off from the Singapore Democratic Party. The party's

Party system

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 has. As a result, he is tolerated by the government and held up to foreign observers as an example of the democratic nature of the political regime.

In sum, 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 opposition parties. Thus, it is 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.”

Since the PAP dominates political institutions, the topography of interest groups operating outside the PAP system is somewhat not well developed. The political leadership restricts open discussion of political issues to persons or groups that enter the political arena as politicians or political parties. Even the Law Society, which could previously comment on the practicability of legislative proposals as a matter of course, was cut down to size by Lee Kuan Yew in 1986 after the society (which was then headed by Solicitor-General-turned-political-dissident Francis T. Seow) criticized the government about amendments to the Newspaper and Printing Presses Act that restricted the circulation of foreign publications deemed to be meddling in Singapore’s domestic politics. The discussions of the Law Society were restricted to matters of professional interest, and its comments on proposed legislation to issues “submitted to it.” (The then-president of the Law Society, Francis T. Seow, is currently in political exile.) However, after a report of the International Bar Association Human Rights Institute (IBAHR) had criticized the Singapore judiciary and the Law Society in July 2008, the latter said that it would welcome an amendment to the act that would enable it to submit proposals for legal reforms to the government on its own initiative.

Interest groups

Since the Singapore system is seen to work and has been able to deliver economic prosperity better than any other country in the region, many Singaporeans prefer not to question the system. Open dissent is often regarded as being the province of a few misguided fools who should know better than to challenge the almighty PAP rather than to seek their fortune within the confines of the apparently immutable power system. This should not be confused either with a high level of consent to the system in place or with a generally low regard for liberal democracy. Instead, most complaints are directed against rising levels of fees and deductions from pay packets that have earned the city-state the epithet of being a “fine city” and the PAP the slogan “Pay and Pay.”

Consent to  
democratic norms

In 2007, an online petition against a proposed salary hike for government ministers collected thousands of signatures as well as comments criticizing the hike and the authorities’ lack of accountability.

There is a web of autonomous groups that have self-organized mainly along ethnic lines, such as Chinese clan organizations and Indian caste and religious societies. The Malays also have their mainly Islamic organizations in place.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

In spite of low (although currently increasing) unemployment levels, affordable public housing and high growth rates for the economy in general, the gap between rich and poor has been growing. This fact has become one of the main issues for the miniscule political opposition. Inequalities in household income have increased slightly over the years due to faster income growth among higher-income households. This is seen as being a reflection of globalization and Singapore's transition into a knowledge-based economy. Increasing costs for housing, food and transport led to high inflation in early 2008 with serious consequences for a rising number of low-income households. While higher-income households have seen fast income growth in the past, lower incomes have either stagnated or further decreased. The number of households relying on free meals from charities increased in early 2008. Nevertheless, "welfarism" continues to be incompatible with Singapore's economic policy. As long as economic growth rates were consistently high, people tended to compare this year's income with last year's. But now that growth has given way to recession, comparisons tend to become less intertemporal and more interpersonal. The fact that the political leadership in 2007 raised the emoluments of ministers by an average of 25%, ostensibly in order to align them with developments in the private corporate sector, led to much dissatisfaction and public discussion. For example, the prime minister now earns SGD 3.1 million (\$2 million), which is about five times the amount earned by the president of the United States. Nevertheless, the Gini coefficient, which rose consistently from 0.44 in 2000 to 0.49 in 2007, subsequently dropped to 0.48 in 2008. Even when government transfer payments (taxes and benefits) are taken into account, the coefficient for 2008 is 0.46 (which is still comparatively high). Educational opportunities are available for all and, although there are perceived differences in quality and prestige between various education establishments, all Singapore children go to school. Significant differences exist with regard to tertiary education. For example, richer parents are able to send their children abroad (mainly to the United States and/or the United Kingdom), while those from poorer backgrounds are obliged to compete for a restricted number of available scholarships. With a Human Development Index

Socioeconomic  
barriers

(HDI) score of 0.922, Singapore takes 25th place worldwide and is third in Asia, after Japan and Hong Kong.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	109664	120942	139177	<b>166949.5</b>
Growth of GDP	%	9.6	7.3	8.4	<b>7.8</b>
Inflation (CPI)	%	1.7	0.4	1.0	<b>2.1</b>
Unemployment	%	5.8	-	4.5	<b>4.0</b>
Foreign direct investment	% of GDP	18.1	11.5	17.8	<b>14.5</b>
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	18256.1	22223.4	29800.2	<b>39105.9</b>
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	4.1	6.7	6.6	<b>12.0</b>
Tax Revenue	% of GDP	12.2	12.2	12.6	<b>13.9</b>
Government consumption	% of GDP	10.8	10.6	10.6	<b>9.7</b>
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.1	1.1	1.1	-
R&D expenditure	% of GDP	2.2	2.3	2.3	<b>2.6</b>
Military expenditure	% of GDP	4.6	4.5	4.3	<b>4.0</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | 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

Market-based competition

that domestic companies cannot operate inefficiently behind protective tariff barriers. However, government-linked companies (GLCs) managed by a state investment agency, Temasek Holdings, play an important role in key sectors. These companies, some of which are the largest in Singapore and account for around 25% of the market capitalization of the Stock Exchange of Singapore, appear to be largely independent and compete directly with private-sector companies. Temasek does, however, play a role in appointing management executives, such as the chief executive officer and the chairman. Concerns have also been raised about advantages that these companies might enjoy in terms of raising finance or competing with smaller local firms through their association with the Temasek group. In addition, the government has created a number of statutory boards to implement its policies. Their present role consists primarily of regulating and promoting economic activities that are thought to have high growth potential as well as of providing technical and marketing assistance. In order to encourage investment in the desired activities, a number of tax incentives have been provided. Most recently, with unit labor costs rising relative to those of other countries in the region, Singapore's trading advantage appears to be moving toward higher value-added manufacturing and service sectors. The government has responded to this by establishing long-term development programs (and tax incentives) that encourage investment in higher value-added activities.

Prior to the period under review, the government enacted a competition law in order to regulate monopolies and restrictive trade practices. The legislation covers both foreign-owned and domestic companies. The law is meant to curb anti-competitive agreements, prevent the abuse of market dominance and regulate mergers and acquisitions that would reduce competition. However, some key industrial sectors (e.g., telecommunications, media, postal services, transport, power generation and water and waste management) have been exempted from the measures of the competition law. These sectors include some businesses that are monopolies managed by the government directly or controlled by Temasek Holdings, the state investment agency.

Anti-monopoly  
policy

Singapore is a strong supporter of the multilateral trading system, and its tariff level is largely zero. It also believes that accelerating trade liberalization through regional forums benefits, rather than impedes, multilateral negotiations and liberalization undertaken within a multilateral framework. As a founding member of the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Cooperation (APEC) forum, Singapore actively participates in reducing trade and non-trade barriers between the member countries of these forums. In the APEC forum, Singapore plans to meet the deadline that developed country members agreed upon to liberalize trade and investment by 2010. Singapore was also a participant in APEC's Early Voluntary Sectoral Liberalization (EVSL) and Accelerated Tariff Liberalization (ATL) initiatives, which cover 15 and nine

Liberalization of  
foreign trade

sectors, respectively. In addition to regional agreements, Singapore's size and resource constraints have led it to form regional alliances. For example, in 1994, it participated in the formation of the Indonesia-Malaysia-Singapore growth triangle, which allows all three countries to benefit from their mutual resource complementarities. A free-trade agreement is also currently being negotiated with New Zealand, and feasibility studies for free-trade agreements with Mexico and Japan are being conducted. In addition, Singapore is examining the possibility of setting up a tri-party agreement with New Zealand and Chile.

With its ability to balance strong regulatory and prudential standards while encouraging innovation among financial players, Singapore has established itself as a thriving financial center of international repute. The banking system serves not only its domestic economy, but also the wider Asia-Pacific region and the world. Financial services account for 11.6% of Singapore's GDP. Development in this regard has been well-supported by various critical factors, such as a pro-business environment, sound economic fundamentals, a strong regulatory and supervisory framework, excellent infrastructure and a highly skilled, cosmopolitan workforce. More than 500 financial institutions, including many of the world's largest and most reputable ones, operate in the city-state. However, due to the ongoing global financial crisis, this sector suffered heavy losses in the last quarter of the period under review. Particularly worrying is the fact that as much as 40% of the international investments made by the government-owned holding company, Temasek, were in the financial sector and were hit hard by recent developments. Temasek holds Singapore's reserves, and its only shareholder is the country's Ministry of Finance. Three days before heavy losses were reported, Temasek's chief executive officer, Ms. Ho Ching (who is also the prime minister's wife), submitted her resignation, ostensibly for personal reasons.

Banking system

## 8 | Currency and Price Stability

Since 1981, monetary policy in Singapore has been focused on managing the exchange rate. The primary objective has been to promote price stability as a sound basis for sustainable economic growth. The Singapore dollar (SGD) is managed against a basket of currencies of major trading partners and competitors. The quasi central bank, the Monetary Authority of Singapore (MAS), operates a managed float regime. The trade-weighted exchange rate is allowed to fluctuate within a policy band, the level and direction of which are announced to the market on a semiannual basis. The band is periodically reviewed to ensure that it remains consistent with the underlying fundamentals of the economy. The choice of the exchange rate as the intermediate target of monetary policy implies that the MAS does not control domestic interest rates and the money supply. In the context of free capital movements, interest rates in Singapore are largely determined by foreign

Anti-inflation /  
forex policy

interest rates and investor expectations of the future movements of the Singapore dollar. Given that Singapore is a price taker in global trade, the high import content means that changes in world prices or in the exchange rate have a powerful direct influence on price levels in the economy. The trend appreciation of the Singapore dollar over the last decade has helped to limit imported inflation in Singapore.

The annual inflation rate, which was consistently below 2% in the years before the period under review, rose to 2.1% in 2007 and 6.5% in 2008. The Department of Statistics has stated that the jump in inflation was due largely to an 11.1% spike in housing costs recorded after a revision in public housing values. Food prices, which carry the largest weighting in the consumer price index, rose 5.8% between January 2007 and January 2008. Driven by soaring global fuel prices and higher taxi fares, transport and communication costs rose 6.9% in the same period.

The government continues to follow consistent stability policies. The open nature of the Singapore economy – both in terms of trade and in respect to its traditionally welcoming attitude toward foreign investors – greatly contributes to its macroeconomic stability. Singapore maintains a highly austere fiscal policy, taxing more and spending less than other governments in Asia. This policy consistently generates outsized surpluses, which come largely at the expense of the island state's private consumers and businesses through a complex web of income and various other hidden taxes. These surpluses are habitually hidden away off-budget, often through the use of accounting gimmicks that are inconsistent with internationally accepted norms. Government-linked companies and investment corporations buy and sell among themselves at undisclosed transfer prices, which obscures their profit and loss profiles.

Macrostability

The central provident fund pension scheme operates on the basis of capital accumulation rather than on the pay-as-you-go system found in many other countries.

## 9 | Private Property

Singapore's laws ensure well-defined rights of private property ownership and regulate the acquisition of property, both by Singaporeans and foreigners. Compensation is provided when urban renewal necessitates the compulsory acquisition of real estate. Property rights and the regulation of property are adequately defined. Over 90% of Singapore's population owns the apartments they live in. The Intellectual Property Office of Singapore (IPOS), a statutory board under the Ministry of Law, is the lead governmental agency that advises on and administers intellectual property (IP) laws, promotes IP awareness and provides the infrastructure to facilitate the development of IP in Singapore. Singapore has a legislative and administrative regime for IP rights that is fully compliant with the

Property rights



Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement.

Private companies are viewed institutionally as the primary engines of economic production and are given appropriate legal safeguards. Moreover, the existing government-linked corporations are run like private companies, and their managers are evaluated according to performance rather than to seniority or status.

Private enterprise

## 10 | Welfare Regime

So-called Western-type welfare regimes are anathema to the Singapore government. The government takes the view that it doesn't owe anybody 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, and it has been supplemented by a "medisave" scheme. For example, there is a "community chest" drawn mainly from public funds that disburses assistance to people who face inadvertent poverty loss and destitution and who have no family members that can come to their assistance. Likewise, a family court has been established to help needy persons, when necessary, to obtain from family members the assistance due to them. During the financial crisis that hit Asia in 1997 and during the ongoing global economic crisis, Singapore has dipped into its reserves to assist less-well-off citizens and families and to pump-prime the business cycle.

Social safety nets

The unemployment levels of 2007 (2.1%) and 2008 (2.3%) were the lowest ones for the last decade. However, figures for the last quarter of 2008 indicate a sharp increase that is likely to continue in 2009.

On the whole, there is great equality of opportunity in Singapore society and equal access to public services, education and all available assistance. In general, the main – if not the only – decisive mechanism is one's ability to pay (which, of course, is not spread evenly by any means). Malay households, in particular, are still less well-off in socioeconomic terms (e.g., income and education) than those of the Chinese majority.

Equal opportunity

## 11 | Economic Performance

As a highly developed and successful free-market economy, Singapore has enjoyed a remarkably open and corruption-free environment, stable prices, high growth rates and a per capita GDP equal to that of many OECD countries. At over 440%, its trade-to-GDP ratio is the highest in the world. However, countries with a high ratio are more sensitive to the global business cycle and other changes than countries with a low ratio. As a result, the global economic recession cannot fail to take a major toll on Singapore's economic fortunes. Preliminary estimates show that GDP

Output strength

contracted by 3.7% in the fourth quarter of 2008, following the 5.1% decline of the preceding quarter. For 2008 as a whole, the economy is estimated to have grown by 1.2% compared with 7.7% in 2007. The economic downturn is expected to continue in 2009, and the Ministry of Trade and Industry expects the economy to contract by a further 2-5%.

## 12 | Sustainability

On the whole, Singapore's political leadership has been very concerned with 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 bring about a further reduction in environmental problems. Singapore is occasionally forced to deal with haze generated by forest fires in Indonesia.

Environmental  
policy

Singapore has excellent national and international educational establishments of high repute that attract foreign scholars and students from the region and beyond. The only limitation is the fact that accumulating knowledge has traditionally taken precedence over creative and problem-solving abilities. There continues to be public concern and debate on this issue among governmental and fringe groups as well as among the general public.

Education policy /  
R&D

# Transformation Management

## I. Level of Difficulty

The structural difficulties that constrain the political leadership are those of any small nation exposed to the global economy and seeking to find niches that permit economic survival. There is a need to counter Chinese competition and to prepare for the competition expected from India in the years to come. In addition, the lopsided ethnic composition of the population (75.4% Chinese, 12.6% Malay and 8.6% Indian) requires skillful handling so as to avoid confrontation and to foster the semblance of a unified Singapore identity. Moreover, the Singapore leadership has to keep its neighbors with large Muslim populations in mind when operating in the international arena.

Structural  
constraints

Although Singapore can be seen as a middle-class society, civil society traditions are only poorly developed, and existing NGOs (e.g., the Think Centre, AWARE and the Law Society) are not allowed to intervene in governmental politics.

Civil society  
traditions

Traditions of civil society are largely tied to ethnic and religious groups (e.g., clan associations; church, temple and mosque congregations; some neighborhood groups; and some charitable organizations). However, beyond formulating community-development programs and proposals, they do not enter the political arena. (The case of the Catholic social workers who were detained – and allegedly tortured – in 1987 under the Internal Security Act for “communist front activities to overthrow the government of Singapore” is still very fresh in people’s memories.)

For the most part, ethnic and religious differentiation in Singapore society overlap. The violent and bloody conflicts of the past are still ingrained in the memory of senior citizens, but there is now a greater and greater degree of tolerance as well as a certain degree of pride in the nation’s cultural diversity. The Singapore government takes great pains to recognize ethnic and religious conflicts, and it is skillful in defusing them. On the other hand, it is sometimes felt that the government uses the ethnic- or religious-conflict argument to stifle legitimate activities.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The founding fathers, as well as the second generation that they have groomed to succeed them, view Singapore as being an extremely small and vulnerable island in the midst of an extremely competitive – if not hostile – environment. Fostering an open-market economy is regarded as being the only way to attract multinational companies to establish business operations in Singapore as well as to encourage and groom domestic talent. Survival in this highly competitive environment requires a disciplined and hard-headed steering capability that cannot wait for the give-and-take of democratic decision-making. As a result, Singapore’s leaders make no excuses for suppressing opposition from those who they view as being misguided enough to attempt to criticize from the backseat. The domestic press is effectively under the control of Singapore Press Holdings (SPH) and practices self-censorship; the foreign media have been subdued by costly defamation suits and horrendous fines for damages as well as by punitive restrictions on their circulations. There is freedom from the press rather than of the press. The PAP-dominated political leadership undoubtedly sets and maintains strategic priorities regarding the press.

Prioritization

With its monopoly on power and the weakness – if not absence – of an effective opposition in parliament, the government can operate without any of the fetters that characterize a functioning democracy. Since the government can practically change the constitution at will, it can bend the laws to make its actions legal. In these circumstances, one might even ask why Singapore’s leadership even bothers to hold regular elections with general active and passive suffrage. These accoutrements of a constitutional democracy, which were inherited from its colonial past, help to give the cursory outside observer the impression that all is more or less well, and many of the city-state’s inhabitants are comforted by the perhaps misguided thought that, in principle, change is possible if the leadership fails to deliver the goods (e.g., growing affluence, a clean environment, a low crime rate, no strikes, etc.).

Implementation

In general terms, the population views Singapore’s leadership as highly competent and, above all, incorruptible, and it has come to accept the Singapore model as one that delivers the goods (e.g., 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 discussed under “structural constraints,” the political leadership is

Policy learning

constantly reminding itself and its citizens of the need to remain nimble and flexible and to be able to react quickly to changes in the global economic environment.

## 15 | Resource Efficiency

The Singapore government generally makes very efficient use of the financial and organizational resources at its disposal and avoids wastage. 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, mainly 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 held under the umbrella of Temasek have not been as profitable as they might have been under a regime of private companies and individuals. Temasek's problem – and advantage – is that Singapore's Ministry of Finance owns 100% of it. Its board is made up of bureaucrats and businessmen. But the fact that Singapore's hard-earned reserves, which are tied to the island state's global investments, have plunged in unprecedented proportions over the past year – from SGD 185 billion (\$123 billion) to SGD 127 billion (\$84.3 billion) between March and November 2008 – is the cause of extreme worry among informed citizens.

Efficient use of assets

Because of its monopoly on power and the relatively small size of the city-state, the Singapore government coordinates its policies effectively and acts in a coherent manner.

Policy coordination

Singapore's leaders have been able to hold on to power because they are viewed as being incorruptible. Singapore is a regional hub in commercial, financial and other fields. As such, it has to be seen as being free of corruption in order to provide security for the funds and other valuables entrusted to it. While other countries and institutions may have adopted national integrity plans or created specialized integrity institutes, in Singapore, the concept of national integrity is internalized and embedded within Singapore's laws, governance and administrative processes, and it is reinforced in the training of civil servants.

Anti-corruption policy

## 16 | Consensus-Building

In the case of Singapore, it is necessary to distinguish between a consensus among the general public on the twin goals of democracy and a market economic framework, on the one hand, and the conviction of dissenters in court, on the other. Whatever debates may be held behind closed doors within the PAP, the message of its leaders to the Singapore public – and, for that matter, to the world – is that Singapore's success is founded on a rejection of Western-style democracy. This

Consensus on goals

view is certainly rejected – or at least questioned – by many individuals, particularly academics, but their voices are muted by the realization that the authoritarian system has stacked the cards against them. The director of the prestigious Institute for Southeast Asian Studies, K. Kesavapany, takes the view that a trajectory of development without democracy is preferable to that of democracy without development and concludes that the time for greater democratic opening has now come: “Development cannot be an excuse to argue against democracy. When a country reaches a certain level of development – when it has a middle class that includes young people whose economic achievements seek reflection in an expanded political sphere – development sets the stage for the growth of democracy. This setting of the stage is occurring in Singapore today.”

Unless they enter the political arena by forming or joining a political party, potential reformers are branded as “dissenters” who endanger the Singapore model. If they do not form or join a party, the authorities can silence them at will. In other words, reformers have no control over the actors with veto powers, who can restrict or end the reform process at any time. Instead, it is the other way round: The actors with veto powers are already in the driver’s seat.

Anti-democratic  
veto actors

Singapore’s leaders manage pro-democracy political conflicts by discrediting them. With regard to the goal of a market economy, the PPP and opposition parties and candidates all praise the success of Singapore’s economic system, and their differences in opinion mostly have to do with issues related to income and wealth. When the political leadership acknowledges any past injustices, it depicts them as unfortunate but necessary for Singapore’s creation and development.

Cleavage /  
conflict  
management

The political leadership promotes the active development of social capital among citizens and social groups primarily among charitable organizations – as long as they operate within the system and do not try to influence the political process. A system of feedback units has been installed with the ostensible purpose of permitting government leaders to gauge feelings “on the ground” and to explain governmental policies. To some extent, they also function as safety valves in that they provide local groups an opportunity to air their complaints.

Civil society  
participation

When the political leadership acknowledges any past injustices, it depicts them as unfortunate but necessary for Singapore’s creation and development. The memoirs of Lee Kuan Yew, Singapore’s founding father, are replete with examples of actions that might in retrospect appear to have been wrong, but there are no indications of remorse. As long as Lee continues to play an important role in government, there is no one in sight who would dare stand up to him.

Reconciliation

## 17 | International Cooperation

Singapore 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 (e.g., the Philippines, Indonesia or, more recently, Australia and New Zealand) on how to solve their perceived problems. Singapore was quick to assist Indonesia, Malaysia and Thailand in the relief activities after the 2004 tsunami in the Indian Ocean; it not only provided funds, equipment and teams with specialized training to assist in immediate relief operations, but it also offered logistical support to other countries by placing its military airport and other facilities at their disposal.

Effective use of support

Singapore commands respect in the international arena for its record as a credible and reliable partner in its relations with the international community. Singapore's weight in international deliberations conducted under the auspices of the United Nations far exceeds its small size in terms of area and population. However, for obvious reasons, Singapore has not signed, let alone ratified, many important human rights covenants, such as the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights.

Credibility

Singapore has signed numerous bilateral and multilateral cooperation treaties and agreements with individual countries and groups of countries, many of which are related to trade. Singapore is a founding member of the Association of Southeast Asian Nations (ASEAN) and of the Asia-Pacific Economic Cooperation (APEC) forum. In January 2008, Singapore became the first ASEAN member state to formally complete its ratification of the political and economic group's new landmark charter aimed at transforming the bloc. By signing the charter, among other things, ASEAN members are making a commitment "to strengthen democracy, enhance good governance and the rule of law, and to promote and protect human rights and fundamental freedoms." Under the charter, a human rights body is to be established in the region, which includes Myanmar. Any new ASEAN institution must have the support of all 10 of its member states. Many fear that ASEAN could end up establishing a toothless mechanism in deference to the bloc's cherished policy of non-interference in its members' domestic affairs.

Regional cooperation

## Strategic Outlook

Once it is recognized that Singapore is not run as any ordinary country in the international community but, rather, like a large corporation operating in a competitive and sometimes inhospitable environment, it becomes clear why economic steering capacity is more important for the leadership than a democratic system entailing a free-for-all of opinions in national decision-making. Both the fragility of a small city-state with an uncertain future and the obvious success of Singapore in the context of economic globalization have helped to convince many Singaporeans of the need to subordinate their individual preferences to what those at the top deem necessary for Singapore's survival.

There may be many persons in exposed positions of authority in Singapore who, while managing the system components for which they are responsible as well as they can, entertain at least occasional doubts about how much the government controls the media and suspect that making martyrs out of political opponents may be counterproductive. Nevertheless, as long as the octogenarian founding father of the nation, Lee Kuan Yew, continues to play a dominant role in the PAP, the island nation's main party, such heresies will not be voiced openly. This naturally raises the question of Singapore's post-Lee future. It is quite likely that the current prime minister, Lee Hsien Loong, will try to create a more open society in Singapore. Indeed, he voiced this intention in 2004 when he succeeded Goh Chok Tong as prime minister.

In the meantime, the Internet has become a surrogate for open debate in the printed and broadcast media. It is hard for governments to control, and attempts to do so merely drive bloggers to conduct their activities anonymously. Recognition of this fact has spread from Lee Hsien Loong himself to other party members. Immediately after the most recent election, in May 2006, the PAP formed two subcommittees under a "new media" committee, which is made up of politicians and some party activists with IT experience. These subcommittees are now leading to the development of the government's own online forums in which they engage critics and other bloggers in what will hopefully be fruitful discussion. Indeed, these could become important venues for expressing views and criticisms as a precursor to a more open society.

However, much depends on how Singapore and its neighbors succeed in weathering the current economic storm. An alternative to a high dependence on exports does not exist, but the leadership will try to influence the mix of exports in order to compensate for the loss of markets in traditional goods. Singapore has established several academic institutions and research laboratories. Once the crisis has been overcome, knowledge-based products from them are likely to form an important cornerstone in the country's strategies for survival and further economic development.