

# A Tamer Lion

Singapore at 50



REUTERS BREAKINGVIEWS

## Singapore at 50 ought to loosen up

By Peter Thal Larsen

Fifty years is not long in the history of nations. The period of Singapore's existence as an independent state would be just a few chapters in the chronicle of most countries. Yet as the southeast Asian city-state marks its golden anniversary, citizens will have genuine cause to celebrate past achievements – and contemplate future change. It is time to loosen up a bit.

In five decades, Singapore has achieved a level of prosperity unimaginable when Malaysia expelled the tropical port in 1965. Output per head of population has grown by more than 9 percent a year to exceed \$56,000 in 2014 – similar to the United States. As larger neighbours have lurched from political turmoil to economic crisis, the nation with little land and no natural resources has been a relative haven of stability and rising wealth. GDP trebled between 2000 and 2013.

Yet the milestone is also a moment to ask whether Singapore's success is sustainable. While the Little Red Dot closed the gap with the world's wealthiest nations through hard work and good fortune, tight state control is hardly conducive to entrepreneurship and innovation.

As a beneficiary of rising trade and capital flows, Singapore would suffer from a reversal of globalisation. Its history of welcoming foreign capital and labour will be harder to sustain as growth slows. China's rise may test its economic relevance and political allegiances. And the paternalistic system devised by founding father Lee Kuan Yew faces a growing challenge from a new generation eager for more self-determination.

Singapore's problems echo those afflicting many developed countries. For one, the population is getting older. Unless Singaporeans suddenly start having larger families, the number of working-age citizens will peak by 2020. In the past, Singapore has made up the shortfall by importing workers. But dissatisfaction at overcrowding has forced the government to limit immigration. Despite a recent dip, property prices remain high, exacerbating the divide between rich and poor, young and old.

If Singapore cannot suck in more people, then its populace will have to become more productive. The government has in recent years launched multiple efforts to stimulate the creation of start-ups offering value-added jobs. Yet this is a big shift for an economy still dominated by foreign multinationals and state-controlled companies.

State ownership is a legacy of the young nation's early years, when fear of being outmuscled by foreign rivals prompted it to create Temasek, the sovereign investor whose holdings include Singapore Airlines, Singapore Telecommunications, port operator PSA International, the SMRT public transport network, and banking group DBS.

The \$266 billion investment group has recently diversified. Nevertheless, so-called government-linked companies still account for 53 percent of the MSCI Singapore stock market index, according to Morgan Stanley.



Singapore's leaders surely realize that they cannot manufacture entrepreneurs. Meanwhile, slowing growth risks undermining the country's welfare system and adds to the burden of servicing Singaporeans' personal debt, which reached 76 percent of GDP last year.

What's more, Singapore must navigate these challenges at a time of political uncertainty. Lee Kuan Yew's death earlier this year at the age of 91 adds to the sense of a generational shift. Though the People's Action Party, led by his son and current Prime Minister Lee Hsien Loong, is virtually certain to keep its grip on power in the next general election, it will struggle to do so indefinitely.

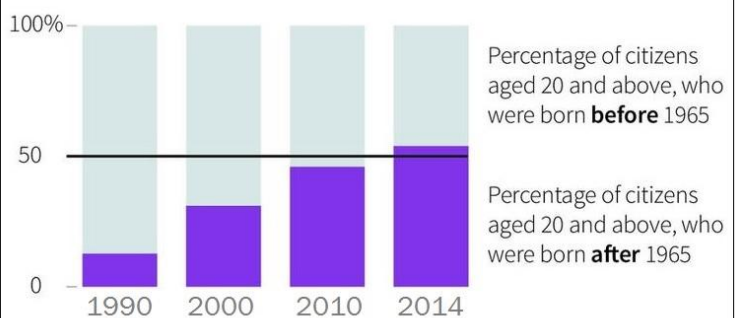
Yet these are first-world problems that most other Asian countries would love to have. Singapore remains by far the most stable, transparent, secure, and legally reliable state in the region. As China tightens its grip on perennial rival Hong Kong, Singapore remains in charge of its destiny.

It also has a habit of defying predictions of gloom. Many Western observers believed the combination of capitalism with state control would fail. But Singapore's state investment companies are now held up as role models, while other developed nations are mimicking its policies to rein in bank lending and keep a lid on property prices.

### Singapore's post-independence voting population

For the first time, citizens born after Singapore's independence will command the majority of votes in the upcoming general election to take place by January 2017.

#### POPULATION BREAKDOWN



Source: Department of Statistics, Singapore

Staff, 27/07/2015

REUTERS

The world is dotted with once-thriving city-states that declined or were absorbed into larger entities when the economic and geopolitical winds shifted. But no other country in the world thinks as obsessively about its future as Singapore. "We don't have anything but ourselves," Prime Minister Lee recently told his Australian counterpart Tony Abbott. For the past fifty years, that has served Singapore extremely well.

Published on Aug. 7, 2015

## Singapore's anti-ageing cure will take time

By Andy Mukherjee

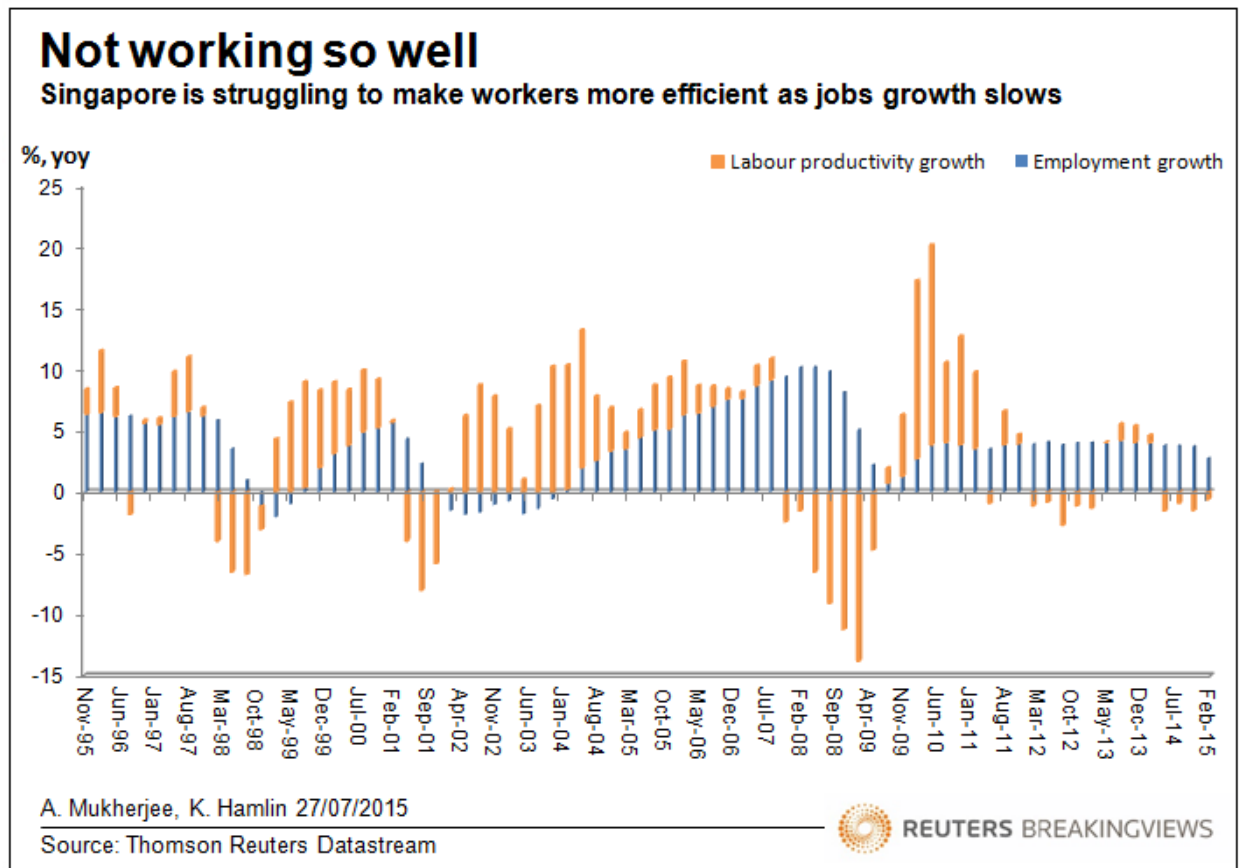
Singapore's anti-ageing solution will only work when the global economy is healthier. In the meantime, the Asian city-state will continue to show its wrinkles.

The domestic workforce is greying and shrinking. The median resident is now 39 years old, compared with 20 when Singapore became an independent nation a half century ago. Meanwhile, voter angst at overcrowding has led to drastic cuts in immigration. Fewer than 17,000 foreigners got jobs in Singapore last year, compared with an annual average of 49,000 in the eight years through 2011. A worker squeeze is hurting businesses from retailing to banking, but may not ease even after the next elections.



An elderly man sleeps at a food centre in Singapore's Chinatown June 22, 2013. Reuters/Edgar Su

There's a clear fiscal imperative. In the absence of better productivity, fewer workers may mean slower GDP growth, lower property prices and a smaller tax kitty. Providing a decent retirement for low-income earners will become a budgetary headache. And if the half-million foreign-born permanent residents are lured away to faster-growing centres, universal health insurance for Singapore's 3.9 million residents could become unsustainable.



Singapore is trying to defy its demographic destiny by making the workers it has more efficient. It has offered tax breaks to companies that make productivity-enhancing investments. It is also upgrading infrastructure with a new airport terminal, more buses, trains and hospital beds, and even a bigger zoo.

So far, there is little evidence the drive is having much effect. Productivity has fallen for four straight quarters. Employment growth is slowing, too. And yet, long-term growth pessimism may be overdone.

Trade-dependent Singapore will always need a helping hand from the world economy. When global growth picks up, the 5 to 6 percent of GDP the government plans to invest annually in sharpening the city's productive edge will show results.

Domestic policies and global demand will combine to determine whether Singaporeans continue to nibble at a growing pie, or start eating into their reserves. The capital squirreled away by state investors Temasek and GIC could sustain Singapore's current standard of living for many years. But Singaporeans pride themselves on their long-term thinking, which just might turn out to be the most important ingredient of the city's anti-ageing formula.

*Published on Aug. 10, 2015*



## Singapore's easiest days as a finance hub are over

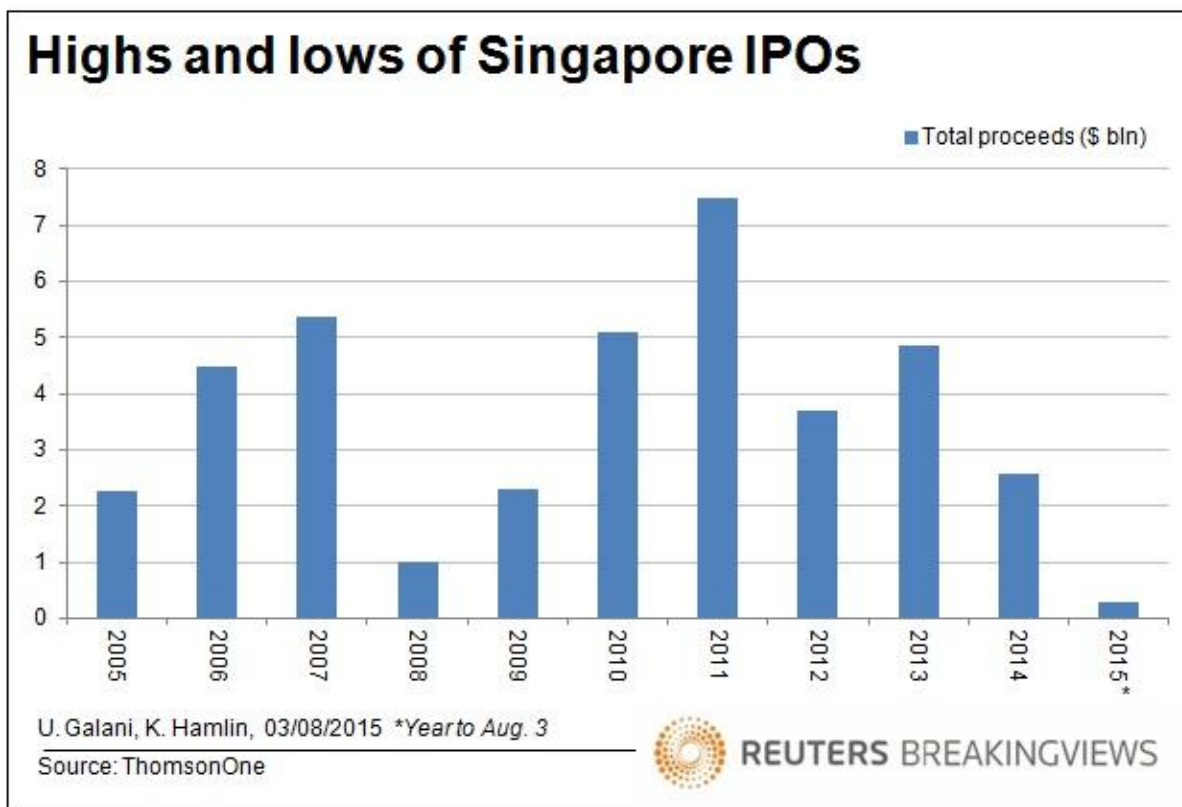
By Una Galani

The city state remains a gateway to Asia: a great place for basing multinationals, settling lawsuits, and parking money. But elsewhere Singapore is being sidelined; the worry is that is a sign of things to come.

In just 50 years, the tiny city-state has evolved from backwater to world financial centre. Wall Street's top banks all have offices on the ground. General Motors and Procter & Gamble house their regional headquarters there. Korea's National Pension Service has just set up shop.

Singapore's selling points? It's more efficient, stable and less corrupt than its larger neighbours. The World Bank says it is the easiest place in the world to do business. Aggressive tax breaks have helped too.

That backdrop has produced a long list of accolades. It is Asia's largest hub for commodities trading, the biggest for renminbi trading outside Greater China, and an important centre for foreign exchange, insurance, and infrastructure finance.



The latest coup is catching up with Hong Kong in international arbitration. Companies increasingly look to Singapore as a neutral venue to settle business disputes. While lawyers fret that Beijing's influence will eventually erode the independence of Hong Kong's judicial system, Singapore has no such worries.

Yet Singapore is finding it harder to stay ahead in areas where its neighbours and rivals prosper.

Take merger advice and securities underwriting. Fees in Singapore for these services fell 18.5 percent in the first half, more than twice the global average, according to Thomson Reuters. Fees in Hong Kong grew 2.7 percent over the same period.

Banks in Singapore have been hit both as foreign parents cut back and by lacklustre dealmaking in Southeast Asia. True, these activities represent just a sliver of the total business of investment banks, but they are amongst the most high profile.

Flotations are particularly dire. There have also been no new significant stock market listings this year. Companies from other parts of Southeast Asia now prefer to list at home.

Increasingly deep pools of domestic liquidity mean companies from bigger countries like the Philippines and Malaysia can often achieve a better valuation on national exchanges.



People walk past buildings in Singapore's central business district, April 14, 2015. REUTERS/Edgar Su

The market capitalization of Thailand's SET 50 Index is already over two thirds the value of Singapore's equivalent FTSE Straits Times at \$382 billion. Foreign investors are also increasingly happy to invest directly in these countries. The worry is that such "on-shoring" will eventually hit other pillars of Singapore's financial centre too.

A thriving wealth management industry has earned Singapore a reputation as the Switzerland of Asia but there are challenges ahead. Singapore and Hong Kong are the only two centres in the world where net assets from overseas are still rising, according to Deloitte.

But Singapore's wealth management industry is now growing more slowly than Hong Kong. The latter has received more money from mainland China and also offers a broader range of investments, from equities to art. Meanwhile, the OECD's Common Reporting Standard will make it much harder for individuals to evade taxes by holding money offshore. The rules come into force from 2017 onwards.

Singapore's neighbours also want citizens to repatriate wealth. Indonesia, for example, is offering a tax amnesty and estimates its citizens have stashed at least \$226 billion in Singapore.

Companies and financial institutions are also under increasing pressure to hire local talent.

A longer-term uncertainty stems from China's "One Belt, One Road" initiative to build infrastructure across Asia, Africa, the Middle East and Europe. Singapore could benefit, leveraging its strength in project financing and trade to tap new growth. But China may dictate where and how it wants the business around its trade routes to take place, and Singapore could lose out. The same goes for efforts to establish an integrated ASEAN economic community.

Singapore's weaknesses mostly reflect its size and lack of an economic hinterland. Its challenge now, as always, is to change fast enough. The government is trying to shore up existing strengths, like infrastructure finance, and push into new areas such as financial technology. But it faces fierce competition: everyone wants to be a tech hub nowadays.

The city won't lose its lead overnight. It will take time for neighbours to create markets that are as open and well-regulated as Singapore's. And it will remain, for a long time, the most desirable place to live in Southeast Asia for most international financiers and executives. But rarely in the last 50 years has Singapore had so many reasons to question its position as a financial centre.

*Published on Aug. 4, 2015*





## Singapore's creaking home prices have solid floor

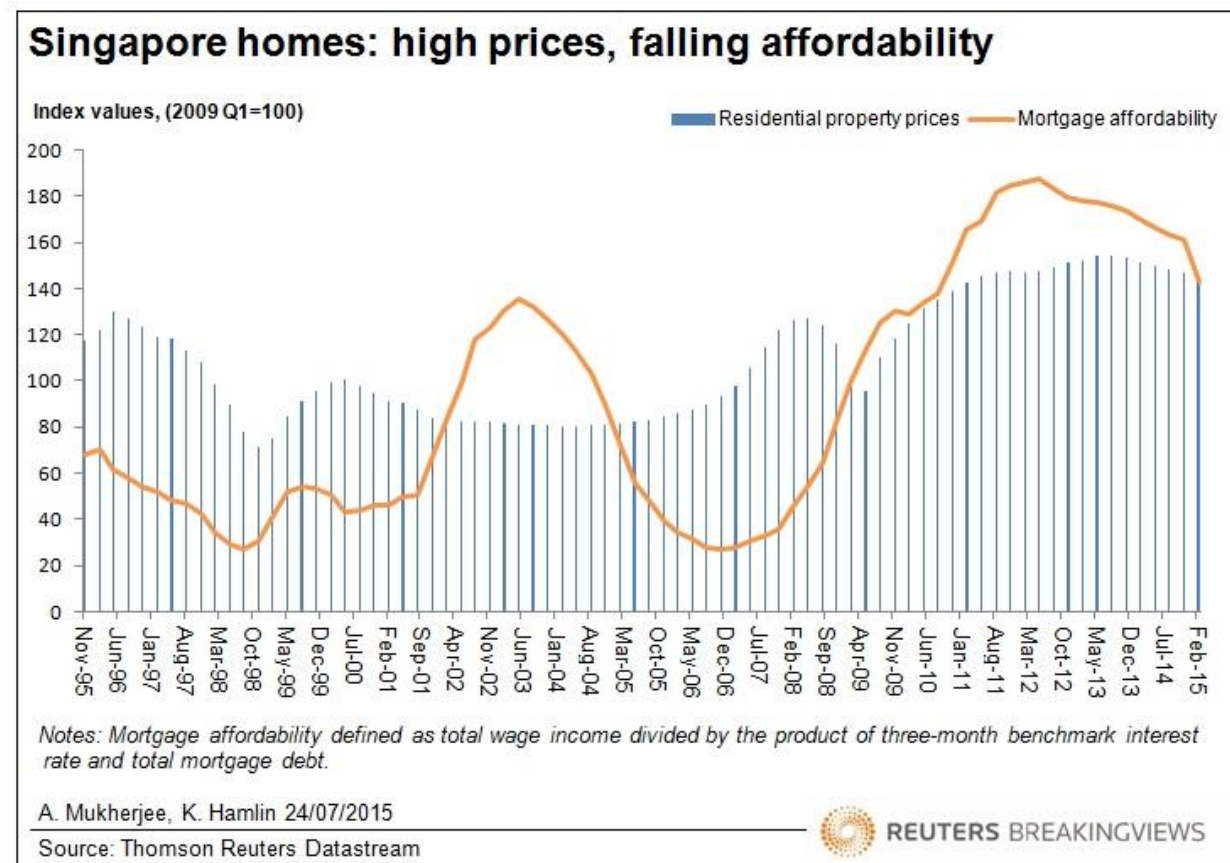
By Andy Mukherjee

Singapore may have achieved the near-impossible: a soft landing for its property market after a breathless multi-year rise. Residential property prices have eased 7 percent from their September 2013 peak, after climbing 62 percent in four years.

It could get worse before it gets better, with a slowing economy and rising interest rates. A 3 percentage-point increase in mortgage rates would divert an extra 8 to 9 percent of household incomes to debt servicing, according to the central bank.

Supply and demand are still out of line too. More than 60,000 private homes are under construction or being planned, according to the Urban Redevelopment Authority. Meanwhile the take-up rate has crashed to roughly 6,000 houses a year, a 70 percent drop since 2012.

Demand is being held back partly by government diktat, and partly by affordability concerns. The cheap money era that lured households to overpriced, shoebox-sized apartments is ending. And affordability, measured as total wage income divided by interest costs on housing debt, is worsening. The average condominium price is about \$950 per square foot, higher than in San Francisco.



All that said, government action is likely to keep a floor under prices. When property mania was at its peak, the authorities imposed harsh duties on buyers and tightened lending norms. Even partially reversing the measures would make it easier for first-time buyers and households trading up.

Immigration is also likely to stoke demand. The authorities have an ambitious plan to increase the population to almost 7 million by 2030, from 5.5 million now.

That is controversial but the government is also pouring money into infrastructure, hoping to ease voters' concerns with overcrowding. This year, the government is investing S\$20 billion (\$14.5 billion), two-thirds more than five years ago. The annual outlay should hit S\$30 billion by the end of the decade. Projects such as a huge new airport building will only increase the desirability of Singapore real estate.

Property markets the world over are more accustomed to boom and bust than gentle readjustment. But the International Monetary Fund is probably right when it calls this a successful "soft landing".

*Published on Aug. 6, 2015*

## **Singapore could use a fresh approach to water**

By Katrina Hamlin and Antony Currie

An early focus on H2O management helped Singapore to achieve economic success, and lessened its reliance on foreign sources. But water independence could become a distracting pipe dream.

After an acrimonious split from Malaysia, it made sense for Singapore's leaders to lessen their near-total dependence on flows from the northern neighbour's rivers, even if these were regulated by treaties.

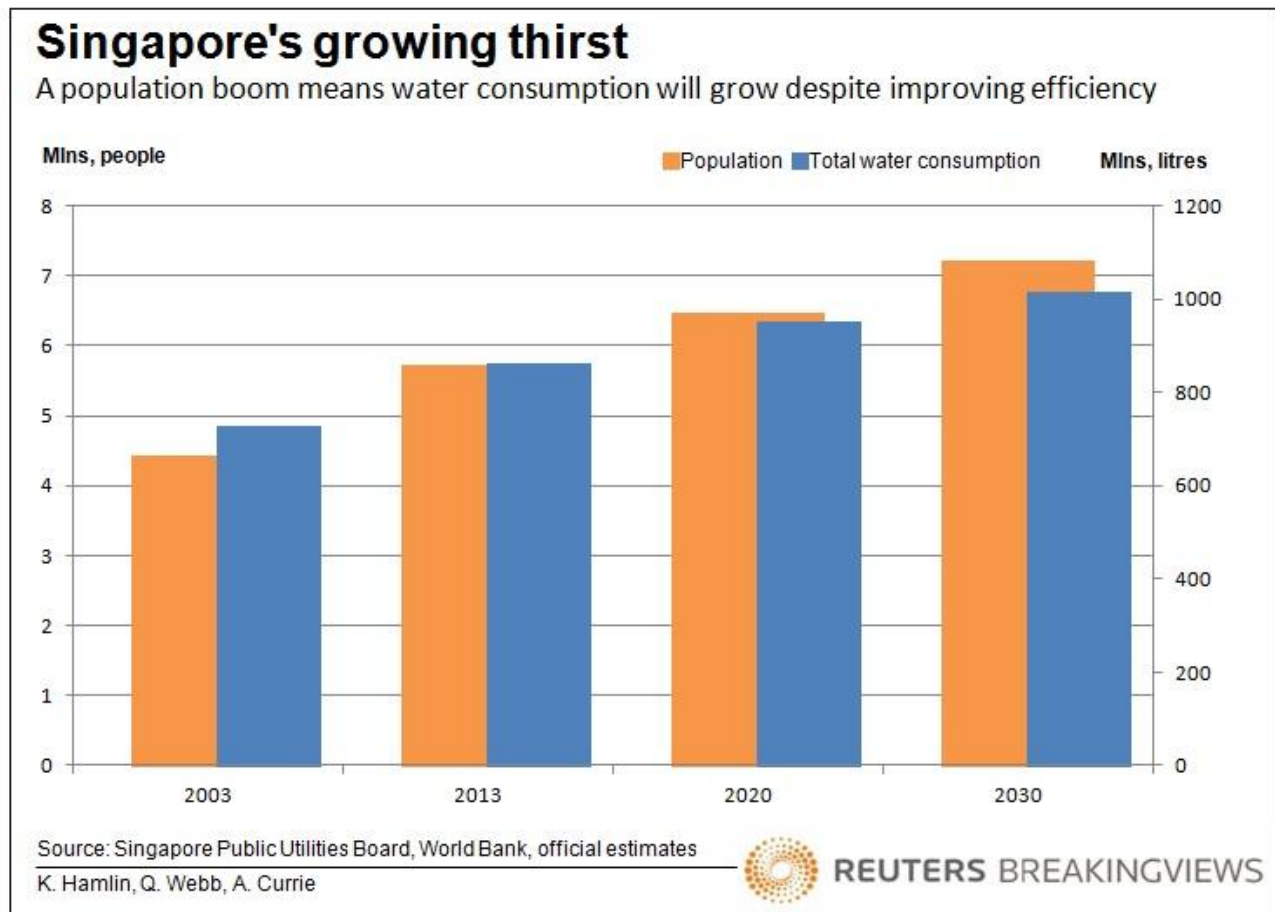
So the Lion State learned to make a little go a long way. GDP per cubic metre of freshwater hit \$1,065 in 2013, more than 35 times higher than the United States, the World Bank says. It helps that there is very little farming – leaving more for homes and thirsty factories.

And Singapore has also engineered some ingenious ways to top up reserves. The country has converted much of its limited land into a giant rainwater catchment. Treated seawater and recycled wastewater, which it calls NEWater, can now provide around half of supply if needed. Little is wasted: pipe leakage rates, below 5 percent, are among the lowest in the world.

Malaysia still provides a significant chunk of Singapore's water supplies, but the final treaty will expire in 2061 and the Singaporean government does not plan to renew it. Instead, it wants to pump up desalinated and recycled stocks to satisfy as much as four-fifths of total consumption.



That will be no mean feat. Singapore's current population of 5 million could jump by a third in the next 15 years, according to official estimates. It might even double by 2100, says the former chief planner.



Creating enough water and energy may be possible, and there are plans to boost efficiency. Technological advances could make water independence more affordable over time.

But beyond a certain point the costs, both financial and environmental, of pursuing self-sufficiency will outweigh the benefits. In a connected world autarky – be it for food, energy, or water – is an expensive strategy. The state might do better to encourage home-grown water companies like Hyflux and Keppel to profitably export more knowhow. As droughts wreak havoc from China to Brazil to the United States, their expertise is needed.

*Published on Aug. 4, 2015*

**Guest view: Shared identity would help Singapore**

By Eugene K B Tan

Even as it reaches 50, Singapore's birth pangs of vulnerability remain deeply etched in its national psyche.

Just last month, Prime Minister Lee Hsien Loong spoke of the twin threats facing Singaporean identity in the next half century. The city-state might lose its distinctiveness and "just dissolve, melt into a globalized world". Or the multi-racial society might fracture into groups with exclusive identities.



Locals protest a government white paper on population, Feb. 16, 2013. REUTERS/Edgar Su

Such existential anxieties are to be expected of a place that is both global city and nation-state. On the one hand, Singapore's existence and prosperity is premised on being relevant geopolitically and economically. On the other, Singaporeans must form a cohesive unit to manage the onslaught of globalization. These are not mutually exclusive endeavours. But they may not always be aligned.

Singapore rode the wave of globalization before it was in vogue. The quest to be a hub of value creation propelled it from Third World to First in a generation. The result is a living testimonial to the virtues of an economy that is open to trade, investment, ideas, and people.



Yet this cosmopolitan outlook can undercut Singapore's nation-building efforts. Citizens constitute only about 61 percent of the total population of almost 5.5 million. The sense of being overwhelmed is evident in the angst and anger towards the government's immigration policy. At another level, educated elites operate quite comfortably outside Singapore. This can result in it being seen more as a hotel than a home.

Income and wealth inequalities have grown as not everyone is able to take full advantage of globalization and rapid economic growth. For the ruling People's Action Party, the challenge is to sustain shared, equitable economic growth. For Singaporeans, the persistent question is whether the price paid for Singapore's exceptionalism as both global city and nation state is too high.

The answer comes in three parts. First, there must be a deeper commitment to nurturing a Singaporean identity grounded on aspirational rather than transactional values. These include multiracialism, social justice, incorruptibility and meritocracy.

Second, Singapore needs to be more confident of its people, and not adopt a neo-colonial mindset of downplaying local talent and seeking quick solutions in foreign manpower.

Third, while hard-nosed pragmatism has served Singapore well, there should now be an accent on ideals as well as the economy. The shared purpose of economic relevance must be tempered by shared values distilled from a sense of national identity that takes precedence over race, language, religion or a cosmopolitan identity.

Economic relevance enables Singapore to serve its people. Similarly, a people steeped in their collective sense of belonging provide the sustainable sinews for economic relevance.

Ultimately, a successful nation-building enterprise in a polyglot society acts as a bulwark against the excesses of globalization and is fundamental to what it means to be Singaporean.

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*Published on Aug. 10, 2015*



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A woman reads a newspaper bearing the image of Singapore's former prime minister Lee Kuan Yew, at Raffles Place in Singapore, March 23, 2015. REUTERS/Timothy Sim

*On the cover:* Cleaners spray clean the Merlion on the resort island of Sentosa ahead of the city-state's 50th anniversary celebrations in Singapore, July 8, 2015. REUTERS/Edgar Su