

## INSIGHT

## Man and market

**Francis Lui** says the successful economic and social policies of Lee Kuan Yew reflected his belief in and understanding of the free market, yet also an obsession to nevertheless control it

Lee Kuan Yew was Singapore," his son, Lee Hsien Loong rightly remarked. To understand what this brilliant man achieved, we must look at Singapore itself. From the founding of Singapore as a nation in 1965 to 2014, its real gross domestic product expanded by 37.9 times. This fact alone would guarantee Singapore a place in the league of miracle states. Last year, its per capita GDP stood at US\$56,284, higher than that of the United States.

GDP is only a summary statistic, but other indicators also support the success story of the city state. An awesome 90.3 per cent of Singaporean residents own their homes. The public housing system helps a lot. Some 80 per cent live in quarters built by the Housing Development Board, which can be bought and sold in the market at prices much lower than those in Hong Kong. Life expectancy at birth has surpassed 82. Educational attainment is less spectacular, but still good – 30.5 per cent of those aged 25 or above only attended primary school or lower.

International investors love Singapore. Its residents are clearly proud of their international financial centre, great container terminal and airport.

How did Lee Kuan Yew do it? What price has Singapore paid? Lee's strategy for economic development included a number of steps, all of which are still in place. Singapore's gross national savings rate of about 45 per cent is among the highest in the world. When people save almost half their incomes, capital accumulation will be rapid, but there will not be much left for consumption. As a result, even though last year, Singapore's per capita GDP was 41.6 per cent higher than that of Hong Kong, its per capita private consumption was 21.3 per cent lower.

Lee also wanted foreigners to invest in Singapore. He used taxpayers' money to subsidise them. It was not uncommon for international investors to enjoy much higher returns than their domestic counterparts. Industrial policy was another hallmark of Lee's strategy. The government would subsidise some favoured industries and hoped they would lead the economy to move up the technology ladder quickly.

Finally, under Lee's guidance, Singapore adopted a very aggressive human resource policy to attract talent from all over the world, particularly China.

Rapid capital accumulation can drive economic growth, but the law of diminishing returns tells us that the contribution from each additional unit of capital will



become smaller and smaller. In 1992, economist Alwyn Young published a famous paper titled, "A Tale of Two Cities", which showed that the industrial policy of Singapore was not such a success. The nation had been trying to climb the technology ladder too quickly and unrealistically, paradoxically causing productive efficiency to stagnate. Young predicted that the high growth of Singapore would end soon because capital accumulation could not help much in driving growth any more.

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ally, paradoxically causing productive efficiency to stagnate. Young predicted that the high growth of Singapore would end soon because capital accumulation could not help much in driving growth any more.

Apparently, the Singaporean government took the paper seriously. The vast pool of talent it has attracted has helped Singapore move up the technology ladder more easily. To mitigate the problem of diminishing returns, Singapore invests its excess capital, equal to roughly 20 per cent of GDP, in other countries every year. Today, economic growth in Singapore has slowed, but still remains impressive.

Why wouldn't Lee just let the people decide how much they should save or what to invest? Why did he subsidise foreign investors more than his people? He understood and believed in the free market system. Yet the visible hand of the paternalistic government was everywhere. In a sense, he was trying to emulate what the natural forces of the market would do, but these would have to be under his strict control.

Why did he do all of these things? He believed that when people, residents and foreigners alike, had invested heavily in Singapore, they would become stakeholders who would fight hard to safeguard the stability of the country.

Lee's high-handed policies certainly attracted criticism. He needed a very strong power base to fend off attacks. In this regard, we have to marvel at his far-sightedness. Knowing that his party might lose in the election, he came up with a compulsory voting scheme in the 1960s, forcing all eligible people to vote. This ensured that all the moderate voters, who preferred stability, would come out to support his party. He gained the legitimacy to act dictatorially by imposing a democratic system on everybody.

Economics is all about achieving the best, subject to the constraints people have to face. Lee Kuan Yew recognised and respected the constraints of the real world. Utopia had no place in his mind.

He showed the world how he could optimise, subject to the constraints of Singapore. In a deep and subtle sense, he was a true economist.

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## Broken system

**Alice Wu** says it's time Hongkongers demanded politicians end their antagonistic tactics which are crippling the city's progress



From what we have heard from Beijing and in Hong Kong, there is a slim chance the city may just survive political reform. But at this point, political reform isn't the biggest of our problems. Our dysfunctional politics is: we are stuck in political dead water.

Like a vessel caught in dead water, progress has been slow. Our politicians seem to be propelling hard – attacking each other – but we have covered little distance. Not even the strongest of thrust can fight the phenomenon – our propellers have mostly been creating waves and turbulence between the two layers of "water" that are just not mixing.

The animosity is so toxic that the time has come for us to decide whether we want to get unstuck, or whether we accept that course of going nowhere. We know deep down that antagonistic politics – and the numbingly loud but boring talk that includes vows to veto, renewed vows to veto, cancelled talks, threats of obstruction, vote them out, us versus them, them versus us – is our greatest obstacle.

We have to get the two bodies of "water" to start mixing. Until that happens, it's just going to be a vicious cycle of mutual disrespect and distrust.

This city needs to remap our future in reconciliation, in the healing of broken relationships. Many have been calling for it, but little has been done. Certainly, those who should be calling for it themselves aren't even heeding the call.

But we must now demand it, not only because reconciliation is a moral cause. It's the only practical way for us to move forward. Positive working relationships are necessary in any democratic system. And it is this democratic culture we must first engender.

To reduce democracy to just holding elections is insulting. What democracy is supposed to do, is enable opponents, even enemies, to co-exist in a shared future. What a democratic culture fosters is an environment where differences can be worked out without destroying communities. That is definitely not what we have in Hong Kong today. Democracy, universal suffrage, and issues of the day are used as blunt instruments to inflict harm on one another at the cost of the community. Last week's question and answer session at the Legislative Council is just the latest example of that sort of politicking.

Desmond Tutu has called the process of reconciliation a "supremely difficult challenge" and a "supremely important task". It may be a daunting task but it's one we must commit to. And it is an effort we must demand from this city's and our nation's leaders.

We must decide whether we are going to sit back and condone our politicians' obsession in drawing lines of division, instead of reaching across existing ones. We must let them know that we hold no illusions as to what continuing on their chosen path of adversarial and antagonistic relations means.

Opponents and enemies aren't going to love each other, but reconciliation demands that they accommodate minimum respect, trust and cooperation in dealing with each other.

And we need to demand it now.

Alice Wu is a political consultant and a former associate director of the Asia Pacific Media Network at UCLA

## China's restrictions on barefoot lawyers could backfire, leading to more unrest

**Aaron Halegua** says social stability may be jeopardised unless the representation gap is bridged

In April 2005, the blind activist Chen Guangcheng led a group of families to a courthouse in rural China. After suffering unlawful detentions and forced sterilisations under the government's one-child policy campaign, they planned to sue the township mayor. A judge initially refused to accept the case. But Chen and the villagers argued there was no legal basis to reject it and insisted it be accepted. The judge relented and the lawsuit proceeded.

Chen recounts this story in his new autobiography, *The Barefoot Lawyer*. He is the most famous member of a group of mostly self-taught individuals providing low-cost or free legal services, despite lacking any licence to do so. The book's release coincides with a heated debate about the appropriate role for barefoot lawyers in China's developing legal system, which was sparked by recent legislative amendments that will restrict their work.

During the past 20 years, Chinese law made it very easy to use barefoot lawyers and their role in the legal services market grew. A litigant could choose any other citizen to represent him so long as the court approved; such approval was routinely granted.

Proponents of barefoot lawyers note that they provide at least some form of legal representation to the many citizens who are unable to hire lawyers or obtain other help. For, while the number of Chinese lawyers has grown significantly, they are highly concentrated in urban areas.

And even when rural residents can find lawyers, their fees may be prohibitively expensive.

Barefoot lawyers also play a significant role in administrative litigation – that is, when a citizen sues the government. In various localities, barefoot lawyers represent plaintiffs in up to a third of all such cases. These claims often contest government land seizures, fines and taxes, environmental pollution, or local corruption.

Lawyers are reluctant to take these "high risk, low reward" cases. Plaintiffs are often seeking to change the government's behaviour, not recover

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monetary damages. Lawyers also fear retaliation by the local government, such as revocation of their law licence. Legal aid is generally unavailable in sensitive cases because the local government controls that system. A barefoot lawyer is sometimes the only option.

But barefoot lawyers also have their critics. Some party officials warn that their rights protection activities threaten social stability. Judges have argued they inadequately

represent parties due to their lack of legal expertise and employ disruptive tactics in court. Even worse, barefoot lawyers may simply cheat parties out of their money. Licensed lawyers, echoing these arguments, have also lobbied for limiting this perceived source of competition.

In this context, China amended the law governing civil cases, effective as of 2013, to restrict citizens' ability to employ barefoot lawyers. An identical amendment for administrative cases takes effect in May. No longer can any citizen represent a party simply by obtaining court approval. Instead, barefoot lawyers may only appear in court in two instances.

First, a party's close relative may serve as his representative. But few people have an immediate family member with legal expertise. The second method requires the party to obtain a letter recommending the barefoot lawyer from either the party's employer, the residents' or villagers' committee where the party lives, or a "social organisation".

For civil cases, the recommendation requirement has not been weeded out the "bad" barefoot lawyers, as the committees lack guidance on when to issue the recommendations. However, when the new rule is applied to administrative cases, those barefoot lawyers seeking to bring sensitive cases will be screened out. Employers are unlikely to risk their relationship with the government by issuing

recommendation letters. And many rural residents have no employer.

The residents' and villagers' committees essentially function as branch offices of the local government. Similarly, China's larger "social organisations", such as the trade union, are staffed by civil servants and largely indistinguishable from government organs. These entities will not assist citizens to sue the government over sensitive matters.

Thus, the new rules will effectively prevent all barefoot lawyers from appearing in such actions.

If they are unable to find representation, citizens may forego the courts altogether and resort to more drastic measures. Thus, China's desire to maintain social stability requires bridging the representation gap. For its part, the government could grant lawyers more independence, create financial incentives to litigate administrative matters, encourage pro bono work, and ensure legal aid is available in sensitive cases, particularly in rural areas. But, ultimately, it falls to Chinese lawyers to fill the void.

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## Beware misguided strategies and the cobra effect

**Mike Rowse** says political false moves can come back to bite

There is a wonderful expression in English called "The law of unintended consequences", which describes situations where you set out to achieve a particular objective and, whether or not you are successful, you also (or instead) get a different result.

In its most extreme form, the outcome is the opposite of what you set out to do, and this is known as "the cobra effect", apparently after the introduction of a scheme in British India which promised a bounty for people who killed snakes led to citizens breeding more snakes so as to claim the reward.

There are three striking examples of the cobra effect in the news recently. The latest was the sudden pledge by Israeli Prime Minister Benjamin Netanyahu in the run-up to the general election that there would never be a Palestine state during his time in office if he were returned. The statement was popular with some right-wing members of the electorate and Netanyahu's Likud party won.

Presumably these voters found the statement reassuring as a commitment to securing a safe future for the beleaguered country. But to many friends of Israel, the outcome is more likely to create greater risk. In their view, and mine, Israel's future can only be secure when a recognised Jewish state lives peacefully alongside an Arab one. Therefore, the immediate consequence of the election gambit is likely to be growing pressure within European parliaments to formally

recognise Palestine within its 1967 borders, as the Swedish government has already done and an approach the UK House of Commons – admittedly in a non-binding vote – has endorsed.

More sadly, a new cohort of Palestinian youth will have drawn the conclusion that there is no peaceful route to a reasonable outcome, and the only way their country can be established is through war.

Another own goal has been scored by the US Congress. Five years ago, agreement was reached on reform to the International Monetary Fund's governing arrangements to grant recognition to the increased role played in the global economy by emerging countries such as China. But, apparently as part of an exercise to "contain" China in the economic sphere, Congress declined to approve the necessary changes.

After half a decade of waiting, China has, not surprisingly, lost patience and announced the formation of the Asian Infrastructure Investment Bank under its own leadership. Traditional American allies such as Britain, Germany, France and Italy have rushed to join, despite US pressure not to, and both Australia and South Korea are urgently reviewing their position. So Mr Boehner (leader of the House of Representatives), how do you like them apples? Is that the outcome you were after? Just to show that no one's record in this area is spotless, we should now consider China's recent efforts to extend its

sovereignty to virtually the whole of the South China Sea, irrespective of the traditional rights and boundaries of other countries, by turning submerged reefs into military airstrips and tiny barren islands into occupied communities. Surely a better way to do this would have been to use its economic pre-eminence to achieve de facto control by agreement.

By letting the military hawks in Beijing take the lead in what could have been a predominantly diplomatic exercise, all that has been achieved is that a country such as Vietnam, which fought a long and difficult war to get rid of the Americans, now entertains the US fleet in its ports. The Philippines – a former US colony which closed all the American bases – is seriously considering welcoming them back. Is that what the generals wanted?

Opponents of our chief executive, Leung Chun-ying, should bear the cobra effect in mind. Attempts to use the health problems of one of his daughters as a stick with which to beat him were most unwise, not to mention unethical. Already, one columnist on this newspaper has expressed sympathy for Leung, as indeed many parents are likely to have done, whatever they may think of his policies and performance in other areas. Snakes, once reared, can bite anyone.

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