

David Skilling

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## *The prospects for Singapore over the next 50 years in a changing domestic and international context*

The 50 years since Singapore's modern journey began has been a good time for small countries. Although this was not at all obvious in 1965 – there were serious challenges that had to be overcome by a city state with no natural resources and an uncertain regional context – the strategic international environment over the next several decades turned out to be strongly positive for small countries. Globalisation provided new economic opportunities, and a relatively stable international political environment protected against security risks.

Small has been beautiful. Small advanced economies have out-competed larger countries over the past few decades. Singapore has been in the vanguard of this, making the most of the favourable conditions.

But history shows that past performance is no guarantee of future success. And a look at maps of Asia or Europe over the past few centuries shows clearly that countries come and go. This is particularly true for city states, which need economic openness and political stability.

Continuing success requires countries to adapt to a changing world. For Singapore, its domestic and international contexts are substantially different than 50 years ago. Singapore is now one of the richest countries in the world. And the return of geopolitics is weakening the rules-based system that supported small country performance. The outlook for Singapore to 2065 depends on how it responds to these domestic and international challenges.

### *Domestic challenges*

After 50 years of strong catch-up growth, Singapore now needs to generate growth at the income frontier, manage issues around an aging population and income inequality, and respond to demands for increased provision of public goods and services. As is recognised, this will require Singapore to transition to a productivity-driven growth model – reduced labour force growth and higher cost structures means that an input-driven growth model is not sufficient. And in turn, this will need to be grounded in innovative capacity that is broadly based with less reliance on importing productivity through MNCs.

This transformation will need to be delivered at the same time as small countries are facing a series of challenges, such as exposures to increasing global economic volatility as well as to fast-paced change in technologies and business models that can cause shocks to important sectors. For Singapore, some of its traditional strengths – being a regional hub, its position on major trade routes, and its strengths in services – may weaken as other countries in the region become more competitive and as economic geography shifts. As Singapore has in the past, ongoing adaptation and the development of new strengths will be required.

Being a small country makes it easier to develop a coherent, rapid policy response to these changes. Indeed, many small countries are successfully responding to a rapidly changing global economy – investing

in R&D, upgrading their economies, restoring fiscal balance, and so on. But this is demanding, with little margin for error. Small countries will need to work hard to sustain their historical performance.

Singapore is increasingly facing policy issues that are similar to those faced by 'normal' small advanced economies. Although local context needs to be taken seriously, Singapore's policies will likely become more like other small advanced economies over time.

This will require Singapore to make some hard policy choices. But the good news from the international experience is that small countries can sustain strong performance at the frontier, even with high cost structures and higher government spending. And Singapore has a solid foundation to build on, with high quality institutions, a strong competitive position, and substantial reserves.

#### *A changing international environment*

After 50 years in which the international environment supported small country performance, new challenges are emerging that will confront Singapore over the coming decades.

In particular, geopolitics is back. Issues of nationalism and security are increasingly prominent, and international economics and politics are intersecting to a much greater degree. These developments are global in nature, but are pronounced in Asia because of the emergence of new regional powers as a result of rapid economic development: from Japan, South Korea and China to countries like India and Indonesia. There is increased jostling in the region, such as in the South China Sea, uncertainty about the future role of the US in the region, unclear prospects for ASEAN, and signs of domestic political instability in some of Singapore's neighbours.

Singapore, as with other small countries, has prospered in a liberal, rules-based international system and with a relatively stable security environment in Asia. But to the extent that the rules-based system weakens, and considerations of hard power become more prominent, a small city state like Singapore may be squeezed. In turn, this may compromise the ability of Singapore to pursue an outwardly-oriented economic strategy with supply chains that are deeply embedded into its neighbours.

Even in the relatively benign environment of the past several decades, Singapore has had an understandable sense of vulnerability. Singapore has responded by developing strong military capability, supporting regional integration (notably ASEAN) and a stabilising US presence, and importantly by making itself a valued source of ideas. As the intensity of the challenges in the region grows, increasingly deliberate action will be needed.

For many small countries, notably in Europe, the response to the vulnerabilities of limited economic and political scale has been integration into the EU and security alliances like NATO. This is less straightforward for Singapore. Regional economic integration is underway, but Singapore will also need to create strategic space by balancing multiple relationships and by being valuable to as many countries as possible.

Although small countries have some intrinsic abilities to adapt and respond, the world is likely to become more uncomfortable for small countries. In response, Singapore needs to continue to maintain its leading

economic and financial position, to anticipate change, and to engage in creative diplomacy that makes Singapore relevant. But even so, Singapore may face increasing constraints over the coming decades. Small countries tend to have to accommodate themselves to the preferences of larger powers on issues ranging from market access to security alliances.

In a turbulent world of power politics, the ability of Singapore to remain an independent city state with strategic space in an increasingly contested region is not fully certain. City states that survive for more than 100 years are a rare breed. The few examples include Venice and the Hanseatic League cities in very different environments several hundred years ago.

It is important to note that being a city state is much more difficult than being a successful city. Cities will likely be increasingly important nodes in the global system as key locations of talent and capital and with increased decision-making rights. But global cities like London and New York benefit enormously from being part of a larger country. In contrast, city states have to provide a full range of public goods and services, are responsible for defence and foreign policy, and are more vulnerable to economic and geopolitical shocks. This may be why Singapore is the only at-scale city state in the world: cities like Hong Kong and Monaco do not have full autonomy, and Dubai and Abu Dhabi are part of a country with massive resource endowments.

Although ideally Singapore will be able to maintain a version of the status quo, to the extent that the regional environment becomes substantially harder for small countries to navigate, Singapore may be confronted with some fundamental choices about its place in the region.

The specific choices are contingent on how the region evolves, but possibilities could include the following. A form of regional confederation with some ASEAN members, in which some sovereignty over economic and foreign affairs is pooled in order to allow Singapore to project more forcefully in an 'age of giants'. This would be a shift to an EU-style model over the coming decades. Or an arrangement with China in which Singapore responds to China's rise by explicitly agreeing to move into China's orbit and to align itself with the Chinese approach to the regional and international order; a distinct shift from Singapore's current balanced, independent positioning. Or becoming an Asian version of Switzerland in which Singapore commits to international neutrality. This perhaps comes closest to Singapore's current positioning, but would require existing military relationships to be downgraded and for Singapore to rely much more on soft power to project influence.

Whereas the domestic economic transition will be demanding but can be delivered by Singapore, the potential changes in the international environment are mostly outside Singapore's direct control and pose a more fundamental challenge. This risk profile should be understood – and shaped.

### *The outlook to 2065*

The combination of significant domestic and international challenges means that the task of sustaining Singapore's success over the next 50 years will be at least as demanding as the establishment and

transformation of Singapore over the past 50 years. Hard choices lie ahead for Singapore, as the level of difficulty and complexity continues to increase for policy-makers.

Singapore beat the odds to survive and prosper, and will need to beat the odds again to survive and prosper for another 50 years. Both seriousness and creativity will be required to develop new policy approaches that are appropriate for the emerging context. Singapore will need to turn in another extraordinary performance to maintain its successful, independent standing, drawing on all of the small country advantages of agility, coherence, and a shared sense of purpose.

Small scale creates exposures and challenges, but allows Singapore to make choices in ways that reflect its specific preferences and context. For this reason, remaining as a small independent country should remain the overarching objective for Singapore. Small will remain beautiful – but it will be hard work.

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## About the author

Dr David Skilling is the founding Director of Landfall Strategy Group, which was established in 2011. David advises governments, companies, and financial institutions in several small countries, and writes regularly on global economics and geopolitics from a small country perspective. David has recently served as Senior Advisor to the Secretary of Foreign Affairs & Trade in New Zealand, and as a Fellow at Singapore's Civil Service College. Previously, David was an Associate Principal with McKinsey & Company in Singapore, as well as being a Senior Fellow with the McKinsey Global Institute. Before joining McKinsey, David was the founding Chief Executive of the New Zealand Institute, a privately-funded, non-partisan think-tank. Until 2003, David was a Principal Advisor at the New Zealand Treasury. David has a Ph.D. in Public Policy, and a Master in Public Policy degree, from Harvard University, as well as a Master of Commerce degree in Economics from the University of Auckland. David was named as a Young Global Leader by the World Economic Forum in 2008.

## About Landfall Strategy Group

Landfall Strategy Group is a Singapore-based research and advisory firm that provides advice on strategic issues to governments, firms, and financial institutions, particularly in small advanced economies. We provide distinctive perspectives on emerging global trends, working with decision-makers to understand key global changes and how governments, firms, and institutions should respond and position themselves in the emerging global economic and political environment.

[contact@landfallstrategy.com](mailto:contact@landfallstrategy.com)

[www.landfallstrategy.com](http://www.landfallstrategy.com)

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