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# Lee Kuan Yew's miracle Singapore faces testing times

HENRY ERGAS THE AUSTRALIAN MARCH 28, 2015 12:00AM



Members of the public queue to pay their respects to Singapore's late former prime minister Lee Kuan Yew. Source: AFP

**As Singapore, arguably the most successful city-state in contemporary history, mourns the death of Lee Kuan Yew, it starts a new chapter in its history. And with Hong Kong also in the midst of a difficult transition, the “queens of the further east”, as an early British colonialist called them, face far-reaching economic, social and political challenges.**

Those challenges come on the back of an extraordinary record of achievement. Measured at purchasing power parity exchange rates (which adjust for international differences in the cost of living), Singapore's per capita income doubled every 13 years over the period from 1961 to 2010, reaching levels that comfortably exceed Australia's. And while Hong Kong's starting point was a third lower than Singapore's, it too had overtaken Australia by the period's end.

Yet it was far from inevitable that either city-state would survive, much less prosper. No one was more acutely aware of the risks than Lee. It was concern about Singapore's viability as a stand-alone entity that led him to take the island, on its independence in 1963, into the Federation of Malaysia; Singapore's expulsion from the federation in 1965 made its international position precarious just as the island was racked by domestic unrest.

Already in 1955, a strike at the Hock Lee Bus Depot had led to widespread rioting, which Lee believed was instigated by communists. The subsequent years, he later recalled, were marred by “endless strikes”, as the communists sought to “block the economy and slow it down”. Ethnic tensions escalated too, with clashes between Chinese and Malays in 1964 causing 36 deaths and widespread property destruction.

And with the British moving to shut their naval bases, the city-state's prospects were anything but assured.

The government's reaction combined an internal security crackdown, which as of 1963 saw large numbers of journalists, unionists and student leaders detained without trial, with a substantial and ongoing investment in defence. Had that exhausted the response, Singapore could have been no different from the many newly independent countries whose founding fathers veered into authoritarianism; but what made Singapore so unusual was that the iron fist did not come in a grasping hand.

The decision to run Singapore as an exceptionally open economy was certainly crucial in that respect. By limiting government control over the city's economic life, openness exposed domestic producers to international competition and substantially reduced the opportunities for graft and corruption. However, that decision itself takes some explaining.

To say that is not to deny the importance of the city's history as an entrepot for world trade, whose wharfs and streets, described by Joseph Conrad as "riotous with life", had long teemed with merchants and seamen from every part of the globe. And no doubt, the fact Singapore had so few resources on which to draw would have made an inward-looking strategy exceptionally costly.

In Lee's view, all that meant opting for an open economy was simple common sense. "Nobody else wanted to exploit (Singapore's) labour," he later said, explaining the decision to attract multinationals to Singapore.

"So why not, if they want to exploit our labour? They are welcome to it. We were in no position to be fussy."

But many countries far less well placed than Singapore were fussy, choosing the protectionist path; and in the intellectual atmosphere of the time, they did so all the more readily as Singapore's commitment to free trade and investment seemed every bit as antiquated as the Victorian values Lee and his close associates espoused.

"The prevailing theory," Lee recalled, "was that multinationals would suck a country dry" — but he considered himself "a liberal in the classical sense of the word" who was "not fixated on a particular theory of the world or of society". As a result, the question was "to look at the problem and say, all right, what is the best way to solve it that will produce the maximum happiness and wellbeing for the maximum number of people?"

That test of the "maximum happiness ... for the maximum number" was, of course, the utilitarian formula, coined by Jeremy Bentham in the early 19th century and transformed by the Victorians into a theory of government.

And although the Cambridge-educated Lee later recast his philosophy in Confucian terms, there was in him and his colleagues an unmistakable element of 19th-century British high-mindedness. Victorians in Confucian garb, they not only adopted the Gladstonian trinity of free trade, fiscal rectitude and sound money but sought to reshape Singapore around a strict code of moral values, including self-reliance, respect for merit and regard for others.

Those values, however, were never viewed as a matter for individual choice. Nor could the democratic process be relied on to preserve them. The government mandated savings programs for healthcare and retirement incomes were a case in point. Had electoral competition been allowed, Lee argued, "You

(would be) competing against people who not only promise to maintain the investment rate, but to spend what it is in the kitty; and if an electorate is sufficiently naive to believe that these things can be done, you break the bank.”

The risks electoral competition posed to racial harmony were, Lee feared, even greater. Had Singaporeans been given a choice about the national language, they would hardly have chosen English, as he had. “They say people can think for themselves?” Lee asked; however, could anyone “honestly believe the chap who can’t pass primary six knows the consequence of his choice when he answers a question viscerally, on language, culture and religion? But we knew. We would have race riots.”

Rather than being chosen, values therefore had to be imposed. For example, the Housing Development Board, which built 85 per cent of Singapore’s housing, was required to ensure the composition of its housing blocks mirrored that of the population; as low-quality housing was demolished, ethnic enclaves disappeared. Young people might think the resulting integration was “a natural state of affairs” that could be “put on autopilot”; but, said Lee, “I know that is never so”, as preserving it demands “a set of very intricate rules”.

Reinforcing the impact of rules, the education system had to inculcate the moral values on which Singaporean society could rely. A famous speech Goh Keng Swee — who as a senior minister played a crucial role in successive Singaporean governments — gave in 1967 set the framework for education policy, noting that the great stress the British public school system had placed on “the development of character” was “an admirable example which Singapore would do well to follow”.

If schools did not instil “a widely accepted code of moral values”, teaching young people “to overcome their innate instincts of greed, personal vanity and other human weaknesses in the interest of the common good”, Goh worried Singapore’s very survival would be threatened as its “more successful citizens place their self-interest before the interest of the community”.

At the same time, said Goh, it was crucial for the education system to train and select those who were to be the “more successful citizens”, using national examinations to “distinguish the bright and clever boys and girls from the less bright and clever”. So was born the intensely competitive system of scholarships, requiring several years of government service after graduation, which acted to recognise and groom the elite running the city-state.

That the approach has been an overwhelming success is obvious. So, too, is the high level of public support it enjoys, with polls finding that Singaporeans are not only proud of their country’s achievement but also endorse its often controversial policies, such as caning for offences that go from defacing public property to assault.

Yet the pressures it faces are obvious too.

In part, those pressures come from success itself. The Singaporean state now owns and manages enormous resources, both directly and through its investment funds. Yes, the governing elite that controls those resources is highly trained, rigorously selected and immensely competent; but there are questions about its openness, with the issues being all the more delicate given the central role Lee’s family plays in running the island state.

Whether the elite adequately reflects Singapore’s ethnic mix is also controversial: a much contested study, publicised in 2006 by the Far Eastern Economic Review, argued that “Singapore’s system of promotion disguises and even facilitates tremendous biases against women, the poor and non-Chinese”.

The most prestigious scholarships, it found, went almost invariably to Chinese Singaporeans; the share received by Malays was low and declining. Changing (and not always consistent) government policies, ranging from the “Speak Mandarin” campaigns to the “Group Representation Constituency” system (which guarantees a seat for minority candidates in multi-seat constituencies), may have accentuated a greater sense of ethnic separation, undermining the multiracialism to which Lee gave such high priority.

Demographics compound the problems. At less than half of Australia's, and more than one-third below Japan's, Singapore's total fertility rate (the average number of children expected to be born to each woman over her lifetime) is the world's lowest. Combined with the reluctance of Singaporeans to take poorly paid jobs, the result has been to increase the country's reliance on migrants.

Permanent residents, who are largely of Chinese origin, account for 14 per cent of the population; but so-called “non-resident” workers are now more than a third of the labour force, with the vast majority being in low paying jobs that are excluded from any form of social welfare and give no prospect of acquiring permanent residence.

The rules regulating these workers have been harsh: for instance, female work permit holders found to be pregnant have been subject to immediate repatriation; and, despite some changes, the status of non-resident workers remains a flashpoint.

All that has undermined the ruling People's Action Party's hold on power. The PAP still won 81 of the 87 constituency elected seats in the 2011 general election, but it received barely 60 per cent of total votes cast, the lowest share the party had secured since independence. Until now, Singaporeans have accepted a system that is strongly biased in the PAP's favour; whether they will do so when the party no longer has Lee's aura remains to be seen.

How disruptive that proves is difficult to predict. There is a sense in which many Singaporeans have voted with their feet, as the rate at which young Singaporeans migrate overseas has been exceptionally high. Both Lee and Goh had warned that the quality of Singapore's education system might lead it to lose the talent it produced; but the departure rates may also reflect a sense that there should be more to life than Singapore's strictly controlled, mildly authoritarian, environment offers.

To that extent, a more vibrant civic life may be a boon, even if it comes with more disorder than older Singaporeans readily accept. As in the famous formulation of economist and political theorist Albert Hirschman, giving people “voice” may strengthen their loyalty, reducing the reliance on “exit” as a means of social control. But it may also undermine the stern discipline and fragile balance that have underpinned Singapore's success.

The parallels to Hong Kong — as it too struggles with the demand for democracy — are striking. Of course, many of the underlying problems differ: Hong Kong is a far less managed, more unequal society that has a much weaker executive than Singapore's and greater permeability to cronyism.

And, unlike Singapore, young people's confidence in its future has plummeted, with a recent poll finding it had halved in a decade, while their assessment of the prospects for the “One Country, Two Systems” policy had fallen even lower.

As it faces growing competition from other cities in China, the magnificent metropolis Lord Palmerston, on Britain's acquiring it, had dismissed as “a barren island with hardly a house on it”, must reinvent itself or decline.

But that has always been the fate of the world's great trading cities. "A merchant," warned Adam Smith, "is not necessarily the citizen of any particular country": "a very trifling disgust will make him remove his capital, and together with it all the industry which it supports, from one country to another".

Melaka, in today's Malaysia, was Asia's largest port when 16th-century Portuguese trader Fernao Pires de Andrade counted 88 languages being spoken in its public markets; yet it faded into irrelevance after its founding sultan, Parameswara, died, to be followed by rulers who lacked his sense of parsimony, respect for liberal trade and commitment to clear laws.

As for Alexandria and Beirut, multi-ethnic jewels that once shone bright in the Mediterranean, they are long gone.

But few leaders of even the greatest city-states have rivalled Lee's achievement. He exemplified Daniel Patrick Moynihan's insight that "the central conservative truth is that it is culture, not politics, that determines the success of a society; the central liberal truth is that politics can change a culture and save it from itself."

It is now up to his successors to prove worthy of his legacy.

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#### Asian Tigers v 'Poor White Trash', 1980-2013

Economy	GDP growth (ave. annual) (1980-2013)	GDP per capita PPP (\$US) in 1980	GDP per capita PPP (\$US) in 2013	Increase in GDP per capita PPP (\$US) 1980-2013	Unemployment rate (ave. 1980-2013)	GG Revenue (% GDP) 2010-2013	GG Total Spending (% GDP) 2010-2013	GG Fiscal Surplus/Deficit (% GDP) 2010-2013	GG Gross Debt (% GDP) (ave. 2001-2013)
Hong Kong	4.9	\$6,844.00	\$52,984.00	\$46,140.00	3.7	21.7	18.7	3.0	4.8
Singapore	6.8	\$8,816.00	\$78,762.00	\$69,946.00	3.0	22.3	15.2	7.2	95.9
Australia	3.2	\$10,360.00	\$45,138.00	\$34,778.00	7.0	32.8	37.0	-4.1	16.7

Source: IMF WEO database and author's calculations. Note: Gross Debt used as Net Debt figures not available for Hong Kong and Singapore. Australian fiscal figures refer to the aggregate Commonwealth, State and Local Government budgetary position.