Singapore’s challenges as a city state

It’s easier to manage but it also faces income-inequality woes: Economists

By PHUA MEI PIN

As a city-state with limited access to land and labour, Singapore faces disadvantages when competing against leading global cities like New York and London.

But its size also gives it an edge, as it has greater control and autonomy over its policies, said economists responding to a recent comment by Prime Minister Lee Hsien Loong on challenges faced by such nations.

“Being small, we have the advantage of flexibility and efficiency in implementing policies,” said UniSIM economist Tan Khay Boon.

Last week, in a speech to the Economic Society of Singapore, PM Lee said the Republic had to compete with leading and emerging cities for talent and capital. But Singapore, he noted, lagged behind the world’s top cities. While its per capita GDP ranked 11th in the world, it was not even in the top 20 cities, according to a study by the Brookings Institution that ranked the world’s top 200 cities.

“We are a small city-state, without the strategic ballast of bigger, more mature economies,” observed Mr Lee. Economists agreed, noting that Singapore faces a limited market and labour pool and is vulnerable to external shocks.

“We are of course disadvantaged,” said the Asia Competitiveness Institute’s co-director Tan Khee Giap. “If New York needs talent, it can draw from the rest of the United States. But we have to be able to attract them from all over the world.”

However, experts also said that a city-state comes with advantages. It does not have to redistribute its wealth to other cities, it is not bound by monetary, fiscal and trade laws set by a national government, it can re-invest in itself to boost its competitiveness, and it can move quickly on various policy fronts.

As a result, Singapore as a city has, over the years, built up strengths in education, health care, infrastructure and financial linkages, noted the experts.

Brookings Institution’s senior fellow Alan Berube, who authored the report cited by PM Lee, said other cities “probably wish they were city-states like Singapore”.

But experts warned that Singapore also faces greater danger from income disparity. Wage gaps are accentuated in city-states because they are not spread across a larger area.

Said Citigroup economist Kit Wei Zheng: “In other countries, there may be inequality spread out across different states, but it is not seen at your doorstep.”

Last year, Singapore’s Gini coefficient – a standard measure of inequality – was 0.473, one of the highest among developed economies. The US’ was 0.469. A Gini figure of zero denotes perfect equality and one, perfect inequality. A Gini figure of zero denotes perfect equality and one, perfect inequality.

Wage gaps are only one problem. Space constraints also limit the options for people and businesses to move to lower-cost areas, increasing the risk of social unrest.

“If the realities of daily living overwhelm a Singaporean, they cannot just leave to work or live in a less stressful and much less costly part of the country,” noted Nominated MP Laurence Lien, a former economic planner.

“They can, however, emigrate and be lost to us forever.”

Mr Lien noted that Singapore, like other city-states, has an autonomy that is not shared by other countries.

But this is where Singapore could also tap on its advantages of being a city-state, he added.

“As a city-state, Singapore has the autonomy. It can very effectively target programmes at the underprivileged.”