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Insight  
**Cost & Effect**

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As the financial crisis tears away at consumer confidence and keeps regulators on their toes around the world, Insight singles out six implications that could impact politics in Singapore

SINGAPORE politics felt the impact of the global credit crunch in a very visible way on Oct 11, when more than 500 aggrieved investors showed up to protest at the newly liberalised Speakers' Corner.

They argued that they had been misled into buying high-risk structured products linked to now-bankrupt American investment bank Lehman Brothers.

An outdoor protest gathering of that scale had not been seen in Singapore for decades, as the rules had been relaxed to permit them at the Corner in Hong Lim Park only on Sept 1.

The informal campaign for greater consumer protection against financial mis-selling, led by retired NTUC Income chief Tan Kin Lian, is only one socio-political dimension of the financial crisis, which is steadily moving closer to home.

On Tuesday, the Monetary Authority of Singapore (MAS) said the slowing economy is expected to slip further, while economists predicted practically no growth next year and a moderate recovery in the second half.

Political and economic analysts say that with looming job losses ahead, the Government may face more political decisions on how to ease the pain for citizens and which groups to help, as it already has during the mis-selling saga.

Insight discusses this and other socio-political reverberations of the financial crisis here.

1 'Doing the right thing' by some makes others unhappy

The MAS, which typically favours a cautious, behind-the-scenes approach to regulation, took a rare proactive stance on Oct 17.

It decided to nudge banks into doing something for a particular group of customers - namely, lowly educated retirees who had been persuaded to buy structured products even when these clearly did not suit their risk profiles.

'We expect (financial institutions) to do the right thing,' MAS managing director Heng Swee Keat said as he urged the banks to determine on a 'case-by-case basis' whether there had been mis-selling, and to 'reach a fair settlement in full or in part'.

Offering a solution to this 'vulnerable' group of people did appeal to a sense of justice and fairness among the larger population. Many in this group lost their hard-earned money or even their life savings.

However, Mr Leong Sze Hian, president of the Society of Financial Service Professionals, observes that the MAS now has a new fight on its hands - from better-educated investors who argue that they too deserve compensation.

Some 500 of these investors gathered at Speakers' Corner last Saturday to make their voices heard. A total of nearly 10,000 retail customers here have sunk \$500 million into Lehman-linked structured products sold

by DBS and other banks.

'Although the MAS has been criticised in not being the first off the block to react (to the Minibonds crisis) compared to Hong Kong, it was probably the right thing to first observe what works and what doesn't,' says Mr Leong.

Both financial centres have been looking over each other's shoulder and Hong Kong has since followed Singapore's lead in prioritising elderly investors with no 'relevant' investment experience, as a Hong Kong Association of Banks task force spokesman said last week.

Unfortunately in Singapore, 'offering a solution to one particular group has made other people angry', says Mr Leong.

Prime Minister Lee Hsien Loong has spelt out Singapore's approach to the Minibonds debacle: 'Less than professional behaviour by the (banks') relationship managers' and 'breaches of the law' would be dealt with by the banks and MAS, but the Government could not be expected to bail out every financial investment decision that goes awry.

The difficulty is, as Nanyang Technological University economics professor Chew Soon Beng notes, 'where do you draw the line?'

## 2 Citizen activism on a new high

After the mis-selling saga, Speakers' Corner can no longer be deemed 'useless' by even its harshest critics, say political observers.

Dr Terence Chong of the Institute of Southeast Asian Studies notes that the Corner, 'previously dismissed as a space for liberals and useless protests', has now emerged as 'a space for education and expression of grievance' for investors of Lehman-linked products.

That they have been flocking to the Corner for the past three Saturdays comes as no surprise to him and others who see it as part of a global trend of shocked investors dealing with the financial carnage.

'Singaporeans are using new avenues to express their anxieties to the Government and financial institutions involved,' says researcher Gillian Koh of the Institute of Policy Studies.

As the larger economic crisis begins to bite, it is an open question whether there could be a surge in citizen activism at the Corner or elsewhere, and if the Government is prepared to tolerate that.

Civil society organisations have fewer resources during a recession, but there will invariably be some advocacy groups and activists 'who will have more issues to raise during the financial crisis', says political scientist Kenneth Paul Tan.

During hard times, people are also 'more attentive to what activists have to say, as compared to good times when Singaporeans often say there is nothing fundamentally wrong in Singapore', adds Dr Tan, an assistant dean at the Lee Kuan Yew School of Public Policy.

What about the Government's response? Dr Tan thinks that it 'will probably feel it cannot afford to be too liberal at a time when there is political capital to be made by those in civil society who can criticise the Government on how it has handled the local impact of the crisis'.

But Nanyang Technological University political scientist Ho Khai Leong thinks the issues involved in the Lehman Minibonds debacle are very localised and are unlikely to 'spill over into questioning the legitimacy of the Government'.

Describing the petitions and Speakers' Corner gatherings as 'very rational' and 'keeping within the legal boundaries', he thinks they 'are not adding to the problems of Government, but helping the Government to resolve a problem'.

Solving this problem entails improving financial education on the ground and the transparency of how financial products are sold, he adds.

## 3 'Trust' in established institutions shaken

Another fallout from the financial crisis is that it has shaken people's faith in established institutions, from the

158-year-old American bank Lehman Brothers to Singapore's banking giant DBS Bank.

Some Singaporeans who had placed their 'trust in DBS and those products, without thinking about the risks involved', will probably be rethinking their 'over-dependence on one particular authority or institution', says Associate Professor Ho.

It is far from clear, however, if this could translate into gains for the Opposition at the next general election, which is another two or three years away.

'(Samuel) Huntington said in the US, mistrust in the government is like apple pie. For us, this trust is like curry puffs; it comes so naturally to us,' says Prof Ho.

'Psychologically, there is a case to be made that Singaporeans trust the Government too much, but is there a case to be made that we shouldn't trust the Government? It's all a matter of judgment,' he adds.

#### **4 'Risky big bets' raise questions**

The credit crunch revisits a niggling question about Singapore's economic strategy that can become a political issue: Are capital-intensive projects like the US\$4 billion integrated resorts (IRs) worth it for a small city state with resource constraints?

These are subject to volatility in global business cycles and strong regional competition, says University of Michigan business professor Linda Lim. Singapore does not have any 'intrinsic competitive advantage' in such projects, which are largely dependent on foreign capital, skills and entrepreneurship.

Such 'risky big bets' have the unintended consequence of 'crowding out' or even 'chasing away' local talent, capital and entrepreneurship, she argues. In comparison, Hong Kong, which has 50 per cent more people than Singapore, has five times the number of local billionaires - entrepreneurs who can lead in building and rebuilding the economy.

In good times, Singapore can undoubtedly win big from the IRs.

The Government's case for the IRs has been that it would boost tourism, have spin-offs for other business sectors and help create some 10,000 jobs for Singaporeans.

However, with a projected global slump in the gambling industry, Singapore does not stand to gain much in the short term even if the IRs open on time next year, says NTU economist Prof Chew.

'The whole world is sick, including China. You finish early, you won't get customers anyway,' he quips.

#### **5 Stronger employment and social safety net needed**

The last time Singapore experienced serious job losses was during the Sars crisis in 2003, when unemployment hit 5.9 per cent.

It dropped to 4.5 per cent in just one year after the Government gave a \$1 billion relief package for companies and households, and lowered labour costs through a three-point cut in employers' Central Provident Fund contributions.

To deal with expected retrenchments ahead, economists expect the Government to craft similar aid measures and activate its network of job placement centres and community self-help groups.

However, they say the larger scale of the current crisis may require more fundamental adjustments to the employment and social safety net.

Citigroup analyst Chua Hak Bin expects the recession to last at least up to the second quarter of next year - giving Singapore four quarters of negative year-on-year growth just like during the Asian financial crisis of 1997.

The slump could last even longer this time, given the global and not just regional nature of the recession.

While he does not see the Government agreeing to give out unemployment benefits in the manner of European welfare states, he thinks the current Workfare allowances for low-wage workers could be made more flexible.

'It could be finetuned, say, to helping those temporarily out of job for a few months, to tide them over while they look for a new job,' he adds.

The budget for Workfare should be increased, and amounts given out on the condition that workers participate in existing job training programmes, says Prof Chew.

This is because it is important to upgrade workers' skills before and not after they are hit by retrenchments.

'You've got the Skills Development Fund, Workforce Development Agency (WDA) and (NTUC's) job redesign programmes. My feeling is the scale (of these programmes) is not appropriate for this crisis: You should double, triple the number of workers covered,' he says.

Last year, the WDA helped 68,000 workers to upgrade their skills, while employers sent another 168,000 workers for training by tapping on the Skills Development Fund. The Government already has plans to double its spending on training for adult workers by 2010, as announced in February this year.

Prof Chew also thinks now is the time for the labour movement to step up persuasion of firms to adopt a monthly variable component (MVC) in wages, which would give them flexibility to adjust wages according to business cycles instead of retrenching staff during a downturn.

Just 35 per cent of the workforce are employed in companies with MVCs in their wage structures, according to last year's Manpower Ministry figures, a slight drop from 37 per cent the year before.

To create employment for local workers, the Government may also turn off or reduce the foreign worker supply in certain sectors such as food and beverage services, say economists.

#### 6 Financial prudence wins

There is at least one outcome of the financial crisis that benefits Singapore: The world now knows that it pays to have government safeguards preventing excessive speculation in financial and property markets, such as those Singapore has, says Professor Chew.

The crisis indirectly testifies to the 'wisdom of gradual implementation of the free market, as China and Singapore have done. You cannot open up too much, too fast', he argues.

Citigroup analyst Chua agrees, noting that the pendulum is now shifting worldwide 'away from markets taking care of themselves' to 'strong prudent conservative government' coming in to 'stabilise the situation'.

He says Singapore's reserves and conservative fiscal policies have stood it in good stead, allowing it to introduce measures that support growth and, in crises such as the present, provide a \$150 billion guarantee on bank deposits.

The same financial prudence will also enable the rollout of more assistance measures. In next year's Budget, to be unveiled in February, the Government is expected to announce measures to help businesses, families and workers ride out the recession.

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#### WATCH FIRST BEFORE JUMPING IN

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#### SPACE PUT TO GOOD USE

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SMS, e-mail your views

HOW do you think politics and society here will be changed by the financial crisis? What lessons can we learn from past downturns?

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