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280 Park Avenue, New York, N.Y. 10017 U.S.A.

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SINGAPORE

William H. Overholt

Vice President

Political Assessment Group

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**DRAFT**

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## SINGAPORE

Singapore's risks are not primarily political.

Lee Kwan Yew and his People's Action Party have built up Singapore from a fractious, dangerously left-leaning, impoverished group of people on a relatively barren rock in 1959 to an integrated, stable, technocratic city-state which in 1985 is Asia's most productive third world country.

Extraordinary economic growth has eased the way to ideological consensus, constitutional consensus, acceptance of English as the national language, and harmony among Singapore's several races. None of these could have been predicted twenty years ago.

Throughout this period, Lee Kwan Yew and the PAP have been dominant. Given this situation, a critical issue is succession. For many years, Lee Kwan Yew has openly advocated training a successor generation. He is now working on about his fourth group of successors. Although no individual has become a clear successor, the Singapore leadership is broad and deep. Lee has recently shaken up the Central Executive Committee of the PAP to the extent that every member except Lee himself is a member of the "new guard." No other leader has devoted so much attention to the succession issue.

Lee runs the Singapore economy like a Swiss watch. The savings rate, led by the Central Provident Fund to which every worker contributes 25% of salary (with a matching contribution by the employer), is 42% of GNP. The government holds majority ownership in 187 firms amounting to 25% of GNP. Regulation is omnipresent. This large government role is becoming both a political and an economic issue.

In 1984, Lee proposed to amend the election law so that three opposition candidates would automatically be given seats; no more than two have won in Singapore's recent history. He also proposed an elected president (now the president is designated by the cabinet and elected by the parliament), who would be able to veto all money bills in order to counter any effort to squander Singapore's national reserves (SDLR 20 billion).

Lee created a political backlash this past year with two major political initiatives. Concerned about a shortage of highly skilled people in such a small state, he launched an effort to provide incentives for women with university degrees to marry and have children. No government policy has ever stimulated such protests.

Second, he did projections of Singapore's demography to the year 2030 and became concerned that, since individuals can withdraw their shares at age 65, the graying of the population might stimulate excessive withdrawals from the Central Provident Fund.

Lee wanted to encourage people to work longer by postponing the age of withdrawal. Moreover, he tried to force through these proposals without honoring the tradition of a moratorium on controversial proposals for the year preceding an election.

These proposals, plus a backlash against Lee's heavyhanded (although honest, benevolent, patriotic, economically successful...) approach to rule, created an electoral problem for the PAP: for the first time in recent history, two seats went to the opposition. More importantly, the PAP suffered a 13% drop in total votes to 69.2%. This upset Lee so much that he raised questions about whether the one-man one-vote system would be appropriate for Singapore's future. He has harassed the two opposition parliamentarians mercilessly.

Younger Singaporeans are more liberal in their politics than Lee's generation, and they are increasingly discontented over economic management. People feel that the government treats them like children. (It does.) Inflation, the sudden disappearance of growth, and overregulation are causing resentment. The government takes a huge bite of every paycheck, doesn't let people put shutters on their HDB flats, and tries to run their businesses for them.

Almost any other politician in the world would be delighted to accept these problems in return for his own. They do not threaten the ability of the PAP to govern or to manage the economy.

The political risks in Singapore are therefore minimal for the next few years.

Looking at a more distant horizon, the following would create potential risks in Singapore:

1. Lee's successors could be PAP bureaucrats who would continue to try to run Singapore's economy like a Swiss watch, but without Lee's flair. This would gradually slow the growth rate and make investment in Singapore far less attractive.

2. When Lee retires, the public might express its desire for more open politics and a less regulated economy by electing an opposition coalition -- in much the spirit of British voters throwing out Churchill after he had won World War II. If the new coalition passed policies which restricted people's ability to pass money to their heirs, or further restricted their ability to create new businesses, or seemed excessively divisive, a lot of capital could flee Singapore in a hurry. Sixty percent of total investment in Singapore is foreign investment, and the domestic investment is highly mobile too.

3. Upheavals in either Malaysia or Indonesia would endanger the Chinese populations of those countries, create a flood of refugees into Singapore (along with a lot of capital), and engage the passions of Singapore's Chinese on the side of their brethren.

This could have severe negative short-term consequences for Singapore.

At the moment, these risks are remote, and there should be ample warning if one of them begins to materialize.