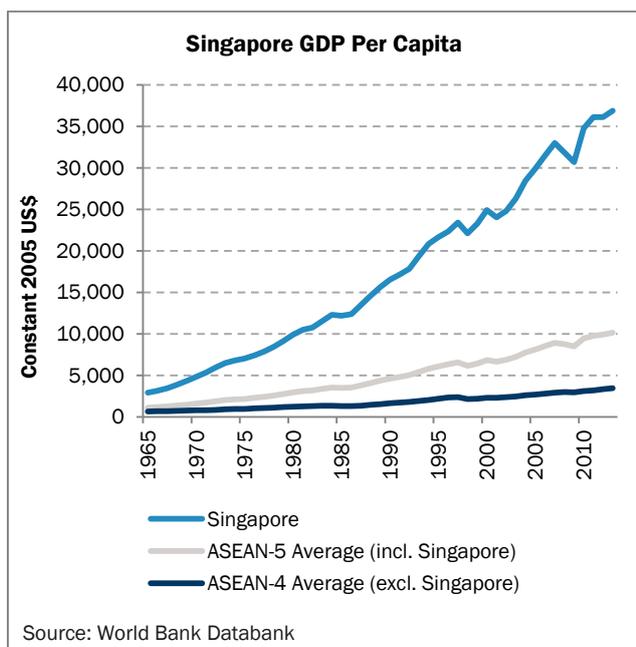


# Singapore: Progress, Protests and Population Woes

Dismissed by former Indonesian president B.J. Habibie as a “little red dot” on the map, Singapore has experienced a remarkable growth story which brought it into the ranks of developed nations. This growth has been, and continues to be, steered by the People’s Action Party (“PAP”) but changes are in the works. In recent years, an increasingly critical population has prompted an ongoing dialogue about Singapore’s future, while an economic restructuring program meant to move the economy away from labour-intensive industries has resulted in growing pains from a manpower crunch.

## The “Little Red Dot” Looms Large

Singapore is the little country that could. Few countries can claim to have achieved the level of success Singapore has over the past 50 years. Under the leadership of former Prime Minister Lee Kuan Yew, who could well be called the architect of modern Singapore, the tiny city-state was jettisoned from the third-world into the first. GDP per capita increased exponentially between 1960 and the mid-2000s, from US\$420 to US\$40,000. This growth has since moderated but continues to rise, standing at US\$55,000 presently.



Much of this growth was driven by rapid industrialisation, which relied heavily on foreign capital and was supported by a strong pro-business bent. With a very small population and

minimal resources, the Singapore government focused on ensuring that both the supporting physical infrastructure and pro-investment policies for business were in place to foster growth. Measures to create an environment conducive towards foreign investors were accompanied by social policies to increase education levels and increase home ownership levels; a move deemed necessary for social stability by the elder Lee (his son, Lee Hsien Loong, is the country’s current Prime Minister).

These efforts have paid off and are now reflected in Singapore’s rankings on global indices:

Ease of Doing Business rank: <sup>1</sup>	1st
Corruption Perceptions Index rank: <sup>2</sup>	7th
Index of Economic Freedom rank: <sup>3</sup>	2nd
Global Competitiveness Report rank: <sup>4</sup>	2nd

The country also enjoys full literacy rates, a high proportion of graduates, and, thanks to what may be the best public housing program in the world, high home ownership levels. Singapore is also a hub for international air and sea transport, and aspires to be a global hub for many other sectors, including finance, education and intellectual property.

The government’s ability to deliver economic growth and higher standards of living has allowed the PAP to retain a firm grip on power and go largely unchallenged since 1965. The resulting political stability and a compliant population have made Singapore the perfect petri dish for social and economic policies for much of its brief history.

## Building Social Pressures

This, however, is changing. The hitherto pristine policy lab that Singapore has presented policymakers with is increasingly susceptible towards public pressures as Singaporeans begin to question and challenge government policies. In 2013, the government issued a population white paper which projected a 60% increase in the non-resident population (non-citizens or Permanent Residents) by 2030. The white paper estimated that 55% of the population would be citizens, lower than the current 62%. This publication, which was meant to educate the population on the government’s preparations for a larger population, was met with widespread criticism in Parliament and, what was at the time, the largest public protest in Singapore since independence. A July 2014 protest about the use of pension fund monies has since claimed this distinction.

<sup>1</sup> World Bank Ease of Doing Business Rankings

<sup>2</sup> Transparency International Corruption Perceptions Index 2014 Rankings

<sup>3</sup> Heritage Foundation Index of Economic Freedom 2014

<sup>4</sup> World Economic Forum Global Competitiveness Report 2014-15

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The white paper was eventually endorsed by Parliament, but not before Singapore's Prime Minister, Lee Hsien Loong, made an impassioned plea which sought to reassure Singaporeans that they were "at the heart of all we do," furthermore commenting that he expects the population to be significantly lower than the higher estimate given in the white paper. The government also responded by significantly tightening foreign worker curbs that had been introduced as part of an economic restructuring program that has been underway since 2010.

Dissatisfaction with government policies has not been limited to protests but has also been manifested at elections. The ruling PAP saw its share of the popular vote decline to an all-time low (although this was still a very comfortable 60%) during the 2011 elections as voters brought their concerns about inequality, the rising cost of living and population pressures created by a liberal immigration policy to the ballot box. While the government has moved to address some of these concerns by improving public transport infrastructure, increasing the availability of public housing and reducing the influx of foreigners into the country, income inequality is a much more difficult problem to grapple with as Singapore's Gini coefficient remains the highest in the region.

Another change that has been less measurable but no less significant is a government-led initiative to form an ongoing dialogue named "Our Singapore Conversation" to better engage with Singaporeans on their hopes and concerns about the country. This has the potential to drive substantial change in the way policy is formulated in Singapore, diverging from the government's previous top-down approach. The overall impact of these measures on the mood of the electorate remains unclear and the outcome of the next elections – due in 2016 – will be indicative of how well they have gone down.

### Growing Pains

Parallel to these social pressures, not all is rosy on the economic front. Singapore's growth model had relied heavily on keeping the cost of labour low, whereas the reality is a country which has one of the highest GDP per capita and one of the lowest fertility rates in the world. The solution was simple but unsustainable – foreign workers from neighbouring or regional countries such as the Philippines, India, China and Indonesia. These populations have been abundant and willing to work for far less than their Singaporean counterparts, providing a ready source of labour. The constant influx of workers however has resulted in a public backlash as existing infrastructure is strained and locals are faced with increasing competition for scarce resources on the small island.

The Singapore government proved cognizant of the limitations of this growth model and in 2010, began a ten-year long

economic restructuring program that aims to move the economy away from a labour intensive model. This programme, which involves raising skill levels, increasing productivity, and banking on innovation, will, if it succeeds, raise median income levels by 30% in 2020. The economic restructuring programme aims for higher productivity growth of 2-3% per year until 2020, an ambitious target which has proven difficult to meet. Between 2010 and 2013 productivity growth averaged a mere 0.2%. The productivity drive is accompanied by attempts to reduce the economy's reliance on cheap foreign labour, which has taken the form of foreign worker curbs.

While the changes wrought by the restructuring program are well-intentioned and can be expected to pay off in the long run, businesses operating in Singapore face short to medium term pains from the labour crunch. Job openings created by the lack of foreign manpower have not been filled by locals for reasons mainly to do with the undesirable wages offered for these jobs.

### ASEAN Economic Community 2015: Outbound Investment and Political Sensitivities

The free flow of investment and freer flow of capital under the ASEAN Economic Community ("AEC") may be the initiative's most promising aspect for Singapore. Constrained by its small domestic market (Singapore's population barely totals 5.4 million including non-residents), large Singaporean companies have looked and invested outwards for years. The city-state is now the largest source of intra-ASEAN foreign direct investment – accounting for 45% of intra-ASEAN foreign direct investment. Underpinned by the ASEAN Comprehensive Investment Agreement which took effect in 2012, the pace of outbound investment into other ASEAN economies from Singapore is likely to increase as establishment of the AEC progresses.

As appealing as the prospect of tapping into emerging market growth stories may be, these opportunities for Singaporean companies are not without risk. High profile investments in areas of strategic importance that go south could sour bilateral relations and turn local sentiments against Singaporean investors. Acquisitions by Singaporean companies have stepped on toes before: the 2006 purchase of Shin Corporation, a company owned by the Shinawatra family, by Singapore sovereign wealth fund Temasek raised hackles in Thailand, with criticism of the deal coming from local media, the army chief and anti-Thaksin groups. As regional opportunities for investment increase, outward-looking Singaporean companies would do well to thoroughly consider the non-financial aspects of future deals and take necessary measures to mitigate socio-political concerns.

SINGAPORE

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