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# Singapore's Lee Kuan Yew: Is the Magic Fading?

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An Intelligence Assessment

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October 1985

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# Singapore's Lee Kuan Yew: Is the Magic Fading?



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**An Intelligence Assessment**

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This paper was prepared by  Office  
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Asia Division, OEA, 

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**Key Judgments**

*Information available  
as of 12 September 1985  
was used in this report.*

Prime Minister Lee Kuan Yew's official visit to Washington in October coincides with a rare period of political and economic turbulence for Singapore that could delay Lee's plans to step down from the prime-ministership in three years:

- A poor showing by Lee's People's Action Party (PAP) in the December 1984 election and the proselytizing of two opposition members of Parliament elected then have encouraged many among the city-state's traditionally docile populace to support opposition political positions. Younger Singaporeans are increasingly taken with opposition appeals for more freedom of the press, freedom from government control of citizen's private lives, and freedom to oppose the PAP.
- The mainstays of the economy—petroleum refining and entrepot trade—are depressed because of shifting foreign demand and production patterns and growing regional competition, and even electronics manufacturing is stagnant. Singapore's economy contracted during the first quarter of 1985—compared with 10-percent annual growth during the same period last year. Singaporean business leaders, moreover, see recent government economic initiatives as inadequate to spark recovery.

In the short term, Lee probably will respond to the present economic slump as he has in the past—by imposing tighter political discipline, first within his party and secondly among the populace as a whole. Speeches of prospective succession candidates already have begun to resemble the strident line of the Prime Minister and have concentrated on persuading the populace to accept government solutions to Singapore's economic downturn rather than bolt to the opposition. The crackdown on political dissent, however, will be ill received by younger Singaporeans, and we expect opposition parties to grow in size and influence in the years ahead.

Lee's primary long-term challenge is to ensure a succession he finds acceptable. Lee's search for a successor is handicapped by a lack of confidence in the younger generation of his party, however. The introduction of his elder son, Lee Hsien Loong, into Parliament as a junior minister in 1984 has prompted murmurings of a Lee dynasty and the succession prospects of other candidates—first Deputy Prime Minister Goh Chok Tong, second Deputy Prime Minister Ong Teng Cheong, Minister of Trade and of Education Tony Tan—have been lowered accordingly, in our view.

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Lee may decide to postpone leaving the prime-ministership if he believes he is the only man capable of bringing Singapore out of its economic slump intact, a judgment he is very likely to make if depressed conditions continue. A serious threat to regional security, such as an imminent fall of the Marcos regime in the Philippines, could have the same effect on Lee's plans, in our judgment.

Even in the best of circumstances, we believe Lee is unlikely to turn power over to the younger generation without retaining a watchdog role for himself. At Lee's behest, for example, the Cabinet is drafting a constitutional amendment to make the now honorary presidency an elective position with enhanced powers—which Lee probably intends to reserve for himself after the 1988 elections.



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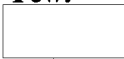
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**Singapore's Lee Kuan Yew:  
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**Lee's Prospective Legacy: Fraying at the Edges**


Lee Kuan Yew—virtually synonymous with the city-state he has largely created—has been Singapore's only prime minister during its 26 years of independence. His People's Action Party (PAP) has achieved a virtual monopoly on political power—from its creation in 1954, to victory in the first postindependence election in 1959, to capturing every seat in Parliament in 1968. In addition, Singapore for 25 years has seemed a paradigm for Third World economic development. From inauspicious beginnings, it has become the world's second-busiest port, second-largest builder of offshore drilling rigs, third-largest oil refining center, third-largest ship building and repair center, and the commercial, financial, and communications hub of Southeast Asia. During the years 1961-81, Singapore averaged 9.2-percent-annual real growth—far outpacing growth in both developed and developing nations. 

A generation after independence, however, 1984 and 1985 are proving atypically tough years for the island republic. In December 1984, for the first time in more than 15 years, Lee's PAP did not win all of Singapore's 79 parliamentary seats in a general election. During the campaign two candidates from the fragmented opposition—J. B. Jeyaretnam, Workers' Party, and Chiam See Tong, Singapore Democratic Party—drew crowds of up to 10,000. They beat two of the PAP's strongest young candidates. US Embassy reports suggest Lee was shaken when the PAP's share of popular vote fell to 63 percent from 76 percent in the last general election in 1980. Lee was so disturbed by the decline that after the election he even suggested that the one-man-one-vote system may not be appropriate for Singapore. 


To complicate matters, since the election the two opposition MP's have raised the tenor of protest among Singapore's traditionally docile population. Jeyaretnam has attracted supporters by attacking the administration on human rights, freedom of the press, academic independence, excessive ministerial and

bureaucratic power, intolerance of parliamentary opposition, and impediments to mass action by organized labor. Chiam—who is billed by international journalists as "Singapore's loyal opposition" because he says his party has no intention of overthrowing the PAP—has won sympathy with claims that his constituents are treated unfairly simply because they choose to differ from the PAP. Chiam has underscored this point by complaining that his voting district has been denied standard government services. 

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More serious to Lee's potential legacy, however, is the sudden braking of Singapore's growth rate from 10 percent in first quarter 1984 to minus 1.4 percent in second quarter 1985—an unprecedented turn of events that has captured sustained media attention for six months. Business failures are rising in all sectors, and official statistics show an average of three firms, mostly small ones, collapsing each day in the first four months of this year—45 percent more than during the same period in 1984. Unemployment also is on the rise: more Singaporean workers lost their jobs in the first five months of 1985 than in all of 1984. 

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The vaunted manufacturing sector—highly dependent on the US market—has been hit hardest, primarily because of stagnant US demand for electronics products and computer peripherals (together accounting for 5.4 percent of Singapore's gross domestic product in 1983). Singapore's substantial petroleum refining industry, which contributes 4 percent of GDP, has operated below capacity for many years, but production is dwindling especially sharply this year as world oil prices fall and Indonesian and Middle Eastern producers develop their own refining industries. In addition, traditional entrepot trade has suffered because Singapore's ASEAN partners are improving their own shipping and marketing sectors. Ship building and repair have been in deep depression for almost a year because of growing regional competition. 

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Other sectors affected by the slowdown include:

- *Textiles and other labor-intensive manufacturing industries.* Companies are shifting operations to area competitors such as Malaysia and Hong Kong where labor costs are cheaper.
- *Tourism and retail trade.* In the past year and a half, Thailand, Indonesia, and Malaysia have dramatically increased departure taxes and customs duties on visitors and shoppers going to Singapore.
- *Construction and finance.* The surplus of office and hotel space has brought construction to a halt. Because bank loans have been heavily concentrated in construction, the finance industry is suffering as well. [redacted]

**His Concerns for the Future**

Lee believes, in our judgment, that securing his legacy requires that he successfully manage two major domestic challenges: putting Singapore's economy securely back on the fast track and transferring leadership to the next generation. Regional security is also a major concern as Lee continues to work for an end to the Vietnamese occupation of Cambodia. In addition, he is increasingly concerned about the viability of the regime of Philippine President Ferdinand Marcos and its inability to deal with the Communist insurgency.

[redacted]

**Steps To Ensure Economic Resurgence.** Singapore's long-term economic strategy has been designed to capitalize on its comparative advantage—among regional competitors—in highly educated and skilled workers. The government is trying to move the nation away from labor-intensive, low-value-added manufacturing industries to high-technology enterprises by giving special investment, tax, and export incentives to such ventures. Lee also intends to improve the city-state's role as an international manufacturing and financial center by developing its information processing sector. He has, for example, recruited IBM and Japanese computer specialists to train Singaporeans as programmers. [redacted]

The government's first reaction to the early 1985 economic slowdown—creating firms to invest in high-risk, high-technology ventures—was typical of Lee's long-term strategy of moving up the technological ladder.<sup>1</sup> In July, however, Lee Hsien Loong, Chairman of the Economic Committee formed early this year, assessed the slowdown in terms critical of previous government planning. He admitted that the relatively high cost of doing business has eroded Singapore's competitive edge—something the government has long refused to acknowledge. The remedies he announced were aimed at lowering overhead costs for business by:

- Reducing charges for some communications, transport, and real estate services provided by the government.
- Partially rebating business property taxes. 25X1
- Lowering interest rates for some small business loans.
- Accelerating public construction projects.
- Allotting an additional \$45 million of venture capital for investment in high technology. [redacted] 25X1

Nevertheless, the package did not address business complaints about high wage costs, largely attributable to deliberate government policies since 1979.<sup>2</sup> During the period 1981-84, wage costs rose at an average rate of 8 percent annually, while productivity gains averaged only 4.9 percent per year, with the result that Singapore labor costs are now two-thirds above the next highest in the region, Hong Kong. [redacted]

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[redacted]

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<sup>2</sup> The National Wages Council has recommended annual pay increases above national productivity gains in order to force development of industries that use relatively large amounts of capital and correspondingly small amounts of labor and boost productivity. The Skills Development Fund—which sponsors enterprise-level training programs—has penalized labor-intensive industries with less skilled employees by collecting higher contributions from employers whose workers earn less than a certain annual wage. In addition, the Central Provident Fund—a retirement scheme—collects one-fourth of a worker's annual salary from the employee and one-fourth from his employer and accounts for 40 percent of wage costs in Singapore. [redacted]

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The Prime Minister addressed the labor costs problem in his National Day speech on 18 August by calling for a voluntary two-year freeze on wages—a sharp reversal of six years of policymaking. At the same time, Lee reassured his countrymen that, while the present economic transition is painful, recovery is achievable by 1987, barring world recession. He encouraged business to redirect efforts away from sectors with bleak futures, such as shipbuilding and oil refining, toward such promising ventures as biotechnology and specialty services in engineering design and medicine. Although Lee's message contained nothing new—almost all of Singapore's unions had already agreed to forgo pay increases this year and businesses are being forced by market realities to reallocate resources as he suggests—it was favorably received. [redacted]

***Finessing the Succession.*** In our judgment, Lee will find it extremely difficult to relinquish all his powers to a successor, despite his indications that he will step down from the prime-ministership at the time of the 1988 elections when he will be 65. We believe that, before turning the reins of government over to a younger generation, he will want to assure himself that his dream for Singapore—attaining by 1999 an economic status similar to that of Switzerland—is within the reach of the new leaders. [redacted]

Since 1968, Lee has encouraged a gradual rejuvenation of the ruling party in hopes of ensuring a smooth transition to a new leadership that will not overturn a quarter century of careful policymaking. [redacted]

[redacted] Lee has rejected the Chinese tradition of lifelong service for high-ranking officials and proposed that Singapore's Government officials follow the traditional US corporate practice of retiring at 65. He has mandated a large turnover in Parliament in recent elections and—despite the toehold gained by opposition parties—in 1984 achieved one of his primary objectives, bringing fresh talent into the party. Over one-third of the PAP's candidates were first-time contenders. [redacted]

Lee has placed several promising young individuals in party and government positions during the past two decades to test their capacity for leadership. Especially during the past two years, Lee has remained offstage, and younger politicians are taking a higher profile in Parliament and in public. Lee's standards for young recruits are exacting, however, and even those who make it to ministerial rank remain subject to careful scrutiny that can include reproach and demotion.<sup>3</sup> [redacted]

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Singaporeans, who find it difficult to think of their country without Lee as ruler and patriarch, view Lee's professed aspirations for retirement with justified skepticism because he has repeatedly discarded potential succession candidates as "tested and found wanting." Lee's apparent lack of confidence in the current crop of aspirants—First Deputy Prime Minister Goh Chok Tong, Second Deputy Prime Minister Ong Teng Cheong, Minister of Trade and of Education Tony Tan—is underscored by the introduction of his elder son, Lee Hsien Loong, into the parliamentary campaign, prompting public murmurings of a Lee dynasty. Moreover, we judge that Lee will not hesitate to hang on to the reins of government if he believes that the people are hesitant to follow the younger leaders or that the younger leaders are improperly asserting their authority. [redacted]

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<sup>3</sup> Lee ousted former NTUC Secretary General Lim Chee Onn from Parliament in November 1983 because, according to press reports, Lim was unable to deal effectively with veteran union leaders. Other press reports, however, claimed that Lim was too ambitious and tried to exercise independent authority. In December 1984, Lim was allowed to stand for Parliament again and, in June 1985, was appointed to head Parliament's Public Accounts Committee. In that position he will watch over all public expenditures and, in theory, be able to call any government minister to account. Although Lim's appointment does not appear to mark his political rehabilitation by Lee—who criticized him in Parliament as recently as March 1985—we believe it does signify the respect of the younger ministers for Lim and his potential for service in a second-generation government. [redacted]

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Meanwhile, at Lee's behest the Cabinet is drafting a constitutional amendment—which Lee says will be brought to a vote in approximately two years—to make the honorary presidency an elective position and give the president the power to veto government spending of foreign exchange reserves accumulated by previous governments.<sup>4</sup> Lee probably intends to move into this watchdog position after the 1988 elections if he settles on a successor. In this way he would be able to turn over the day-to-day management of the government while still retaining substantial control.

[Redacted]

**Regional Security Concerns.** We believe that, if Switzerland is to be the model for Singapore's economy, in Lee's eyes Israel is to be the model for its defense. Lee sees Singapore as a tiny nation surrounded by larger neighbors who are potential adversaries. Singapore has developed a civil defense system that provides manpower of 60,000 active-duty personnel and 200,000 reservists—from a population of 2.6 million—with more reservists being added yearly. Singapore's military strategy emphasizes acquisition of high-technology weapons systems: the US-made F-16A fighter and E2C airborne early warning aircraft are on the government's purchase order as first steps toward an upgraded air defense system, and the Navy intends to acquire a new class of fast patrol boats—possibly of West German manufacture—with state-of-the-art weapons—probably US, French, or Israeli missile systems. [Redacted]

Lee has not hesitated to back up his toughness. Singapore has been a staunch proponent—along with Thailand—of ASEAN's demand for complete military withdrawal by Vietnam from Cambodia, followed by free elections under international supervision. Within ASEAN, Singapore is the main provider of military aid to the non-Communist resistance forces, having sent several thousand weapons—mainly AK-47 rifles—and substantial amounts of ammunition and explosives.<sup>5</sup> Lee accepts that pressuring

<sup>4</sup> Currently, Singapore holds over \$12 billion in foreign exchange reserves. [Redacted]

<sup>5</sup> Thailand, as the frontline state, is the coordinator and distributor of all aid to the three resistance groups—the Communist Democratic Kampuchea (DK), the non-Communist Khmer Peoples National Liberation Front (KPNLF), and the Sihanoukist National Army (ANS). [Redacted]

[Redacted]

Vietnam to come to a political settlement is not a short-term project and exhorts fellow ASEAN leaders to remain patient and firm. Moreover, conversations with high-ranking US officials indicate that Lee believes there are benefits from simply prolonging the conflict and preventing Vietnam from consolidating its hold on Cambodia, even if Vietnam never agrees to withdraw. For this reason, we believe he is willing to allow the non-Communist resistance groups more time—probably at least two years—to overcome leadership, discipline, and organizational problems and show some successes with guerrilla tactics. [Redacted]

[Redacted]

One of Lee's goals has been to persuade the United States to share the burden of supplying the non-Communist resistance forces. He has cited four reasons of the need for greater US assistance:

- Singapore knows ASEAN alone cannot induce Vietnam to agree to a compromise political settlement favorable to ASEAN interests.
- Lee believes deeper US involvement in regional security concerns would reinforce stability in Southeast Asia—and boost the morale and staying power of ASEAN and the resistance forces.
- Lee hopes that greater US support would lessen Thai dependence on China—which disturbs Indonesia and to a lesser extent Malaysia—and reduce intra-ASEAN tensions.
- Some Singaporeans are becoming interested in reducing the nation's material contributions to the resistance. [Redacted]

Lee also is increasingly concerned about trends in the Philippines. In November 1984, according to US Embassy reporting, Lee said he believed Marcos had at best two and a half years left at the helm, given his poor health. Lee discounted, however, the democratic opposition as fractured and ineffective. Lee also argued that the Communist New People's Army (NPA) was not as big a problem as Marcos made it appear to be. Lee estimated, however, that in 10 years the NPA could become formidable enough to overthrow the government. [Redacted]

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In Lee's view, there are two questions of importance to the United States—which he believes should act forcefully in efforts to move Marcos toward political and economic reform. The first is whether Marcos has the ability to create conditions favorable to a smooth transfer of power. On the basis of conversations Lee has had with senior US officials, we judge that he believes Marcos would have to overhaul his political court, branding as unsuitable several of his currently powerful allies including Armed Forces Chief of Staff, General Ver. The second question is whether Marcos—given the ability—would have the will to set the stage for the future. Lee has told US officials several times that he believes Marcos will never step down voluntarily, and he has lamented that Marcos is unwilling to focus his attention on paving the way for a peaceful succession. Lee says Marcos missed a rare opportunity to strengthen political institutions when he failed to shuffle his Cabinet constructively after the National Assembly elections in May 1984, preferring instead “to stick with old friends.” [redacted]

Lee has often told US officials that the Philippines is critical to regional security because of the US bases there. In addition, Lee is worried about a spillover of Communist influence from the Philippines to ASEAN neighbors. As he has often expressed in public as well as in private, one of his primary concerns in pondering succession is that the younger generation of Singaporeans has no experience in opposing adversaries—especially military threats. We expect Lee to postpone leaving the prime-ministership if he believes the situation in the Philippines poses a threat to Singapore's security or regional stability. [redacted]

#### After the Washington Visit

Upon his return to Singapore, we believe Lee will focus his attention on securing his legacy by moving ahead with economic revitalization—with the ultimate objective of preparing the political climate for a PAP successor. In our judgment, Lee is likely to be more visible in the coming months because the majority of Singaporeans, [redacted] still look to him for leadership and consider him the sole-master of Singapore politics. [redacted]

**Economic Initiatives.** Lee is probably not finished with overhauling economic policy, and we believe he will direct economic relief measures largely toward business—high-ranking ministers maintain that generous welfare benefits would do more harm than good.<sup>6</sup> He is, however, already on record against several of business's primary demands:

- He has vowed not to lower retirement fund contributions because these contributions benefit the economy by funding public housing projects and other important government projects.
- Lee is resolved to sustain the government's budget surplus, so political observers in Singapore discount the possibility of substantial tax breaks, even though corporate taxes—at 40 percent—are the highest in the region.
- Businessmen ask the government to relax the Central Bank's heavyhanded regulation of investment loans—saying it inhibits local entrepreneurs—but government officials recently took advantage of a bank collapse in Hong Kong to justify stringent bank regulation.
- Businessmen argue that their government trusts foreigners more than citizens because offshore banking regulations are less rigorous and tax laws favor foreign investors. Lee, however, believes that keeping up with world technological improvements is the only way for Singapore to remain prosperous and that foreign investment is the way to ensure that Singapore does not miss out on world inventiveness. [redacted]

There are hints that the government may be softening on several other business demands. In a 20 July speech, Goh Chok Tong announced that the retirement fund now will allow workers to use their accounts to purchase more than one residential property

<sup>6</sup> In 1984, only 0.12 percent of Singapore's people received public assistance. [redacted]

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[Redacted] Although Lee's government is determined to continue to upgrade Singapore's industry, the economic slowdown will force it to preserve industries that are still providing jobs. [Redacted]

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[Redacted]

Intellectual property rights continue to be an issue of disagreement between Washington and Singapore. Although Lee is interested in seeing Singapore attract publishers—an industry that could take advantage of Singapore's well-educated work force—the government may have second thoughts about writing and enforcing strict copyright laws during an economic recession when it would be politically dangerous to put book, cassette tape, and computer software pirates out of business. Similarly, with Singapore's apparel manufacturers moving into designer apparel, the United States can expect the frequency of trademark disputes to increase. On the other hand, as Lee directs Singapore's economy toward higher technology industries and specialized services, the country will continue to import US-made computers and word processors, communications systems, process control equipment, and other equipment for the automation of manufacturing, assembly, raw material processing and packaging, and warehousing and cargo handling.

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[Redacted]

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and soon will permit savings to be invested in commercial property such as offices, shops, factories, and warehouses. According to press reports, the government is also considering allowing workers to use their retirement accounts to purchase selected blue-chip stocks on the Singapore Exchange. Moreover, reports are multiplying that the government will make good on its promise to list state-owned companies on the stock exchange, beginning with Singapore International Airlines, although the government almost certainly will retain a majority interest in each. [Redacted]

Hsien Loong in recent months have assumed a strident tone resembling the Prime Minister's insistence that the PAP continue to make "the hard choices" that will strengthen Singapore in the long term rather than adopting "the soft options" that would make the party popular in the short term. In our view, the younger leaders are taking up Lee's crusade, trying to encourage the people to accept government solutions to Singapore's present economic downturn rather than bolting to the opposition. In an address to the National University of Singapore in August, for example, Goh Chok Tong called for youth to rally round the government, emphasizing the need for political stability during poor economic times in order to preserve investor confidence in Singapore. [Redacted]

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**Domestic Politics.** As he has in the past, Lee will probably accompany economic initiatives with tighter political discipline, first within his party and secondly among the Singaporean populous as a whole. [Redacted]

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The speeches of Goh Chok Tong, Tony Tan, and Lee

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[Redacted]

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[Redacted] According to press interviews, he is disturbed that the youth rebellion is one of the consequences of his education-in-English policies, and pleads with Singaporeans to emulate the Japanese in preserving their Asian culture and disciplined way of life, rather than adopting Western values. Even in ordinary circumstances, young Singaporeans—exposed to the modern, Western philosophy of questioning authority—would be more difficult to win over than their parents' generation, and, in our judgment, Goh and the other ministers may alienate more youthful voters than they win by urging tighter unity. [Redacted]

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In addition, the 1985 economic shakedown—which even Prime Minister Lee admits may not be righted before 1987—increases the likelihood that opposition parties will grow. Lee, therefore, may decide he is the only person with enough political experience and charisma to impress on Singapore his vision of the future. Lee may even go so far as to postpone transferring the leadership if he believes he is the only man capable of bringing Singapore out of its economic crisis intact—a judgment we think he is likely to make. [Redacted]

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