

*Singapore 15 January 1982***SINGAPORE ANNUAL REVIEW FOR 1981***The British High Commissioner at Singapore to the**Secretary of State for Foreign and Commonwealth Affairs***SUMMARY**

Singapore's remarkable progress continued in 1981 despite World recession but not everything went quite according to plan (paragraphs 1 and 2).

2. Miscalculations by the People's Action Party lost a Parliamentary seat, but the victory of the Opposition candidate, Mr. J. B. Jeyaretnam, should not be over-estimated (paragraphs 3-6).

3. Death of President Sheares and his succession by Mr. Devan Nair, who, though far more politically partisan, is, in style, perhaps a more likely symbol of Singapore (paragraph 7).

4. Economic Affairs: Changes in management in the Monetary Authority over policy difficulties have had wider repercussions than expected. Maintenance of the value of money remains the central objective of social and economic policy. The experiment of a high wages policy only a qualified success and it has now given place to more direct techniques of management. Mr. Lee continues to pursue an enthusiastic, if somewhat indiscriminate, attempt to have Singapore emulate Japanese practices of industrial management and discipline (paragraphs 8-10).

5. External Affairs. Singapore and her ASEAN partners continue to pursue an active policy over the issue of Cambodia with considerable success. Singapore's initial welcome for the appointment of Dr. Mahathir as Prime Minister of Malaysia qualified, but personal relations between him and Mr. Lee have got off to a good start (paragraphs 11-13).

6. British interests. A steady if unspectacular year for Anglo- Singaporean relations. Exports rise by 12 per cent in value and a pleasing amount of new investment. The British Council's good work continues (paragraphs 14 and 15).

7. Outlook: good (paragraph 16).

Singapore, 15 January, 1982.

My Lord,

Once again, despite world recession, Singapore turned in a sparkling economic performance: gross domestic product was up by nearly 10 per cent and productivity by more than 5 per cent: there was full employment and inflation was held to just over 8 per cent. Singapore's self-confidence and ability to think big and to deliver on time were fitly symbolised by the coming into service on the appointed date in July of the impressive new international airport at Changi, in synchrony with the completion of the highway linking it with the city across the spectacular Benjamin Sheares Memorial Bridge which spans the harbour and transforms yet again the ever-changing skyline.

2. Yet, in his New Year's message congratulating his countrymen on these achievements, Mr. Lee Kuan Yew's familiar, almost ritual, incantation of the dangers which will befall them if they depart from the corpus of political and social values he has sought to inculcate and which have brought such astonishing success had more point to it than usual. For, by the fastidious, almost perfectionist, standards by which Mr. Lee judges others, and by which he may fairly be judged, 1981 did not end with quite the same assurance with which it opened.

The political scene

3. A Cabinet reshuffle in January had given greater public exposure to the younger generation of leaders; further new blood was brought into the Government in April. Having swept the board in a General Election in the closing

days of 1980, Mr. Lee might reasonably have expected that 1981 would pass without any hitch to his cautious policy of self-renewal, not that a bye-election at the end of October would bring an opposition voice back to Parliament for the first time since 1966 in the person of Mr. Ben Jeyaretnam, the leader of the Workers' Party.

5. Among the things Mr. Jeyaretnam had going for him was the fact that the constituency has more less-well-off people than many others. The Government's figures for inflation conceal the much higher increases in costs which items of importance to poor people have suffered. The Port Authority, too, did not help by ruling that 1,400 of them must lose their homes to make way for a new container complex. As things now stand, these people cannot claim any priority in the waiting list for new homes, and, when they get them, they will have to pay more.

6. This, the first bit of spice in the Parliamentary life here for many years, should not be over-estimated. Mr. Jeyaretnam is a character from an opposition rooted in the past, and so he, and the cause of opposition itself, are easier to discredit as irrelevant, factious if not downright seditious, than if he were one of the newer men thrown up by the Singapore Mr. Lee has created. His majority is wafer-thin and the PAP will leave nothing undone to win the seat back, though in so doing it may lower its guard elsewhere. Mr. Lee, while taking the upset philosophically enough in public and attributing it rather crushingly to the inexperience of his younger men, is none the less jarred: he is likely to pursue the policy of self-renewal even more cautiously and the new men are in for yet further rigorous testing.

A new President

7. The trigger for all this was the elevation of Mr. Devan Nair to the Presidency in succession to Dr. Benjamin Sheares who died in May. As the Presidency is supposed to rotate among the minority races, it was now the turn of the Tamils. Mr. Nair is one of the best-known members of that community but, unlike his predecessor, is and always has been an intense political partisan. The foremost man in public life here to have been a member of the Communist Party of Malaya, he served two periods of political detention at the hands of the colonial power, but on his release in 1959 became one of Mr. Lee's most faithful supporters. Through his leadership of the Trade Union Movement, he has shaped it to be the partner of the party in Mr. Lee's concept of the structure of government. In the profiles of him at the time of his appointment, neither his Communist past nor his detention by the British were soft-pedalled. Indeed, it was asserted that it was just because detention gave him time to think and study that he became persuaded of the falseness of Communism! Punchy, assertive, opinionated, Mr Nair is perhaps a more likely symbol of Singapore than the frail, gentle, scholarly, ageing Dr. Sheares.

The economic and financial scene

8. In January, Mr. Michael Wong Pakshong, the highly regarded Managing Director of the Monetary Authority, resigned because of a disagreement on policy with Dr. Goh Keng Swee, the Deputy Prime Minister; his going sparked off the departure of a far larger number of its senior and directing staff than can have been intended. Mr. Wong saw the Authority, like fully-fledged central banks elsewhere, master-minding monetary policy as the instrument that would fashion Singapore's development. For Dr. Goh, monetary policy is fashioned by the strategy for development, not the other way round, and it is the Government that decides that strategy. Nor does he see a need for the second opinion which the Monetary Authority has provided on economic matters. And in the primary role he sees for it-asset management-he found the Authority wanting in taking shorter rather than longer-term judgments; indeed this role has been given to a new corporation on whose governing board sit most of the Cabinet. The Authority's supervision of the banking system survives, though instinctively Dr. Goh would like to expose banks simply to the laws of the market. Officers of quality remain with the Authority, but it does not engage their loyalty as it did under Mr. Wong, nor do its sections work together as smoothly as they did. The damage done by Dr. Goh's idiosyncratic descent upon it is, like Humpty-Dumpty, not easily repaired.

9. If monetary policy called the shots, the Singapore dollar might be floated downwards and cost of money rise. But a central objective of social and economic policy is that the deposits nearly every working man and woman has in the Central Provident Fund, and which have financed so much of public sector development, retain their real value. These deposits earn 6 1/2 per cent per annum, and for many years inflation has been below this. For two years now it has gone above it, and the Government is exercised to bring it back. In the meantime, as a palliative it has put up the valuation of public housing which people can buy through mortgages with their Provident Fund assets, and anyone selling his home may now retain a higher proportion of the increment. The Minister of Finance asserted to me that this raised the yield on Provident Fund assets by over 3 per cent per annum, but it sounded a little sophistical.

10. The high wage policy adopted in 1979 to spearhead a drive for higher technology also fed inflation and has now ended; in future wage awards will be geared to productivity and market forces. It would be too much to say that the

policy was a mistake: it did accelerate the move to higher technology and to capital-intensive industry; and it raised productivity. But employers protested; it did not shake out surplus labour; and some at least of the all-important foreign investors looked like looking elsewhere. Nor did the number of foreign workers go down. The planners got this badly wrong. The Government has now plumped for something simpler: by withholding work permits it will get rid of foreign workers over ten years. The most extravagant sectors will have to modernise and slim or go to the wall. The Government has still not found the golden thread it seeks to inculcate the concepts of energy, productivity, loyalty and teamwork which Mr. Lee has identified in the Japanese scheme of things. But, so as to bind employees more closely to their companies there is talk of reducing the employers contribution to the Central Provident Fund to the extent that he sets up company-wide welfare schemes, and of privatising the health services in much the same way. Both employer and employee are likely to be resistant. For so perceptive a man Mr. Lee is surprisingly wishful in his enthusiasm for the Japanese model and eclectic in overlooking its negative aspects and the difficulties of grafting it on to a vastly different society.

External affairs

11. By assiduous diplomacy, Singapore and her ASEAN partners successfully maintained their stand on the Cambodian issue both at the Non-Aligned Foreign Ministers Meeting in Delhi in February (not the most promising occasion or setting) and at the UN. The International Conference which the Secretary-General was prevailed upon to convene in July endorsed ASEAN's proposals for a settlement and ensured that the issue remained on the agenda of the UN.

12. But ASEAN knows that all this diplomatic effort has changed nothing on the ground. The Cambodian issue has in fact taken on something of the intractable character of the Cyprus dispute and ASEAN must batten down for a longer haul than some of its members would wish. Singapore is less perturbed than others at the prospect of ASEAN sharing Chinese perceptions about the timescale - Mr. Lee recently spoke of having to wait five years for any sign of give by Vietnam-but she accepts that on every count other than the number of guerillas they command the Khmer Rouge are a disastrous embarrassment to the cause. She has therefore been active in promoting a loose coalition between the Khmer Rouge, Prince Sihanouk and the Khmer People's National Liberation Front so that the non-Communist elements can lay claim to the legitimacy of which the Khmer Rouge alone now boast, and so pave the way for them to be built into the more important focus of Cambodian resistance. Singapore's efforts to keep this initiative on the rails and her readiness to supply arms have ruffled the feathers of some of her partners, Indonesia in particular, but it seems probable that there is rather more common ground between the five than at times appears. China has been less helpful than Mr. Lee had hoped, and his disagreements with Zhao Ziyang when the latter visited Singapore in August had rather more in them than the ritual of reassuring his ASEAN partners required. China and Singapore have at last set up trade missions. The Chinese opened here in September and at once began to make their mark with the local business community: the celebration of China's National Day at the end of that month was the most glittering of its kind of the year, and by far the largest.

13. Because of the personal regard Mr. Lee had for Tun Hussein Onn, his replacement as Prime Minister of Malaysia by Dr. Mahathir was unsettling, though some reassurance was found in the appointment of Datuk Musa Hitam as Deputy Prime Minister. Dr. Mahathir's uncomfortable views about the Chinese and Singapore are well-known. But Singapore decided to hope for the best. Mr. Lee went on record to assert-a little disobligingly perhaps-that Dr. Mahathir and he would get along well because they were both non-U, and so spoke their minds. Indeed, when Dr. Mahathir visited Singapore in December the two men seemed to strike it off with each other. But no serious questions were raised and Singapore is keeping its fingers crossed.

British interests

14. It has been an unspectacular, but far from fallow, year for Anglo-Singaporean relations. The Minister of State for Agriculture, Fisheries and Food, Earl Ferrers; and the Minister of State for Trade, Mr. Peter Rees, both accompanied by a small group of businessmen, paid useful and welcome visits here in February and October, and Mr. Dhanabalan, the Minister for Foreign Affairs, and Mr. Ong Teng Cheong, the Minister for Communications, were in Britain as official guests of the Government. Mr. and Mrs. Lee also went to London for the wedding of the Prince and Princess of Wales. His Royal Highness the Duke of Edinburgh came here in October for a meeting of the Bureau of the International Equestrian Federation, of which he is President.

15. British visible exports look like being around £360 million, an increase of 12 per cent on 1980. Although this may be no more than the chance product of the different pace of investment flows, we have, leaving oil-related industry aside, displaced Japan to become the second largest investor in the Republic. Some of this represents the

enlargement of existing enterprises and the introduction of new technologies; but there are also new enterprises of the kind Singapore favours: Glaxo's £100 million factory to produce their latest drug, Zantac, for the treatment of ulcers, will come into production next year and De La Rue will shortly be setting up a printing factory here to produce Singapore's bank notes and, it is hoped, those of other countries. In March, British Aerospace concluded a protracted negotiation with the Singapore Armed Forces for the purchase of Rapier-the initial order is worth £40 million with an option on a further £40 million. There is still no commitment on either the Mass Rapid Transit system or a coal-fired power station but British consultants are busy on both projects and we are well placed. As the year ended, negotiations were at an advanced stage for the acquisition by the Telecommunications Authority of Singapore of a Prestel- Teleview system. In the field of education, the British Council has maintained a pre-eminent position and, with its other activities here, makes a distinguished contribution to the promotion of Britain.

Outlook

16. The hitches in the unfolding of Mr. Lee's design discussed in this review are in the scale of things small; anywhere else, they would seem too trivial for anyone other than a pedantic critic to spend any time on. Singaporeans may not rise to the heights of the vision he has for them, but try as you will, it is hard to find any sign that they wish to turn away from it. And citizens who can be invited by their Government to look to 8-10 per cent growth in 1982, with a 6-7 per cent increase in productivity and a 4-6 per cent inflation rate, may indeed be counted as fortunate.

17. I am sending copies of this despatch to my colleagues in ASEAN posts, to Her Majesty's Ambassadors at Washington, Peking, Tokyo and Hanoi, to the British High Commissioners at Canberra, Wellington and Brunei, to the Permanent Representatives to the UN and the European Communities, and to the Governor of Hong Kong.

I am Sir

Yours faithfully