

David Skilling

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## *Small countries must work hard to sustain their historical over-performance over the next decades*

### The global environment has been positive for small countries

Singapore has done extraordinarily well for more than four decades, in economic and many other areas. In this respect, Singapore's experience bears similarities to many other small, developed countries, even if Singapore's growth rates have been markedly higher. Small, developed countries – developed countries with populations of less than 20 million people – have out-performed larger countries on multiple dimensions over the past few decades.

Of the 33 rich, advanced economies as defined by the IMF, 22 have populations of less than 20 million people. 13 of the top 20 countries on the World Economic Forum's Global Competitiveness ranking, and 12 of the top 20 countries in the World Bank's Human Development Index, also have populations of less than 20 million. And many of these countries have populations of less than 10 million. The same over-representation of small countries is also observed in many other economic, social, and educational measures

In this context, an important issue for Singapore to consider is the extent to which its extraordinary performance is due to good management – Singapore has a deserved reputation for effective government and high quality policy – or due to the benefits of an external environment conducive to strong performance by small countries. To the extent that the environment does matter, Singapore's future performance will be partly contingent on changes in this context, and how Singapore responds.

Historically, there was an advantage to large national size. Countries with larger domestic markets and populations tended to generate stronger income growth as well as possessing superior national security. But the global economic and political environment that has existed over the past several decades has been positive for small countries. Indeed, there has been a marked expansion in the number of small countries since 1950, suggesting at least the perception of a relatively benign global economic and political environment.

Three features of the global environment seem particularly relevant. First, the intense process of globalisation, supported by a multilateral, rules-based approach to global economic and political governance, has helped small countries access larger markets on a relatively level playing field. Indeed, small countries have been the most active globalisers in terms of export shares and multinational company activity.

Second, the support provided by the relatively strong and stable global growth over the post WWII era, with assistance over the past two decades from large emerging market economies. There has been turbulence, but as a general proposition it has been a good few decades for global growth.

And third, a stable global political and security system, which gave small countries a greater sense of assurance that they would not be dominated by larger countries. In general, small countries felt more secure in their borders because of the prevailing system of security alliances.

## The global environment is now becoming more challenging

As one of the most open, globally engaged countries in the world, Singapore has been a major beneficiary of these trends. However, the world is changing. Three related challenges stand out as particularly important for small countries.

First, the reduced importance of multilateral institutions, and the increased importance of big powers in the global political system, both reduce the influence of small countries. As new Foreign Minister Shanmugan noted recently, small countries are the first to get eaten when the rule of the jungle applies. Regional institutions do exist, such as the EU and ASEAN, but these are not complete substitutes for effective multilateralism.

Second, the likelihood of a sustained increase in global economic and political turbulence creates particular exposures for small economies, because they tend to be more open and less diversified than larger economies, and also because they tend to have less capacity to absorb shocks. Indeed, the global financial crisis hit smaller countries particularly hard. Rather than small countries being seen simply as the primary beneficiaries of globalisation, there is now a recognition that small countries can be thrown around to a greater extent by economic shocks.

And third, the increasing intensity of global economic competition, coming in part from emerging markets, places particular pressure on small, open economies to rapidly upgrade themselves. The less diversified nature of many small economies means that small countries have particular exposure to their competitive strength in specific parts of their economies. Failure to sustain competitive strength can have very substantial negative effects on economic performance.

## Small countries have intrinsic strengths, but need to respond deliberately

So is this the end of the golden weather for small countries like Singapore? Not necessarily. Small countries have several intrinsic strengths that may be particularly valuable in the emerging global economy. They tend to be more outwardly-oriented with a greater external sensing capacity, and are used to seeing domestic policy through the lens of the external environment. Second, small countries tend to be more cohesive and their decision-making is often less complex. And finally, small countries tend to have relatively effective governments and institutions. All of this is particularly true for Singapore.

Even so, small countries will need to respond forcefully if they are to sustain their strong performance in a less forgiving environment, in which there is less margin for error. Well managed small economies may continue to outperform, but small countries under even average management may struggle.

Governments of small countries will need to develop stronger strategic capacity to help them navigate this more challenging environment – to understand the changing world and to deliver innovative policy responses. In particular, they need to manage new sources of external risk and build resilience; to deliberately manage the external environment and build a portfolio of key relationships; and actively develop and maintain a sustainable set of growth engines.

Singapore has adapted itself to changes in the external environment previously, and will need to do so again. Policies that have been successful in the past may not be as effective in the context of a new generation of challenges and opportunities. The priority for Singapore is to review its policies in light of the changing global environment; from

economic strategy, to the social insurance system, to education, and so on. Indeed, for small countries, there is not a meaningful distinction between policies aimed at managing the external environment and domestic policy – all policy needs to be designed to position the country to prosper in the emerging global environment.

For this reason, the next decade will likely be a decade of policy change in Singapore, and in other

small countries, as it responds to emerging demands and opportunities generated by a changing world. This is eminently within Singapore's ability, and there is no reason that Singapore cannot continue to perform strongly, economically and socially, over the next decade and beyond.

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## About Landfall Strategy Group

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