

Why Singapore Is a Safe Harbor in Asia's Economic Tempest

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The decisive mandate that Singaporeans handed to their long-ruling party last week reinforced the tiny country's status as a bastion of stability for foreign investment in a region grappling with growing instability.

In a resounding election win [<http://www.wsj.com/articles/singapores-ruling-party-wins-parliamentary-majority-1441999185>], the People's Action Party led by Prime Minister Lee Hsien Loong overturned expectations that the opposition would build on gains made in the previous polls in 2011.

The overwhelming parliamentary majority was widely expected, and Singapore's status as a financial center was never threatened, but the result eased a sense of uncertainty that had taken root since 2011.

The PAP scored 69.9% of the popular vote, up from the record low 60.1%, and won 83 of 89 parliamentary seats. It came within a hair's breadth of taking five more seats in one hotly contested district where a recount was held. Of the eight opposition parties, only one captured any seats.

The mandate is Mr. Lee's strongest since 2001 and will give the PAP five more years to carry out curbs on immigration and transform an economy that, for all of Singapore's status as a gleaming economic hub rivaled in Asia only by Hong Kong, has remained dependent on low-cost foreign labor to build infrastructure and staff manufacturing for exports.

"I believe these results will greatly bolster confidence in Singapore," Mr. Lee said Saturday morning.

In the five decades since the PAP took over what was a backwater trading port, Singapore's GDP has grown nearly 40-fold and its 5.5 million people have become richer, per capita, than Americans. Much of the development was overseen by Mr. Lee's father and Singapore's first post-independence prime minister, Lee Kuan Yew, who died in March [<http://www.wsj.com/articles/lee-kuan-yew-singapores-founding-father-dies-at-91-1427056223>].

The stability comes in contrast with most of Singapore's neighbors, where political leaders are losing support. Malaysia is facing its most serious crisis of confidence since the Asian financial meltdown of 1997-98.

Investigators are poring over the transfer of hundreds of millions of dollars [<http://www.wsj.com/articles/SB10130211234592774869404581083700187014570>] into Prime Minister Najib Razak's private bank accounts through entities linked to an economic-development fund known as 1Malaysia Development Bhd.

The country's antigraft agency said the money in Mr. Najib's account was a donor contribution that originated from the Middle East. The donor wasn't specified. Mr. Najib has denied wrongdoing and said he didn't take money for personal gain.

In Thailand, Prime Minister Prayuth Chan-ocha, a general who seized power last year in a coup d'état, is gradually extending a period of military-backed rule over a deeply divided country against an uncertain backdrop as the health of revered King Bhumibol Adulyadej deteriorates. Last month, a bomb exploded [<http://www.wsj.com/articles/deadly-explosion-occurs-near-bangkok-shrine-1439816849>] in central Bangkok and killed 20 people, threatening the country's mainstay tourism industry. Several people have been arrested, but no motive has been found and the prime suspect—a man seen on CCTV leaving a bag at the blast site—hasn't been identified.

In Indonesia, with its 250 million people the world's most-populous Muslim-majority nation, President Joko Widodo's first year in office has been marked by a deteriorating commodity-based economy [<http://www.wsj.com/articles/indonesias-economic-test-1438301465>] dependent on a slowing China and worsened by confusion in his cabinet [<http://www.wsj.com/articles/indonesia-president-widodo-reshuffles-his-cabinet-1439385609>], which has variously been trying to woo foreign investment but increasingly implemented restrictions on foreigners seeking to work there.

As global economic growth slows and markets remain volatile, Singapore's neighbors have suffered market outflows that have hurt their currencies and stock markets. Foreigners withdrew \$2.4 billion from Malaysian government bonds in the first six months of this year, according to data from ANZ.

"The people of Singapore have rewarded the PAP for their good stewardship of the economy. It's hard not to compare the political stability in Singapore to the recent events in Kuala Lumpur and Bangkok," said David Adelman, a partner in law firm Reed Smith LLP, which operates in Singapore, and a former U.S. ambassador to the city-state.

The enormity of China's turmoil, however, poses a problem that even the PAP's stable rule can't counter. Slowing growth in the world's second-largest economy [<http://www.wsj.com/articles/china-industrial-production-growth-lower-than-expected-1442125441>] has roiled global markets, including in Singapore. The city's small population means that many of its largest companies have had to expand their businesses in other Asian markets, particularly China, which is Singapore's third-largest export market.

Before the election there was a strong sense among eligible voters that Singapore was experiencing a generational shift and that younger people who grew up in the fat years after modernization wouldn't have the same loyalty to the PAP that their parents had. But this election, as Mr. Lee noted, could not have been so decisively won without support from the young.

This election "settles any question about whether Singapore is moving unilaterally toward a two-party system: that is a no," said Michael Barr, associate professor at Flinders University in Australia.

Mr. Barr noted that the PAP had changed its focus since 2011 to concentrate on redistributing wealth and improving social safety nets, a move that appears to have worked. The PAP's leaders also made an effort to get out into the neighborhoods to touch base with the electorate, and Mr. Lee himself has built one of the most effective social media presences in the region.

"This generation of politicians have learned how to do politics," Mr. Barr said. "They've never had to in the past."

Hilary Goh, 22, a student and first-time voter, said that she had voted for the PAP because of its strong track record and experience running the economy. She was the kind of voter the opposition had been banking on but failed to win over in sufficient numbers.

"Originally I was considering voting opposition, but after all their rallies and hearing what they had to say, I was more toward the PAP," she said. "I believe they provide more visible policies and we've seen it over the past 50 years because they have been the ruling party."

External economic uncertainty has been a boon to the PAP, which has long prioritized security and long-term policy-making and has a track record to show what can be accomplished. The party understood the country's deeply-rooted sense of being a small outpost that needs to be exceptional to survive in a volatile region.

"There is no [other] reason why people would want to locate in a high-cost, increasingly expensive Singapore at all," said Gillian Koh, senior research fellow at the Institute of Policy Studies in Singapore. The island remains a standout in Southeast Asia for its strong governance, but also relies on the region for growth. The financial services industry is a magnet for outflows from around Southeast Asia.

Some of the world's biggest companies, such as U.S. manufacturing giant Hewlett-Packard Co., investment-banking firm J.P. Morgan Chase & Co. and technology giants such as Microsoft Corp. and Google Inc., have a presence in the country. Singapore is the largest foreign-exchange trading hub in Asia and the third largest globally.

"Markets prefer consistency and stability of policy, which Singapore offers," said Rohit Chatterji, Southeast Asia head of banking for J.P. Morgan.

To be sure, the election result doesn't mean the status quo will last. Singapore's longtime embrace of immigration helped build the country. But many Singaporeans are discontented with overcrowding that they blame on the influx of both white- and blue-collar workers. Around three in 10 people in Singapore are foreign.

In the last four years, the government has squeezed the inflow of foreign workers and sought to restructure the economy to one that grows through productivity and innovation. The party is also embracing social-welfare spending as it reacts to complaints from voters about the rising cost of living, especially housing and health care. Singapore is one of the world's most expensive cities.

Whether or not the PAP succeeds in boosting productivity—its record in the past four years has been sketchy at best—the role of foreign businesses will have to change. The government is becoming fussier about which foreign businesses it welcomes, preferring those that innovate rather than simply use the city as a regional headquarters for its infrastructure.

But Mr. Lee is confident that Singapore will succeed. His government has tried to take a softer approach from the scolding tone often used by his father, whose core principles—a focus on clean and efficient government, business-friendly economic policies, and social

order—built the nation but critics say came at the expense of individual liberty, with stifling controls on freedom of speech and assembly.

"These results are also a strong signal of confidence to ourselves that we Singaporeans in the post-Lee Kuan Yew era are able to find the winning formula which can keep us progressing and succeeding," Mr. Lee said.