

BTI 2008 | Singapore Country Report

Status Index	1-10	7.47	# 23 of 125	
Democracy	1-10	5.37	# 71 of 125	➔
Market Economy	1-10	9.57	# 1 of 125	➔
Management Index	1-10	5.98	# 32 of 125	

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. 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 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	4.3	HDI	0.92	GDP p.c.	\$	26,390
Pop. growth ¹	% p.a.	2.4	HDI rank of 177	25	Gini Index		42.5
Life expectancy	years	80	UN Education Index	0.91	Poverty ³	%	-
Urban population	%	100.0	Gender equality ²	0.71	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The city-state of Singapore and its thriving free market show tremendous economic success, but its political system is authoritarian and lacks genuinely democratic institutions. The Singapore government makes no secret of the fact that it considers Western-style democracy unsuitable for itself as a small city-state fighting for survival in an inhospitable and competitive environment. Comparing itself to a private enterprise, the government argues that decision-making power rests with the management, discipline is required of employees and disobedience is punished by individual income curtailment and temporary or permanent removal from the enterprise. This context is key to understanding the following repressive measures:

In January 2005, Singapore's High Court ruled that SDP leader Chee Soon Juan, must pay Lee Kuan Yew and former Prime Minister Goh Chok Tong a total of SGD 500,000 (\$303,600) in damages. Chee was found guilty in August 2002 of defaming Lee and Goh by questioning their use of public funds during the 2001 election. He lost an appeal in 2003, but judges had not yet awarded damages. The verdict bankrupted him, effectively knocking him out of the next elections (Singapore law bars persons declared bankrupt from holding political office.).

In April 2005, the police turned down a permit application by former Secretary-General Jeyaretnam of the opposition Workers' Party. The permit would have allowed a march from city hall near parliament to the (only) free-speech corner on the outskirts of the business district. In denying the permit, the police cited risks that the protest would "give rise to law and order problems."

In August 2005, drawing attention to known or suspected irregularities in four government offices, four protesters staged a peaceful protest wearing t-shirts emblazoned with the phrase "CPF, NKF, HDB, GIC: Be transparent now" (CPF =

Central Provident Fund, NKF = National Kidney Foundation, HDM = Housing Development Board, GIC = Global Investment Company, which manages Singapore's foreign reserves). Although the law only requires a license for assemblies of more than four persons, the police sent in an anti-riot squad to disperse the four protesters. When the protesters appealed to the courts, the judge dismissed the case, describing the protest as "incendiary," and stating that it amounted "to a grave attack on the financial integrity of key public institutions" and that such protests undermine "the singularly stable and upright stature Singapore has managed to uphold."

In February 2006, opposition leader Chee Soon Juan was bankrupted after failing to pay former prime ministers Lee Kuan Yew and Goh Chok Tong SGD 500,000 in libel damages. During the proceedings, Chee alleged that Singapore's judges lack independence, especially in cases involving opposition politicians. He distributed the statement read in court to the media. He was promptly convicted for contempt of court and, since he was unable to pay the fine, jailed.

In April 2006, just before the general election, the government released a statement declaring that political debate on the Internet could fuel "dangerous discourse" in Singapore and warned that people posting political commentaries on Web sites could face prosecution.

While on a nine-day visit to Australia and New Zealand in June 2006, Singapore's prime minister criticized their liberal democracies, claiming Singapore's system was more efficient.

In July 2006, the Today newspaper's publisher suspended the weekly "Mr. Brown" column without reason. The Minister for Information, Communication and the Arts, Dr. Lee Boon Yang, stated that the government has a duty to respond to unfair and unjustified comments on key government policies, and that ignoring such comments undermines Singapore's national strategy.

In August 2006, Prime Minister Lee Hsien Loong and his father Lee Kuan Yew filed defamation suits against the Far Eastern Economic Review, for a July 2006 article based on an interview with opposition politician Chee Soon Juan. When the magazine failed to comply with regulations on foreign publications sold in the city-state - that is, to appoint someone authorized to accept legal notices on the magazine's behalf - the magazine was banned and its import and possession made a criminal offense. In May 2006, Lee Hsien Loong, the elder son of Singapore's founding father Lee Kuan Yew, who took over as prime minister from his predecessor, Goh Chok Tong in August 2004, called a general election. Under the leadership of Prime Minister Lee Hsien Loong, the People's Action Party (PAP) won 82 out of 84 seats as well as a 12th consecutive term in office. Singapore's other major parties, the Workers' Party of Singapore (WP) and the Singapore Democratic Alliance (SDA) won one seat each; the Singapore Democratic Party (SDP) won no seats. Thirty-seven of the 84 available seats

were uncontested; the PAP won them in walkovers. Nevertheless, for the first time since 1988, the PAP did not return to power on nomination day. The proportion of votes won by the PAP in contested constituencies fell from 75.3% in the 2001 election to 66.6%. In September 2005, President S. R. Nathan began a second successive six-year term after the other contenders for the post were disqualified for not meeting Singapore's strict selection criteria.

History and Characteristics of Transformation

Singapore initially became independent of 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. The Republic of Singapore has since undergone a remarkable transformation from a British colony with daunting political, economic and social problems to a well-run city-state 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 (i.e., 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 import of daily basic goods, and the necessary foreign exchange could be obtained only 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 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 toward policies 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 split off from the PAP earlier, boycotted the first general elections of 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 second freest economy worldwide after Hong Kong. In a survey of potential global economic competitiveness done by the Japan Center for Economic Research, Singapore takes second place only to the United States. With globally renowned air- and seaports, Singapore’s infrastructure was rated number one in the world. Further boosts have come 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 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 impressively, Singapore has managed to integrate a diverse population of Chinese, Malay and Indian, into a more or less harmonious whole while forging a collective sense of nationhood.

This has come at a price, however. Singapore is run more like a company – often referred to as “Singapore Incorporated” – than a democratic polity, although democratic institutions exist and are maintained – under close supervision and control of the top management. Criticism of state policies is interpreted as criticism of the system. Drastic measures – such as 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.

Transformation Status

I. Democracy

Political opposition continues to be restricted to what the government refers to as a “lunatic fringe” that often plays only to a foreign gallery. When it comes to press freedom, Singapore’s ranking in the Reporters Without Borders Index dropped from 140th out of 167 countries in 2005 to 146th out of 168 in 2006. When confronted with these figures, Goh Chok Tong, a previous prime minister and now senior minister in the cabinet countered that it was a “subjective measure computed through the prism of Western liberals” and went on to defend Singapore’s control of the news media by arguing that “an unthinking press is not good for all countries.” 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, editor and publisher of an offending article are required to pay damages to the political leadership allegedly defamed. The level of damages is determined by the courts and generally supersedes levels observed anywhere else in the world.

1 | Stateness

Territorial borders, citizenship and the state’s monopoly on the use of force are undisputed throughout the territory of Singapore. Territorial disputes are settled with neighboring Malaysia or Indonesia through negotiation and, if necessary, through recourse to international arbitration.

Monopoly on the use of force

All citizens have the same civic rights, and the wording of the constitution is not disputed. Although the legitimacy of the nation-state of Singapore is not questioned, complaints of discrimination against Malays and Indians in the public services and in society are widespread.

State identity

The government takes pains to prevent any disruption of religious or ethnic peace and harmony by strictly implementing rules and regulations drawn up for this purpose. The state is largely defined as a secular order. While the government propagates so-called “Asian/Confucian values,” religious dogmas have no noteworthy influence on law or politics.

No interference of religious dogmas

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. Suffrage is universal, equal and compulsory for all resident Singaporeans of at least 21 years of age. Names of persons who do not exercise their vote are expunged from the register of electors but can be re-instated on giving credible and acceptable reasons for not voting and after paying a fee. Voting rights of overseas Singaporeans are limited to persons having a Singapore residential address registered with the Commissioner of National Registration.

Free and fair
elections

The latest general parliamentary elections were held on 6 May 2006. As in previous elections, the campaign period was kept extremely short. Election ward boundary changes were announced on March 3, the election date was announced on April 20, and nomination day was a week later. Only nine of the 84 seats were contested by individual candidates. All other seats were contested in so-called Group Representation Constituencies (GRCs), in which the contesting teams of five to six candidates had to contain a prescribed ethnic mix. Whereas in the past, the opposition parties contested only a minority of seats resulting in the PAP having already won an absolute majority on nomination day, the opposition fielded 47 candidates this time. Again, the PAP won 82 of 84 seats, but the percentage of votes won by the ruling party dropped from 75.3% in 2001 to 66.6%, indicating that more Singaporeans want new voices in government.

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 to amend the constitution, supply or money bills, a vote of no confidence in the government or a vote removing the president from office. Three months prior to the election, Prime Minister Lee Hsien Loong announced a SGD 2.6 billion (\$1.6 billion) budget spending package including a SGD 200 handout for every adult Singaporean, discounts on housing and utilities charges, and up to SGD 400 for all army conscripts. Rebutting opposition charges that the budget was a vote-winning ploy to boost the ruling party's new leadership ahead of a potential early election in the coming months, Lee maintained the budget was meant to prepare Singapore citizens for the long-term challenges of globalization. Outwardly, the government says it "encourages contests in elections so issues can be debated and voters can make a conscious choice as to who should be their member of parliament." But the ruling PAP

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 in any other country. The judiciary justifies the extravagant amounts of damages awarded to the government politicians with the need to protect their reputations. In the process, opponents have been bankrupted, making them ineligible to contest elections (e.g., J. B. Jeyaretnam and, most recently, Chee Soon Juan of the Singapore Democratic Party) – or they have gone into voluntary exile to escape this fate (e.g., the former Attorney General Francis T. Seow and Tang Liang Hong of the Workers Party).

The reasons for the opposition's repeatedly poor showing in parliamentary elections are manifold and can be summed up as follows: Opposition candidates that have fallen foul of the government and have been bankrupted by defamation suits are disqualified from election, and their fate instills fear in other potential candidates. With an absolute majority in the legislature, the PAP is able to change the rules at will. 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. After calling a snap election, the short campaign duration gives the ruling party an organizational advantage. The fragmentation of the opposition in numerous parties combined with the inherited first-past-the-post system prevents proportional representation. Government control of the media favors the PAP candidates, despite superficial attempts to appear non-partisan. The party in power has the resources at its disposal to provide the electorate with handouts immediately before and after the election. 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.

By virtue of the dominance of the PAP, elected officials have complete effective power to govern 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 no longer need a permit for private, indoor gatherings as long as the topic of discussion is not race or religion.

Association / assembly rights

Opposition parties are constrained by the ban on political films and televised programs; expressions of political opinion are curtailed by the threat of libel or slander suits; there are strict regulations and limitations on associations, including political associations; and the PAP's control of printed and other media remains strong. The free expression of opinions in a speakers' corner is curtailed by the exclusion of topics deemed sensitive by the authorities. The net result is that there is no freedom of expression and no effective opposition.

Freedom of
expression

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. Since the PAP has a virtual monopoly on power and permeates all state institutions, the legal separation of powers is not always effective in practice. The People's Action Party, by virtue of its dominant role in parliament, is in a position to change the constitution whenever it appears expedient to do so.

Separation of
powers

Any person, publication or broadcast publicly casting doubt on the independence of Singapore's judiciary is likely to be charged with contempt of court. But 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 would be surprising to find judicial appointments based entirely on the criteria jurisprudential qualification and experience. Thus, it is not surprising to find that the current chief justice is a university friend of Lee Kuan Yew. It is not clear, however, whether the government pressures judges or simply appoints judges who share its conservative philosophy. Many judges have ties to the PAP and its leaders. According to former Solicitor General Frances T. Seow, 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?"

Independent
judiciary

Office bearers in the administration, police, etc. are seen to be honest. The government is generally known for its transparency and its relative lack of corruption. Singapore was ranked 5th out of 159 countries surveyed in Transparency International's 2005 Corruption Perceptions Index. However, eyebrows have been raised over the way in which the National Kidney Foundation charity was able to use the threat of defamation suits to ward off criticism and an investigation of its operations for years. The opposition has compared this to the PAP's methods in silencing the opposition.

Prosecution of
office abuse

Singaporeans of most faiths can worship freely, but Jehovah's Witnesses and the Unification Church are banned. Marginal groups are restricted in their operation.

Civil rights

Currently, Jehovah's Witnesses are kept on a short leash; several of them have been imprisoned for their conscientious objection to military service. 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 Embassy. The woman was deported. The men were charged with "harassment by displaying insulting writings." Faculty members of public universities and political research institutions are not entirely free from government influence. The PAP prohibits public discussion of sensitive racial and religious issues and closely regulates political speech. Foreign speakers and scholars are subject to particular scrutiny; for example, one visitor was allowed to attend a public forum on the death penalty but prevented from speaking. The government restricts freedom of association through the strict 1966 Societies Act, 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, with relatively narrow restrictions on their formation. Almost all unions are affiliated with the National Trade Unions Congress, which openly 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). In the past, the ISA was used primarily 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 constitutional amendment prohibits judicial review of the substantive grounds for detention under the ISA and of the constitutionality of the law itself.

4 | Stability of Democratic Institutions

Political and institutional stability were recognized early on 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 Singapore system. The ensemble of political institutions is effective and efficient.

Performance of
democratic
institutions

Though Singaporeans grumble about the high level of administrative fees and isolated instances of bureaucratic bungling, the authorities have learned to respond to criticisms quickly and politely in the letters column of the national newspaper. Any remaining dissatisfaction may result in departure from Singapore rather than risking a confrontation with a seemingly invincible authority. The Singapore government makes no secret of the fact that it considers liberal democracy unsuitable for Singapore.

Commitment to
democratic
institutions

5 | Political and Social Integration

Although the country's multiethnic and multicultural population contains the potential for powerful cleavages and outbreaks of violence, political and social integration is advanced. This is not surprising in a small city-state with a strong and efficient one-party government. In order to gauge the sentiments of the population and to react before things get out of hand, the government maintains several feedback mechanisms in the form of meetings, letters columns, suggestion boxes etc. The result of these and other measures of political and 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 a future without the present system, and the PAP and the Lee Kuan Yew family members running things. Although there are several opposition parties in Singapore, all of them have 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, the first 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 consistently tested Singapore'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 has 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 more constructively than his former party colleague, Chee Soon Juan. He is therefore tolerated by the government and held up to foreign observers as an example of the political regime's democratic nature. In sum, there is a party system in Singapore, but the thrust of political bargaining takes place within the dominant party, rather than between the PAP and the opposition parties. Thus it is not surprising to find the PAP striving increasingly to create an opposition within its own ranks by choosing candidates "who, in fact want to be on the other side."

Party system

Because of the PAP's domination of political institutions, the topography of interest groups operating outside the PAP system is bleak. The leadership restricts discussion of political topics to persons or groups that enter the political arena as politicians or political parties. Even the Law Society, which had been able to comment on the practicability of legislative proposals as a matter of course, was cut to size by Lee Kuan Yew when it commented on a proposal for press restrictions. It is now restricted to the discussion of matters of professional interest. The then-president of the Law Society (Francis T. Seow) is currently in political exile.

Interest groups

Since Singapore 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 call the system into question. Open dissent is often regarded as the province of a few misguided fools who should know better than to challenge the PAP and should rather seek their fortune within the confines of the apparently immutable power system. This should not be confused with either a high level of consent to the system in place or a generally low regard for liberal democracy. Complaints are, however, directed against rising fees and deductions from pay packets that have earned the city-state the epithet of a “fine city” and the PAP the nickname “Pay and Pay.”

Consent to
democratic
norms

There is a web of autonomous self-organized groups 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. However, most non-state organizations operate within implicitly or explicitly declared limitations; in general, social organizations operate under close scrutiny by the government and they are often formally or informally linked to the PAP.

Associational
activities

II. Market Economy

Singapore, a highly developed and successful free-market economy, enjoys a remarkably open and corruption-free environment, stable prices and a per capita GDP equal to that of the four largest western European countries. Among the group of transformation countries in Asia and Oceania, Singapore ranks first in terms of the Human Development Index (HDI).

6 | Level of Socioeconomic Development

In spite of low – and decreasing – unemployment levels, affordable public housing and high economic growth rates, the gap between rich and poor appears to be growing. According to the vice president of the Economic Society of Singapore, there is a new phenomenon of median real-wage stagnation and low-income decline. Inequalities in 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. The increasing spread of income levels is causing concern and led to the government’s decision to make bonus payments to the poor prior to the 2006 general elections. Nevertheless, “welfarism” continues to be incompatible with Singapore’s economic policy.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	88,469	92,727	107,498	116,764
Growth of GDP	%	4.0	2.9	8.7	6.4
Inflation (CPI)	%	-0.4	0.5	1.7	0.5
Unemployment	%	5.2	5.4	-	-
Foreign direct investment	% of GDP	8.1	11.2	13.8	17.2
Export growth	%	2.7	24.4	20.5	14.0
Import growth	%	0.3	13.9	23.6	13.6
Current account balance	\$ mn.	11918.2	22316.5	26317.5	33212.0
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
External debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	4.8	3.1	4.1	-
Tax Revenue	% of GDP	13.3	13.1	12.4	-
Government consumption	% of GDP	12.3	11.8	10.7	10.6
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.4	1.6	1.3	-
R&D expenditure	% of GDP	2.2	2.2	2.3	-
Military expenditure	% of GDP	5.1	5.1	4.7	4.7

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security | The Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries, Singapore

7 | Organization of the Market and Competition

Both macroeconomic and microeconomic fundamentals of market competition are well-developed in Singapore, and the open trade and investment environment ensures that domestic companies cannot operate inefficiently behind protective tariff barriers. However, government-linked companies managed by a holding company (Temasek) play an important role in key sectors. These companies, some of which are the largest in Singapore, account for around 25% of the market capitalization of Singapore's stock exchange, appear to be largely independent,

Market-based
competition

and compete directly with private-sector companies. Temasek does, however, play a role in appointing management, such as chief executive officers and the chairmen. Concerns have also been raised about possible advantages enjoyed by these companies in raising finance or competing with smaller local firms. 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 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 rising unit labor costs relative to other countries in the region, Singapore's trading advantage appears to be moving towards higher value-added manufacturing and services sectors; the government has responded to this by establishing long-term development programs, including tax incentives, to encourage investment in higher value-added activities.

Before the review period, 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 lessen competition. However, some key industrial sectors, such as telecommunications, media, postal services, transport, power generation, and water and waste management, have been exempted. . These sectors involve businesses, some of which are monopolies, which are 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 fora benefits, rather than impedes, multilateral negotiations and liberalization undertaken within the multilateral framework. As a founding member of the Association of South East Asian nations (ASEAN) and the Asia Pacific Economic Cooperation (APEC) forum, Singapore participates actively in reducing trade and non-trade barriers between the member countries of these fora. In the APEC forum, Singapore plans to meet the deadline agreed for developed country members 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, covering 15 and 9 sectors respectively. In addition to regional agreements, Singapore's size and resource constraints have led to the formation of regional alliances such as the Indonesia-Malaysia-Singapore Growth Triangle, formed in 1994, which allows all three countries to benefit from each other's complementary resources. Currently, a free-trade agreement is also being negotiated with New Zealand and feasibility studies for free-trade agreements with Mexico and Japan are under way. In

Liberalization of
foreign trade

addition, Singapore is examining the possibility of setting up a tri-party agreement with New Zealand and Chile.

Singapore has established a thriving financial center of international repute, built on the highest regulatory and prudential standards. 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. The ability to balance strong prudential standards while encouraging innovation among financial players helps position Singapore as an international financial center. 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, operate in the city-state.

Banking system

8 | Currency and Price Stability

Since 1981, monetary policy in Singapore has been centered 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 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 is announced semi-annually to the market. The band is periodically reviewed to ensure that it remains consistent with the economy's underlying fundamentals. The choice of the exchange rate as the intermediate target of monetary policy implies that 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 interest rates and investor expectations of future movements of the Singapore dollar. In 2006, the consumer price index rose by 1% over 2005. Housing costs increased by 2.7% due to high electricity tariffs and housing maintenance charges. Higher tuition fees at commercial institutions, universities and polytechnic schools raised the education and stationery index by 1.9%. Food prices moved up by 1.6% due mainly to price increases in cooked food, fresh fish, pork and sugar. Reflecting higher daily ward and treatment fees, Chinese physician and dental treatment charges, health care costs went up by 0.9%. The price of clothing and footwear rose by 0.7% due to more expensive ready-made garments. Transport and communication costs fell by 1.5% as lower car prices more than offset more expensive petrol and higher taxi, train and bus fares. Property prices have soared, with luxury properties fetching as much as \$6 million a unit.

Anti-inflation /
forex policy

The government continues to follow a consistent stability policy. The open nature of the Singapore economy, both in terms of trade and its traditionally welcoming attitude towards foreign investors, contributes greatly to its macroeconomic stability. Singapore's budgets are and have been balanced, so there has been no accumulation of fiscal deficits over time. The central provident fund pension scheme operates on the basis of capital accumulation and is not a pay-as-you-go system as found in many other countries.

Macrostability

9 | Private Property

Singapore's laws ensure well-defined private property rights and regulate the acquisition of property, both by Singaporeans and foreigners. Compensation is provided when urban renewal necessitates the compulsory acquisition of real estate. The market economy is overwhelmingly based on private ownership, and government involvement is likely to be further reduced in the future. 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) has started a wide and comprehensive review of Singapore's intellectual property laws as part of the larger objective of making Singapore an innovative creator of products and services and supporting the growth of new businesses and industries.

Property rights

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 with managers being judged according to results rather than considerations of seniority or status.

Private
enterprise

10 | 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. For cases of inadvertent poverty and destitution, for example where no family members are able to help, there is a "community chest" that relies mainly on private funds and helps to disburse assistance to needy persons. A family court has been established to help needy persons obtain assistance from family members if necessary.

Social safety nets

On the whole, there is great equality of opportunity in Singaporean society with equal access to public services, education and whatever assistance may be offered. The main - if not the only - deciding mechanism is generally the ability

Equal opportunity

to pay, which, of course, is not spread evenly. However, complaints about discrimination of Malays and Indians in the public service and society are widespread; in fact, there is evidence that in practice, the government on occasion and systematically discriminate members of those minorities (e.g., the armed forces).

11 | Economic Performance

The Singapore economy did exceptionally well during the review period. After a 6.4% expansion in 2005, economic growth reached 7.7% in 2006, with overall import and export volumes increasing by 13% to \$810 billion. The seasonally adjusted unemployment rate fell to 2.7% in September 2006, down 1.3 points from 4% during its worst period in 2003. Singapore, which is trying to diversify its economy in the face of competition from low-cost-production countries such as China and Vietnam, drew a record number of more than 9.5 million tourists in 2006 and created its largest number of new jobs ever. The country is making inroads into the biomedical sector and wants to boost services – promoting everything from private banking to tourism to education – to provide new sources of growth. It attracted SGD 8.8 billion in fixed asset investments in 2006 – the highest level in recent years. The economy has diversified and has become far less vulnerable and more resilient. Singapore’s trade-dependent economy has benefited from three years of strong global growth, with a robust U.S. economy fueling demand for the city-state’s manufactured goods and high oil prices sparking a surge in output in its shipyards. The government and analysts alike have forecast lower growth in 2007 as a slowing U.S. housing market weighs on consumer demand in the world’s biggest economy. But growth in Europe and in regional economies such as China may help offset any major impact from slower U.S. growth. Economic expansion has not benefited workers as much as it has benefited the companies. Corporate profitability has risen, but wage increases have been small.

Output strength

12 | Sustainability

On the whole, 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 occasionally suffers from haze generated by forest fires in Indonesia.

Environmental policy

Singapore has excellent national and international education establishments that enjoy high repute and attract foreign scholars and students from the region and beyond. The only limitation is the fact that the accumulation of knowledge has precedence over creative abilities and problem solving. There continues to be public concern and debate among government, fringe groups and the population at large on this matter.

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 the niches that permit economic survival. There is a need to counter the onslaught of Chinese competition and to prepare for anticipated competition from India in the years to come. In addition, the disproportionate ethnic composition of the population (75.4% Chinese, 12.6% Malay and 8.6% Indian) requires skilful handling to avoid confrontation and to foster the semblance of a Singaporean identity. Moreover, the Singapore leadership has to keep its neighbors with large Muslim populations in view when operating in the international arena.

Structural
constraints

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 beyond 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.

Civil society
traditions

Ethnic and religious differentiation of Singaporean society is largely congruent. The memory of the conflicts of previous years, involving violence and bloodshed, is still strong among senior citizens but it is making way for a greater degree of tolerance and a certain pride in the nation’s cultural diversity. The Singapore government is careful in pinpointing ethnic or religious conflicts and skilful in defusing the situation. On the other hand, it is sometimes seems as though the government uses the ethnic or religious conflict argument to stifle legitimate activities.

Conflict intensity

II. Management Performance

14 | Steering Capability

The founding fathers and the second generation they groomed to succeed them visualize Singapore as an extremely small and vulnerable “red dot” in the midst of an extremely competitive, if not hostile, environment. An open market economy is regarded as the only way to attract multinational companies to set up shop in Singapore and to initiate and further domestic talent. Survival in this highly competitive environment requires a disciplined and hardheaded steering capability that cannot wait for the give and take of democratic decision-making. Singapore’s leaders, therefore, make no excuses for suppressing opposition from those misguided enough to attempt criticism from the back seat. 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, high damage payments and restrictions on their circulation. There is freedom from the press rather than of the press. The political leadership under the domination of the PAP certainly sets and maintains strategic priorities.

Prioritization

Because of its monopoly on power and the weakness – if not elimination – of an effective opposition in parliament, the government can operate without any of the fetters a functioning democracy would entail. The government can change the constitution practically at will and can thus always act in a seemingly impeccable legal environment. Why, then, does Singapore’s leadership bother to hold regular elections with general active and passive suffrage? A legacy of the colonial past, these accoutrements of a constitutional democracy help create the impression for outside observers that all is more or less well, and they comfort many who live in Singapore with the assumption that change would, in principle, be possible in the event that the leadership failed to deliver the goods.

Implementation

The population has generally experienced the leadership as 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 achieve its policy priorities. In line with the structural difficulties outlined above, the political leadership is 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.

Policy learning

15 | Resource Efficiency

The Singapore government generally makes very efficient use of the financial and organizational resources at its disposal and avoids waste. 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 Holdings have not been as profitable as they might have been under a regime of private companies and individuals. Recently, Temasek's SGD 1.9 billion purchase of Thailand's Shin Corp, owned by Thai Prime Minister Thaksin Shinawatra's family, filled Bangkok's streets with protest because Thaksin (legally) paid no tax on his windfall and sold strategic assets to a foreign-government-owned agency. This not only sparked a military coup in Thailand but also led to a loss of \$850 million in the paper value of Temasek's acquisition. Temasek is also under fire in Jakarta, where politicians want it to unwind its investment in communications giant Indosat. Temasek's problem – and advantage – is that it is 100% owned by Singapore's Ministry of Finance. Its board is studded with bureaucrats and businessmen. Its SGD 80 billion portfolio includes majority stakes in most of the city-state's leading companies, including Singapore Airlines and defense contractor Singapore Technologies. Prime Minister Lee Hsien Loong is also finance minister, and Temasek's chief executive officer, Lee Ho Ching, is his wife.

Efficient use of assets

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

Policy coordination

Singapore's leaders gained power because they were seen to be incorruptible. As a regional hub for commerce and finance, Singapore must be seen as free of corruption in order to provide security for the funds and other values entrusted to it. While other countries and institutions may have adopted national integrity plans or created specialized integrity institutes, the concept of national integrity is internalized in Singapore and embedded in Singapore's laws, governance and administrative processes, as well as being reinforced through civil servants' training.

Anti-corruption policy

16 | Consensus-Building

In the case of Singapore, it is necessary to distinguish consensus among the general public through persuasion from the conviction of dissenters in court.

Consensus on goals

Whatever debates may be held behind closed doors within the PAP, the message of its leaders to the Singaporean 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 scholars, but their voice is muted by the realization that the authoritarian system has stacked the cards 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. If they do not enter the ring, they authorities can terminate their influence at will. In other words, reformers have no influence over veto holders who can terminate the reform process at any time. It is the other way round; the actors with veto powers are in control.

Anti-democratic veto actors

Political conflicts over the possible goal of democracy are contained by government; it relegates dissent to the sidelines, where it can more easily be defused. With regard to the goal of a market economy, the success of Singapore's economic system is lauded by PAP and opposition party candidates alike, with differences of opinion concentrating merely on issues of income and wealth distribution.

Cleavage / conflict management

The political leadership's active development of social capital among citizens and social groups is limited. Charitable organizations are encouraged 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 government policies. To some extent, they also function as safety valves in the sense that local groups are provided with an opportunity to voice their concerns.

Civil society participation

Where the political leadership recognizes any past injustices as such, it depicts them as perhaps unfortunate but necessary for Singapore's creation and development. Founding Father Lee's memoirs are replete with actions perhaps later seen to have been wrong, but there is no indication of any remorse. As long as Lee Kuan Yew continues to play an important role in government, there is no one in sight who would dare to 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 in 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

Effective use of support

the tsunami in the Indian Ocean, not only providing funds, equipment and specialized trained teams to assist in immediate relief operations but also in offering logistical support to other countries by placing its military airport and other facilities at their disposal.

Singapore commands respect in the international arena for its record as a credible and reliable partner. Singapore's weight in international deliberations 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 or ratified many important human rights regimes, 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 them in the area of trade. Singapore is a founding member of the Association of South East Asian Nations (ASEAN) and of the Asia-Pacific Economic Cooperation (APEC) forum.

Regional cooperation

Strategic Outlook

Recognizing that Singapore is not run as an ordinary country in the international community, but rather like a large corporation operating in a competitive and sometimes inhospitable environment is key to understanding why the government gives top priority to steering the economy over introducing a democratic system with freedom of expression. Both the fragility of a small city-state with an uncertain future and the obvious success of Singapore in the midst of economic globalization have convinced many Singaporeans to subordinate their individual preferences to what those at the top deem necessary for Singapore's survival. Attempts to explain this phenomenon with references to "Asian values" merely fuel arguments in Singapore to ignore calls for democratization. Furthermore, they justify arguments that equate questioning the leadership with questioning a captain's competence as he navigates a precarious course in stormy seas as tantamount to shipwreck. According to this logic, it is better to give the leadership unquestioned support in the hour of danger than to give way to doubts about the helmsman's skill, the ship's course or – worse still – the journey's goal.

The same argument is valid with regard to internal discipline within the PAP. There may be many persons in exposed positions of authority in Singapore who, while managing the system components for which they are responsible to the best of their ability, entertain at least occasional doubts on the extent to which the media are controlled by the government and who suspect that making martyrs out of political opponents may be counter-productive. But as long as the founding father of the nation, Lee Kuan Yew, continues to play a dominant role in the party, such heresies will not be voiced openly. Naturally, this raises the question of Singapore's post-Lee future. It is quite likely that the present prime minister, Lee Hsien Loong will remember his promise to create a more open society in Singapore. That this has subsequently failed to emerge may well have been due to his father's influence.

In the meantime, the Internet is emerging as a surrogate for open debate in the print and broadcast media. The Internet is hard for governments to control, and attempts to do so merely drives bloggers into anonymity. Recognition of this fact is beginning to spread from Lee Kuan Yew to his party members. Immediately following the last election in May 2006, the PAP formed two subcommittees, made up of politicians and some party activists with IT experience, as part of a "new media" committee. PAP members are now posting anonymous messages in Internet forums and blogs to rebut online criticism of the party. A PAP activist involved in posting the anonymous messages was

quoted by the government-controlled Straits Times as saying that he tracked popular blogs and forums to “see if there is anything we can clarify” on controversial issues such as the impending hike in the goods and services tax. Blogging could indeed provide an important outlet for expressing views and criticism in Singapore. Also open to the international community, blogging could create a nascent forum for a more open society.