

Singapore Swing

The island's economy is booming. So why are so many citizens worse off than they were 10 years ago?

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Tiny Singapore, with its population of 4.3 million, is often lauded for the way it has embraced globalization to maximum advantage. In the last decade, the city-state has opened its doors wide to foreign investment and talent, slashed corporate taxes, offered incentives to nurture strategic industries (such as biotech, pharmaceuticals and financial services) and cut free-trade deals with a host of other countries. The payoff has seemed clear: over the past three years, Singapore's economy has averaged 7.6 percent growth—a staggering pace for an industrialized state—and created new jobs at a rate any European government would envy.

There's only one problem: average citizens have yet to reap the benefits.

New statistics reveal that middle-class households have tasted none of Singapore's spectacular growth, and that the island's poorest 30 percent are worse off than they were five years ago. "Although we have seen very strong growth, we're experiencing this new phenomenon of median real-wage stagnation and low-income decline," says Yeoh Lam Keong, vice president of the Economic Society of Singapore.

This predicament is hardly unique. Wages and salaries are stagnating across the industrial world. What's surprising is that even a country famous for its smart and transparent leadership has been unable to prevent the gains of globalization from flowing mostly to rich individuals and multinational corporations. In its bid to adapt Singapore's economy to international competition, the government has tried hard to reduce business costs. This has meant slashing labor prices, which has helped push wages down.

According to official figures, over the past five years Singapore's wealthiest 10 percent have seen their income rise by 2.3 percent annually (and that doesn't include nonwage earnings such as capital gains or dividends). At the same time, the poorest 10 percent have suffered a staggering 4.3 percent drop in their salaries each year. The government has also allowed employers to cut their contributions to Singapore's Central Provident Fund, which pays for pensions, public housing, medical expenses and education.

Together, these factors have led to lower-than-expected private consumption, which has risen by just 3 percent in the past two years.

"Private consumer spending has been the weak link in this current expansion," says Chua Hak Bin, an economist at Citigroup Global Markets in Singapore. This has, in turn, stung Singapore's large retail sector. "It is evident that [they] are not the big winners from high growth," says Manu Bhaskaran, a director of the U.S.-based Centennial Group.

Foreign competition is also hurting. Contractor Tan Boon Soo is one of many Singaporeans feeling the pinch. He installs windows for a living but laments "cutthroat competition" from contract laborers, who have flooded the island from places such as Indonesia and Bangladesh. Unskilled workers like street sweepers and security guards are also finding themselves undercut by immigrants willing to work for less. This is forcing native Singaporeans to change occupations or work harder for less money. "They talk about growth, but I don't see it," says Tan. "Maybe the bankers are doing well, but construction has not been. I'm worse off now than I was in 1997."

All this could spell big trouble. "If these trends continue unchecked,"

warns Yeoh, "we could begin to get the formation of an underclass [and] the makings of social instability." Such an underclass was never part of Singapore's grand plan. Now its leaders must figure out how to prevent one from emerging without relying on the kind of welfare programs they often deride. Last year the government launched an experimental workfare program that gave low-wage earners bonus pay of up to \$780. Now Prime Minister Lee Hsien Loong's government is considering making the program permanent in an effort to thin the ranks of the working poor.

"We will try out different forms, but the principle will be the same—help yourself [and] we will help you," the prime minister told lawmakers last November. "It's essential for us to tilt the balance in favor of lower-income Singaporeans because globalization is going to strain our social compact."

Lee has already announced that he'll make Singapore's rich-poor divide a major focus of his annual budget speech next month.

If knowing is half the battle, it could be an important first step.