

# ETHOS



Civil Service College  
Singapore



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"Soft Power"  
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# ETHOS

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## EDITORIAL

In the wake of ongoing economic malaise in much of Europe and the US, there is a sense in which optimism and growth need to be sought further afield. Indeed, if an ascendant China did not actually exist, it probably would have had to be invented. Nevertheless, arguments that China, were it willing, could resolve the world's economic (or environmental) woes anytime soon are misplaced. China's economy is still growing rapidly, but from a low base — it has at least decades to go before it can hope to replace current sources of global demand, and it now faces much tougher economic conditions and wage pressures going forward. At the same time, it faces significant challenges in jumpstarting the domestic consumption necessary to sustain growth (page 29). The institutions and infrastructure necessary to support a world-class economy, including high quality education, research and consumer activities, remains underdeveloped (page 12). China at large remains poor, particularly in the rural heartlands; social tensions between the newly rich and the persistently poor need to be managed; natural and environmental disasters can take their toll.

Yet judging from the media — and not a few scholarly pundits — the rise of China as a global power seems all but assured. There is of course evidence to support this auspicious view of China's development: its economic growth over the past decade has been phenomenal; the Beijing Olympics and Shanghai World Expo mark the triumphant re-entry of an age-old civilisation onto the modern cultural world stage; domestic sentiment and geopolitical relations are on a relatively even keel, notwithstanding the occasional blip.

In some areas, China even seems to be ahead of the global curve. Despite attempts to pin the shortcomings of the Copenhagen climate talks on an obstructive China, it has taken bold steps towards a clean energy economy — if nothing else, to secure its own energy needs and economic advantage in the long term. Riding on popular technologies that have allowed it to leapfrog the constraints of its vast geography, China now has the largest netizen population in the world, with implications for China's potential influence on the web, and perhaps its own social development.

Nevertheless, while observers such as Lye Liang Fook and Zheng Yong Nian

see a considerable opening up of Chinese society and political discourse (page 17), media veteran Yang Jin Lin (page 24) cautions that any social reforms are likely to be cautious and conditional rather than sweeping. China's leadership, while clearly cognisant of the many complex challenges in the way of its steady development, still need to strike a delicate and by no means unshakeable balance between ensuring stability and generating headlong growth for a nation hungry for modernity.

As long-time China observer Shaun Breslin points out (page 5), most views of China are based on its imagined, potential power in a projected future, and not the complex, evolving reality that is China today. A nuanced and dispassionate perspective is perhaps more sensible than either a triumphalist or alarmist view of what an emerging China means for the world. There are, after all, other emerging centres of interest in the world: in Asia there is India, and the not-inconsiderable resources of the ASEAN countries taken together. Nor does a global economy dominated by a single (even if benign) power necessarily mean a comfortable ride for open economies such as Singapore, given considerations of how the global trading regimes might evolve (page 43). Other small nations around the world have begun to formulate their

own responses in anticipation of an uncertain geopolitical landscape (page 50): diversify, boost education, find new niches, nurture social resilience and build a forward-looking, responsive public service – still prudent strategies to pursue no matter how Asia's growth story unfolds.

In the spirit of strengthening key public institutions, Goh Phek Suan from the Centre for Leadership Development, Civil Service College (CSC) outlines important principles to consider in the disciplined cultivation of next-generation leaders in the public service (page 57). CSC's Centre for Governance and Leadership principal researcher June Gwee examines a fresh approach to service innovation based on design principles (page 66). Cornell's Professor Robert Frank proposes a progressive tax to slash wasteful private consumption without reducing the resources available for public expenditure (page 76).

I wish you a productive read.

Alvin Pang  
Editor, ETHOS



Shaun Breslin

## China Engages Asia: The Soft Notion of China's "Soft Power"

A leading scholar argues for a more nuanced understanding of  
China's emerging geopolitical influence.

In an article in *Survival* in 2006, Bates Gill and Huang Yanzhong expressed surprise that China's soft power was not the subject of more attention.<sup>1</sup> How things change. Assessing the sources and extent of Chinese soft power has become a major talking point both within China and without. From within, the consensus seems to be that the global dominance of the US might not be challengeable for some time to come, but there is much that can be done to promote positive

images of China to the world to allay fears over China's role (and objectives) in the international order. From outside, however, some observers seem to think that China is already promoting new modes of governance that will challenge the existing dominant norms of both development and international relations: modes that perhaps look ever more attractive as Europe and the USA continue to struggle with the legacies of overseas military operations and economic crisis. Much of the discussion

over the reach of this soft power relates to China's engagement of South-east Asia in recent years.<sup>2</sup> It is here, according to one of the earliest proponents of China's soft power, that "Beijing is laying the foundations for a new regional order with China as the natural leader and the United States as the outsider".<sup>3</sup>

The whole point of identifying soft power in the first place is to make distinctions between different potential sources of power other than force, influence and persuasion.

So the nature of Chinese soft power is increasingly being discussed – and being discussed from different perspectives in different places for different reasons: inside and outside China; from those who write about Chinese policy and those who actually create policy (be it in China or the response to China) in government and academic communities; and in popular publications, op eds and commentaries in newspapers and magazines intended to influence publics and/or policymakers. It is thus not surprising that perceptions of the strength of Chinese soft power vary. But just as diverse is the basic understanding of what "soft power" actually is in the

first place. Indeed, the definition seems largely conditioned by the message that the writer is trying to get across. At the risk of oversimplification, the wider the definition of what is "soft", the more chances there are of finding (multiple) threats to the West. And it seems that (again not surprisingly) those who want to alert (or perhaps alarm) their audience are the most likely to use broad definitions including elements of finance, economics and diplomacy that would normally fall within considerations of "harder" sources of power – as if military power is "hard", and everything else can be grouped together as "soft" with nothing in between.

The whole point of identifying soft power in the first place was to make distinctions between different potential sources of power other than force, influence and persuasion.<sup>4</sup> As such, combining all non-hard elements together under a single "soft" definition does not allow for nuanced gradation of *different* sources/typologies of power, or allow for the development of a set of responses to these varied potential sources of power (rather than a single response). In fact, the more the term is used, and used with such different interpretations, the more meaningless it becomes.

## VARIETIES OF "NON-HARD" POWER

In trying to unpack soft power into different constituent elements, the first task is to strip out economic bases of power. As we shall see shortly, it is difficult to wholly separate the appeal of China as an economic partner from the *type* of economic partner that China wants to be seen as. But in the first instance at least, there does not seem to be much soft about wanting to develop good relations with China to take advantage of its market, and/or to attract investment, particularly if the possibility of losing such relations remains implicit for those who do not adhere to China's world view (for example, through the non-recognition of Taiwan).

Perhaps the attraction of the Chinese system and values is less important than China as a metaphor for "doing it your own way" or an example of what can be done.

This then leaves us with, perhaps, four very much inter-related but nevertheless, separate dimensions of China's non-hard power. The first is *soft power* as traditionally understood; the idea that others will align themselves to you and your policy preferences because

they are attracted to your political and social system, values and policies. Ironically perhaps, given all that has been written and said about China's soft power, it is here that China seems to have least power and purchase vis-à-vis other states and systems. Indeed, there is a strong case for saying that China's system repels rather than attracts — an understanding that is not lost on scholars and officials in China itself who are interested in China's soft power.

But while China might not immediately attract in this way, there is something nonetheless attractive about China — particularly for developing elites in some parts of the world. The record of growth promotion and poverty reduction really is impressive — and doing this whilst not giving in to western pressures to reform and politically liberalise is particularly attractive for those who would like to achieve the same in their own countries. In this respect, perhaps the attraction of the Chinese system and values is less important than China as a metaphor for "doing it your own way" or an example of what can be done. To be sure, it is usually based on a very partial reading and understanding of what the Chinese "model" might be. But all models are based on selective and partial readings of multiple realities, and the key here is that it grants China a form of power

and influence that does not have to be promoted by the Chinese authorities, and instead has its origins in the way that others conceive of China (and act accordingly).

This "passive" nature of soft power defined as attraction makes it somewhat different from the deliberate and active promotion of a national image to serve specific purposes. This seems to be what much of the Chinese soft power discourse is all about. But given that it is a clear attempt by a very powerful state to influence (if not coerce), it falls short of a strict definition of soft power and is instead suggested here to be a second and different form of power based on "*public diplomacy*" or "*international political marketing*".<sup>5</sup> In the domestic realm, this project seems to start from the realisation that the current system is a potential source of weakness, and instead emphasises the promotion of what China once was. Thus a somewhat idealised golden age is established, that which provides the basis for the way China acts today, and will continue to act in the future. Hence the notion of China as a "responsible great power" that will not act like other rising great powers before it, but because of its historical roots, will instead be a force for harmony and peace. Of particular relevance to South-east Asia here is the promotion of the idea that when China

was last in a position of ascendancy and power in the region, that was an era of peace and stability for all.

When China comes calling to do business, it does so without any liberalising strings attached.

In promoting this idea of a China that will be because of a China that was (or might have been), the intention is to allay fear from those who might otherwise see a rising China as upsetting the status quo. It is also informed by the idea that the more people know about China, the more they will accept why it acts in the way it does — for example, when it comes to issues like Tibet or Taiwan. The third source of non-hard power, what we might call "*normative power promotion*", is also built on the official promotion of a vision of China, but a different vision for a different audience. It is the promotion of a China as a "different" type of actor in international relations; one that is not seeking to impose its world view on others, and a power that thinks each country is free to do what it wants within its own sovereign territory. China's preferred world order is one that allows for plurality and democracy built on China's historical cultural predilection for harmony, virtue and society. Of

course, to be different, you have to be different from something — and the “other” in this case is a constructed image of the current world order as being dominated by an interventionist unilateralist West that has imposed itself across the world — by force if necessary — in pursuit of materialistic (individualistic) goals. By saying that China does not have a normative position and defining this against the dominant normative position of the West (or is it really just the USA?), then this “non-normative ideology” ironically becomes a normative position in itself! In this respect, it is not so much what China is that is important, as what it is not.

Of particular relevance to South-east Asia is the promotion of the idea that when China was last in a position of ascendancy and power in the region, that was an era of peace and stability for all.

### SEPARATING THE HARD FROM THE SOFT

This is where economic relations come back into the soft power equation, underlined by hard financial incentives. To put it bluntly, when China comes calling to do business, it does so without

any liberalising strings attached. To be sure, Chinese investors are increasingly seeking the same guarantees for their investments that others have long been searching for, and not recognising Taiwan remains a bottom line for continued relations of any sort. But there is certainly no demand to put in place a neoliberal economic order and a liberal democratic political system in order to have commercial relations with China.

Having brought economics back in, we now have a sizeable problem. For example, are African states prepared to deal with China because of its various forms of non-hard appeal and image promotion, or because of more material reasons? Is the increased number of people studying Chinese a reflection of their admiration of what China is today, to learn more about what it was before, or simply to make it easier to be a part of (and benefit from) China's ongoing transformation? Similarly, it is easy to look at South-east Asia, for example, and argue that the region is engaging China because of the success of China's international political marketing, or the appeal of its normative position, or both. It is even possible to argue, as Kurlantzick did, that “the appeal of China as an economic model” provided the basis for the creation of the ASEAN-China free trade agreement.<sup>6</sup> But it is also possible to simply suggest that it makes sense for the region to do what it

can to ensure that it is not damaged by what happens in China, and to benefit where possible.

This brings us to the final form of China's non-hard power. Even after three decades of reform, it is still not so much what China has become that is the focus of attention, as what it will become in the future. The word "will" is deliberately used instead of "might", as China's future rise seems to have been taken for granted by many. As a result, there is a tendency to treat China as it is today because of the power that it is expected to have in the future. Thus, in keeping with the understanding of soft power, China has been empowered by the way others think about China, leading to a shift in behaviour. But contra to the soft power idea, what we see is China's *"imagined power"* – the materialistic and harder sources of power that China is assumed to be on the way to developing, influencing the way that others treat it now.

None of this is meant to deny the importance of soft power. But if we want to understand the potential sources of why other countries act in relation to China, making a simple division between "hard" and "soft" power seems like a very blunt instrument. In particular, while there are indeed ideational and normative drivers of the way that others

There is a tendency to treat China as it is today because of the power that it is expected to have in the future.

treat China, to think that this is a reflection of a growing admiration for (and attraction to) the current Chinese political and social order might be going too far in most cases. Attraction to the Chinese economic record is another matter altogether. The desire to become tied to China's "inevitable" economic future is perhaps even more important. While it is indeed possible to bring these materialist issues under the umbrella of something that is very broadly defined as "soft power", to do so seems to say little about what is actually driving different policies towards China. And in the process it actually makes it harder to say anything useful about the real basis of Chinese power in the international order if everything is captured by soft power debates. The concept was designed to make us think again about what gives states, countries and societies power in the first place – and broad understanding and definitions of what is Chinese soft power simply do not allow us to do so. 

Shaun Breslin is Professor of Politics and International Studies at the University of Warwick, United Kingdom. He is considered a leading British academic expert on Chinese Politics and Economy, Globalization, Regionalism, Governance and International Political Economy.

He is the author of *China and the Global Political Economy* (Basingstoke: Palgrave-Macmillan, 2007), *Mao* (Harlow: Longman, 2000, first edition 1998.), and *China in the 1980s: Centre-Province Relations in a Reforming Socialist State* (Basingstoke: Macmillan and New York: St Martins, 1996).

Professor Breslin is an Associate Fellow of the Asia Research Centre based at Murdoch University and an Honorary Professorial Fellow at the Centre for European Studies, Renmin University. Professor Breslin is the Co-Editor of the Pacific Review. He also sits on the Editorial Committee of the Review of International Studies, the China and World Economy and Fudan Review of International Relations.

#### NOTES

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2. An issue I have explored in detail in Breslin, S. "Understanding China's Regional Rise: Interpretations, Identities and Implications" in *International Affairs*, 85 (2009) 779–813.
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4. The concept was established by Joseph Nye. See Nye, J. *Bound to Lead: The Changing Nature of American Power* (Basic Books, 1990) and Nye, J. *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2004).

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## Opinion

Kenneth Lieberthal

# Is China Catching Up with the US?

**While China has emerged as a key player in global affairs, significant challenges to its ongoing development should not be underestimated, argues Professor Kenneth Lieberthal of the Brookings Institution.**

Recent relations between the US and China have been wide-ranging, serious, mature, and basically cooperative – in the sense that both sides want to see the relationship work. The US-China relationship is one of deep interdependence, whether in trade, security issues, or a number of other aspects of international affairs. Each does better because the other is doing reasonably well, and if either nation runs into deep trouble, it affects both of them. Although there are significant disagreements, there are also common or compatible interests on major global objectives at a broad level. Both countries want a world that is basically stable and peaceful; both seek prosperity as a very high priority goal; both want the world to be able to engage more effectively in the fight against climate change; both feel threatened by terrorists and cooperate on counter-terrorism initiatives. Both leaderships want the bilateral relationship

to go smoothly. Neither is seeking to cause a major problem for the other as a key objective of national policy.

The move to the centre stage of global issues is too fast to be a comfortable transition for China.

In a sense, as President Obama has suggested, no bilateral relationship in the world is now more important than the one between the US and China. Since early 2009, truly global issues have moved to the centre of the US-China relationship for the first time: recovery from the global economic and financial crises and the related restructuring of the global financial system; nuclear proliferation in North Korea and Iran and beyond; climate change. It is certainly the case that these and other major global issues

become potentially easier to manage if the US and China can either cooperate in dealing with the issue, or at least act in a reasonably parallel fashion in their approaches to the issue. Conversely, every global issue becomes much more complicated and difficult to manage if the US and China are fundamentally seeking to undermine each other in their respective approaches.

Related to this new understanding – that China has become a critical player in dealing with global issues – is a significant shift in perception that the gap in what might be termed **Comprehensive National Power (CNP)** – overall hard power, economic capability and reputation – has narrowed between the US and China. This is a narrowing that has resulted primarily from the different track records and responses to the global financial and economic crises. The US suffered enormous losses over the last two years. At the same time, China has fared better than any other major economy in the same period, and has emerged from the crisis with lower levels of government debt than any other major economy, meaning that it has more degrees of flexibility going forward, financially, than the rest of the world.

There is probably no consensus in China as yet about how it should position itself on major global issues,

and the extent to which China should move from being a developing country narrowly defending its interests to being a global power that takes on greater obligations in contributing to global common goods. The move to the centre stage of global issues is too fast to be a comfortable transition for China. While the mood in China is very much a feeling that China has almost drawn equal to the US in CNP, China's top leaders suffer no such illusion, and are well aware of the challenges it faces. Nevertheless, the popular sensibility, even among the intellectual class, is that the gap has narrowed dramatically, and momentum is all in China's favour.

While the mood in China is very much a feeling that China has almost drawn equal to the US in CNP, China's top leaders suffer no such illusion.

This sensibility is based on a number of misperceptions. The first is that the US is so deeply in debt to China that China can call the shots. The reality is that China holds less than 7% of outstanding agency and sovereign US debt – it is the largest single holder of these categories of debt, but 7% is not significant enough to dictate terms, especially since the US is selling unprecedented amounts of

debt now at very low interest rates. Thus even as China is reducing its purchase of new debt, the US is having no trouble selling it. China, meanwhile, has placed an enormous bet on the US economy by dedicating a very large percentage of its foreign exchange holdings to US debt; it is a serious purchaser, but with an interest in having the US economy do well, because it cannot easily exit. It is in the interest of both sides to maintain a good relationship and keep moving ahead in this situation.

It is still uncertain whether China can undertake the structural reforms in how they manage the economy that will sustain rapid economic growth in the next five years.

Secondly, there is a strong feeling, particularly in light of the recent global crisis, that the Chinese system of economic governance has been the key to its economic success, and represents a superior model for economic development; a “Beijing Consensus” in contrast to the Washington Consensus. This is likely mistaken: for China, this was not a financial crisis; its banks were not involved in the kinds of debt that deteriorated so badly. Instead, China experienced only an economic crisis as

export markets contracted sharply for China. The response the Chinese took was to flood the whole system with liquidity, the consequences of which have yet to be determined. Fundamentally though, even if China’s economy has performed well so far, the current model — which is reliant on cheap labour and exports — is not sustainable. Labour costs are going up rapidly, and may skyrocket by 2015 as the number of new entrants to the labour force goes down dramatically. The economic malaise in Europe, North America and Japan will make it hard to support export-driven growth going forward. Furthermore, economic development in China has been rapacious in its exploitation of the environment to a degree that cannot be sustained — the lack of usable water, for instance, will become an accelerating problem. Wildly unbalanced growth may lead to problems due to increasing social inequality and resultant discontent, even from the middle classes concerned over rising property prices. Finally, the pervasive, enterprise-by-enterprise engagement in the economy by the government makes it very hard to resolve issues such as corruption, violation of intellectual property rights and local protectionism against goods from other parts of China without fundamental reform of the entire political economy. It is still uncertain whether China can

undertake the structural reforms in how they manage the economy that will sustain rapid economic growth in the next five years; what this does suggest is that there is no “Beijing Consensus” that can guide others’ successful growth.

China simply does not yet have high quality corporations that know how to run global operations or leverage technological change effectively.

The third dimension of whether China is drawing equal, or nearly equal with the US has to do with underlying strengths and fundamentals. The US still has the highest GDP in the world, while China’s is very much smaller, in both absolute and per capita terms. China simply does not yet have high quality corporations that know how to run global operations or leverage technological change effectively. Indeed, China’s economy is dominated by state-owned, vertically integrated enterprises, whereas for the past two decades, multinational corporations have been going in the opposite direction towards de-integration and focusing on being very niche, innovative, high value-add players. Global corporations have become enormously flexible because they are not vertically integrated and no

longer have to maintain their current product lines to keep the corporation going, whereas China in some ways seems to be rushing headlong into the 1980s in terms of basic corporate strategy. China is just beginning to jumpstart its technological base for innovation, whereas the US already has a very advanced and enormously effective system for ongoing innovation. The US has a higher education system that took many decades to construct; China is expanding its system at a startling rate, but it still takes several generations to build a mature, quality higher education system.

In terms of other aspects of national strength, the US has military power that is truly global and by far the most advanced; China is beginning to acquire long-range capabilities, but still lags behind. In addition, China has a skewed age distribution in its population that bodes ill for the future. Due to a combination of rapidly declining fertility in the 1970s and population control in the 1980s, China now has an unusually high percentage of its population in working age, as against dependents either too young or too old to work. By 2015, the population structure will begin to invert and, by 2030, China will look much like Italy and Japan, in terms of national age distribution, but it will still be a developing country

in terms of per capita GDP, which is a very challenging situation. This is a population age pyramid the US has avoided only because of significant immigration flows. Finally, the US has had many decades of experience in thinking and acting as a global power. China is now being thrust into the position of being a global power but without the mindset yet to necessarily handle that comfortably.

Most foreigners go to China and never see the developing country side of that equation, but it critically defines the equation.

All this is not to say that America is in good shape or does not face major problems. Instead, it is a reminder that China's leaders are accurate when they say that China is still a developing country — albeit one with some remarkable achievements. In a sense, China, with a little over 1.3 billion people, really consists of islands of modernity populated by perhaps 450 million people, surrounded by a sea of over 800 million people that is a developing country. And the two interact in every way, every day, all the time. It is this interaction between a developing country and a developed

country that defines the problems of China and the opportunities. Most foreigners go to China and never see the developing country side of that equation, but it critically defines the equation. It will take a number of decades at a minimum to transform China into a fully developed country. Those who assume that China can roughly match the US in capabilities now, therefore, are bound to be frustrated and disappointed by many of the things that may develop in the coming few years. 

Professor Kenneth G. Lieberthal is Director of the John L. Thornton China Center and Senior Fellow, Foreign Policy, Global Economy and Development in Brookings Institution. He has authored 15 books and monographs and over 70 articles, mostly dealing with China. He also served as Special Assistant to the President for National Security Affairs and Senior Director for Asia on the National Security Council from August 1998 to October 2000. Professor Lieberthal was in Singapore in July 2010 and delivered a lecture on "US-China Relations in the 21st Century: Cooperation or Confrontation?" at the Civil Service College.



## Opinion

Lye Liang Fook and Zheng Yongnian

# China's More Open Society and the Dynamics of Political Change

**China's political landscape is evolving in subtle but significant ways, as it develops economically and a more assertive and socially aware population emerges.**

**M**any observers have taken note of China's increasingly active role on the world stage, commensurate with its rising political clout and economic prowess. Its international credentials have been further boosted by its quick rebound in the global economic crisis. However, a preoccupation with China's diplomatic and foreign policy forays underestimates the intractable domestic challenges it still faces, particularly as it becomes a more open society. While democratising measures have been introduced to try to address these concerns, the key issue is whether these are sufficient to maintain social stability in a vast and complex nation. Ultimately, the pace of political change will depend on prevailing conditions and, more critically, on whether the Chinese Communist Party (CCP) assesses that more radical change is in its best

interests. Nevertheless, there is evidence that the CCP is pragmatic enough to make the necessary adjustments when circumstances demand.

## A MORE OPEN SOCIETY

China's sterling economic performance has often been attributed to its past three or so decades of reform and open door policies. Equally important, though less conspicuous, is the emergence of a more open society as a result of these policies. This greater openness is manifest in the growth of a more politically aware and, in some instances, more assertive population. In both urban and rural areas, the public has generally become more aware of their rights and are prepared to speak up, especially on issues that impinge on their interests.

This is evident in the public response to the eviction or insufficient compensation of farmers when their

land is cleared for redevelopment. One well-known case was the Chongqing nail-house, where a couple held out against pressure from developers and local officials for almost three years (from 2004 to 2007). Given the intense publicity surrounding this case, local officials were careful not to appear heavy-handed. Eventually, a resolution was reached through negotiations, with the state media hailing the amicable outcome arising from the compromise.

The Internet has further facilitated the opening up of society. Today, China has the world's largest Internet population of 384 million; it continues to grow by double digit percentages annually. There are also an estimated 766 million cell phone users in China. This information revolution implies that many ideas and viewpoints are being expressed and exchanged on bulletin boards, chat-rooms, instant messaging systems and phones, beyond the control of official censors. Realising the potential of this phenomenon, Chinese leaders, at both the central and local levels, have used the Internet and other media platforms to reach out to a wider audience, particularly among the tech-savvy younger generation. Increasingly, the views of the public are being taken on board in formulating public policies. Furthermore, Chinese leaders realise the importance of releasing timely and

accurate information in responding to natural disasters or mishaps in an effort to be more accountable to the public.

Significantly, the Chinese leadership has signalled their encouragement for a more open society. Both General Secretary Hu Jintao and Premier Wen Jiabao have emphasised the importance of mass supervision by the people as a means to curb malpractice and abuse of power by public officials.<sup>1</sup> This is intended to improve governance, and ultimately strengthen the CCP and the Government's legitimacy. On the other hand, this also means that the CCP and the Government will be subject to public calls for greater official accountability and transparency.

Ultimately, the pace of political change will depend on whether the Chinese Communist Party (CCP) assesses that more radical change is in its best interests.

There have already been instances where the public have disclosed cases of official extravagance, corruption or abuse of power, particularly via new media channels such as the Internet which is the most effective way to reach a wider audience while at the same time

allowing the source of the information to remain anonymous. Most importantly, the Chinese leadership seems to have treated such revelations seriously, taking action to punish the perpetrators after verifying the authenticity of these accounts.

Any perception of mismanagement could become more costly politically and erode public confidence in the leadership.

Other grievances that have caused public discontent include: urban-rural divide; income disparities; the treatment of migrant workers and their family members in cities; the lack of social welfare and affordable public housing; environmental pollution and degradation. With the rise of a more assertive population and loosening information flows, Chinese leaders and officials have come under closer scrutiny for the way they handle major events such as earthquakes, mining accidents, epidemics and other major civic mishaps. As a result of the rapid and extensive reach of new media channels, any perception of mismanagement could become more costly politically and quickly erode public confidence in the CCP leadership.

## POLITICAL INNOVATIONS

To meet rising public expectations for transparency and accountability, the CCP has proactively initiated various democratising measures at three broad levels: intra-party, grassroots and the civil society (especially through sanctioned non-governmental organisations or NGOs). In addition, taking the cue from the top, local leaders have adopted a people-oriented stance in resolving local disputes.

### *Intra-party Democracy*

Intra-party initiatives refer to measures or mechanisms that allow CCP members to “voice” their views and perspectives on different issues, and to hold the CCP leadership accountable to its members. Hu Jintao has particularly stressed the importance of intra-party democracy. Significantly, the current Vice President Xi Jinping was appointed after securing the most votes in a semi-competitive poll among provincial/ministerial-level and above officials,<sup>2</sup> even though he was not Hu’s preferred candidate as his heir apparent. This outcome tacitly recognises that internal voting is an important factor in deciding future leaders of the CCP.

### *Grassroots Democracy*

Grassroots democracy refers to political processes that are open to the

participation of individuals in which they have a say in decisions and policies that directly affect them. Central to this mechanism is the holding of village elections, in which (since the 1980s) villagers can vote directly for a committee to manage the daily affairs of the village. The village, however, falls outside the basic level of administration in China; the political impact of these elections is therefore fairly limited.

Going beyond the village, the CCP introduced direct elections at the township level — the basic level of administration in China — on an experimental basis in Suining County in Sichuan in 1998. Thereafter, various permutations in the election of township officials have been introduced in several counties in a number of provinces. The positions open to elections have been extended from township vice mayors to township mayors, and sometimes even township party secretaries. According to one estimate,<sup>3</sup> the number of such cases increased from a dozen in the mid-1990s to several hundreds in the late 1990s, and to several thousands by the early 2000s.

### *Civil Society*

While the CCP used to be hostile to any form of social organisation, perceiving them as harbouring motives that threaten its hold on power, it has since

recognised that such bodies can play a positive role in providing feedback or offering useful non-political services so long as they do not challenge the authority of the CCP. As a result, NGOs in China have grown in number — there were a total of 424,780 NGOs in 2009, an increase of 6.4% from 2008.<sup>4</sup>

In part, these NGOs have also emerged in response to the demands of a more diversified society which the CCP finds hard to meet. In areas such as poverty reduction, healthcare, environment, social welfare and charity provision, NGOs are sanctioned and encouraged to play a greater role. However, in more sensitive areas such as religion, ethnicity, political reform and human rights, the influence of NGOs is much weaker. Some NGOs are also more powerful than others. For instance, most commercial-related social organisations are quite influential due to the financial resources they wield.

The influence of NGOs in China can also depend on context and timing. During the Sichuan earthquake that struck China in May 2008, the CCP and government officials gave substantial leeway to NGOs to render disaster relief and assistance, especially in the initial period when communications with the stricken areas had been cut off. The effectiveness of these NGOs on the ground often depends on factors such

as their credibility, the mindset and attitude of local officials towards them, and their ability to coordinate their work with the local administration.

### *A More People-Oriented Image*

Besides these directed political policies, local leaders have also tried to present themselves with a more people-oriented and sympathetic face when attempting to defuse potentially explosive situations. A notable example took place in November 2008: Chongqing was faced with a strike involving reportedly more than 8,000 taxi drivers with a host of grievances ranging from a rise in taxi rental fees and fuel shortages to unfair competition from unlicensed taxi operators. Rather than resort to police action or impose a news blackout which would most likely have escalated the situation, the Chongqing government held a number of press conferences to publicise the steps it was taking to address the taxi drivers' grievances. Most notably, Chongqing's Party Secretary Bo Xilai (who is also a Political Bureau member) held direct talks with representatives of the taxi drivers, taxi companies, fuel operators and members of the public which were aired live on local television. This transparent approach of open dialogue and the speedy address of the taxi drivers' concerns helped to restore public calm.

## CONCLUSION

These intra-party and grassroots political innovations and even the greater leeway given to NGOs to perform non-political functions all indicate that the CCP is proactively adapting itself to stay relevant to the times. By doing so, it intends to hold on to power for many years to come.

The question is whether these political innovations are sufficient to ensure social and political stability.

Nevertheless, critics have highlighted the limits of such political innovations. While there is increasing emphasis on intra-party democracy, the Chinese political system is still very much a top-down process. Also, while grassroots democratic processes have taken place at the village and township levels, it is doubtful whether this will be progressively extended to include the administrative levels higher up. In civil society, NGOs are subject to various regulatory requirements, one of which is to find a relevant ministry or agency in China that is willing to sponsor their registration. This can be hard to come by as government agencies are careful not to be associated with a potentially controversial organisation. And while

the personal touch of individual leaders such as Bo Xilai are certainly welcome, these individual efforts are of limited impact in a vast country. China needs a more comprehensive and systemic approach.

In the final analysis, it is important for the Chinese leadership to nurture the right kind of institutions to create an inclusive system that can best address the concerns and grievances of the people. To be sure, they have taken steps in this direction in an incremental manner as demonstrated above. The question is whether these political innovations are sufficient to ensure social and political stability. It is at least clear that the Chinese leadership knows more needs to be done to improve the existing political system (with the CCP firmly at the helm).

In the past, when faced with a crisis, the CCP has shown that it has the mettle to make painful decisions. Most notably, the Third Plenum of the 11th CCP Congress endorsed an open door and reform policy in 1978 that set China on a course of growth and prosperity. Thirty years later, in 2008, the Chinese leadership reacted quickly by devising a 4-trillion *yuan* stimulus package to cushion the impact of the global economic crisis. Due to this and other measures, China was able to engineer a quick recovery. With such

a track record, it seems reasonable to conclude that when tough decisions need to be made, the CCP should be up to the task. 

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## NOTES

1. See “在人民日报社考察工作时的讲话”. Speech delivered by President Hu Jintao while on a study visit to the *People's Daily* Bureau on 20 June 2008 at <http://media.people.com.cn/GB/40606/7409348.html>. See also “Premier Wen talks online with public”, *China Daily* dated 28 February 2009 at [http://www.chinadaily.com.cn/china/2009-02/28/content\\_7522765.htm](http://www.chinadaily.com.cn/china/2009-02/28/content_7522765.htm)
2. At the 17th CCP Congress in October 2007, the CCP Central Organisation Department asked officials to vote on candidates to the Political Bureau Standing Committee. Xi Jinping secured the most votes, followed by Li Keqiang, He Guoqiang and Zhou Yongkang. In the interest of political stability, Hu Jintao and other leaders accepted the election results.
3. Hairong Lai, “The Causes and Effects of the Development of Semi-Competitive Elections at the Township Level in China since the 1990s”, PhD thesis, Department of Political Science, Central European University, Budapest, January 2008. <http://web.ceu.hu/polsci/dissertations/hairong.pdf>
4. NGOs is used here broadly to refer to social organisations (社会团体), civil non-enterprise institutions (民办非企业单位) and foundations (基金会). See statistics provided by China's Ministry of Civil Affairs at <http://cws.mca.gov.cn/article/tjsj/qgsj/>



Interview with Yang Jin Lin

# China in Transition

A Chinese media veteran shares his candid perspective on emerging sociopolitical trends in China.

## **To what degree do perceptions of China, both domestic and international, reflect the reality on the ground today?**

The Chinese people are generally satisfied with China's progress. Even the smallest and most remote rural areas — still relatively underdeveloped, where the population works very hard to put food on the table — have seen a meaningful material improvement in their lives since urbanisation and industrialisation took hold. Naturally, there is also a negative side when a society gets rich rapidly — cases of individuals flaunting their new wealth, unimaginable in the old days of poverty and hunger! For most Chinese today, however, their idea of the country is not ideologically driven but is based on their sense of well-being and a desire for a fair, just and equitable system. This is why there have been some instances of public backlash against cases of corruption or exploitation.

There has also been a genuine rise in Chinese pride and self-esteem, as demonstrated at major events

such as the Beijing Olympics and the Shanghai World Expo. This sometimes manifests itself in terms of nationalistic sentiment. But these are not the result of government campaigns or political mobilisation; instead, they indicate a certain degree of self-confidence among the Chinese people, and a willingness to express their identity.

China is neither heaven  
nor hell; it is a vast country  
in the midst of very complex  
and fluid development.

Western views of China's transformation tend to fall into two extremes. The first is overwhelmingly optimistic, full of praise for China's dramatic development, accompanied by claims that it will soon take the place of the US and so on. The second is pessimistic or even alarmist, constantly warning of some impending crisis, or cultural theories about the Yellow Peril and so on. These two poles of opinion

are really manifestations of an inability to come to terms with modern China's dynamic transition: outdated views of a stagnating China are clearly no longer valid, yet there is no new intellectual basis by which to understand the changes that are now happening. There are no textbook models for China's current trajectory. Many of these observers have never been to China, not even the major cities, and yet there have been sweeping claims about its rural areas, mountains and plains; some of these scholarly views are based on simple ignorance. China is neither heaven nor hell; it is a vast country in the midst of very complex and fluid development. It is important to keep an open mind and look at China today on its own terms.

**How would you characterise China's youth today, who will form the backbone of Chinese society in the coming decades?**

It is the place of youth in any country to be dissatisfied with the current state of affairs — China is no exception. There are a few issues of contention: for instance, many young people with higher education qualifications find it hard to get a job, and there is a perception that opportunity and social mobility are still limited, which has led to dissatisfaction. What is remarkable, however, is that young Chinese today are intelligent and independent-minded, and no longer follow political dogma uncritically;

naturally, they are a vibrant generation, eager for reform. At the same time, they are also a pragmatic lot and are generally less interested in political demonstrations. Nevertheless, they remain well informed about economic issues and current affairs. If you want to appreciate the mindset of the Chinese population 8–10 years from now, look at the current stars of China's youth culture — such as pop singer Li Yuchun (李宇春) or the writer and social critic Han Han (韩寒) — who have followers numbering in the hundreds of millions.

Young people in China are neither naive nor apathetic. There used to be a negative impression of their sense of civic and social responsibility, but recent events clearly demonstrate that they will stand up for their country when the occasion arises. Politics cannot teach this; it comes from a love of nation.

**What is the right balance for China between enacting challenging but necessary reforms, and maintaining social stability? Could things get worse before they get better?**

In any reform process, there will always be a degree of upheaval in the short term. This is especially the case in modern China, which has experienced such dramatic change in a short time. In a mature society, some level of unrest can be absorbed, so long as it does not exceed certain expectations

or limits. Otherwise, it may hinder or undo the reform process; there is also an opportunity cost to chaos. The shock treatment that Yeltsin introduced to Russia after the collapse of the Soviet Union proved that aggressive reform is counterproductive.

Young Chinese today are intelligent and independent-minded, and no longer follow political dogma uncritically.

The current Chinese leadership, unlike their predecessors such as Mao Zedong or Liu Shaoqi, are not politically audacious; they believe in small, prudent steps rather than broad, sweeping changes. There is a technique in Beijing Opera called “suibu” (碎步), which means to walk in tiny, closely paced steps instead of large strides. Progressive reforms are likely to be gradual but ongoing, calculated to incur the lowest social cost. Now that China has attained a certain level of material success, it is in a much better position to accommodate different interests.

For instance, the administrative and economic reforms being implemented in Shenzhen are relatively modest, and are based on the experiences of the Singapore and Hong Kong governments, but it is an attempt to try out a new

model for reform in one of China’s most economically developed areas. Another example is the lifting of agricultural taxes for farmers, which has been well received.

The most noteworthy of China’s recent reforms have actually been in terms of democratic processes within the Chinese Communist Party itself, including how the cadres are managed and monitored, and the selection of leaders, etc. It is too early to tell if these progressive measures will succeed, but the Party is well aware of the need for change; otherwise, it will lose its legitimacy and be left behind by history. The approach of China’s top leaders, Premier Wen Jiabao and President Hu Jintao, are illustrative: Instead of exercising absolute authority, Hu has sought to develop a shared decision-making process among senior members of the party, through a process of consultation and compromise. Thus, the decisions of the Chinese leadership are not those of individuals but derived through consensus.

**How is Singapore regarded in Chinese policymaking circles today? Is Singapore still considered a model for development?**

I think this is an interesting question. The role that Singapore plays in the modernisation of China has not abated, but has in fact strengthened. In

particular, the Chinese government's 2020 time frame for administrative reform means there is an urgent need for the training and development of China's civil service; there is much to learn from the experience of other countries in terms of public administration, management and development. Singapore is still an important point of reference.

Progressive reforms are likely to be gradual but ongoing, calculated to incur the lowest social cost.

Furthermore, Singapore has been visionary in its many initiatives to strengthen ties with China, with successful projects such as the Suzhou Industrial Park, the Tianjin Eco-city, and the Knowledge City in Guangzhou. I think such full-scale application of Singapore's economic and management expertise through these different model projects is very promising. Singapore may think it is very small, but its relationship with China is probably the best developed in ASEAN; its leadership treads a rational and balanced middle ground, without allowing its size to be a weakness. The Chinese government deeply understands Singapore's delicate diplomatic position.

When China expressed its displeasure at PM Lee Hsien Loong's visit to Taiwan on his own initiative, I believe it was merely a test of the strategic bottom line for both parties, and it should no longer be a cause for concern. Singapore is a benchmark to which the Chinese government refers in its handling of relationships with peripheral countries.

It's worth pointing out that the Chinese government seems to be far more sophisticated in its handling of international affairs – particularly since China has become much more prosperous and economically influential – than in dealing with domestic issues!

That said, the current generation of civil servants in Singapore should invest time to learn about the reality in China, given that no country in the region can avoid dealing with China in some way. Without a deeper understanding of the real issues or a good grasp of political and economic concepts in the Chinese language, Singapore may lose the regional advantage it has possessed so far in interacting with China. Singapore's leaders, from Lee Kuan Yew to Goh Chok Tong and Lee Hsien Loong, have understood this. The current and future generations of public servants should ensure that Singapore retains this edge. 

Yang Jin Lin (杨锦麟) is a senior political commentator and host of a number of popular programmes on Phoenix Television. He is well-known for his passionate, candid yet humorous interviews with the public. A graduate of Fujian's Xiamen University Faculty of History, Yang worked in Hong Kong for a number of mass media companies as reporter, chief editor, chief writer and magazine editor. He was also a columnist for a few newspapers in Hong Kong and a special reporter for Asiaweek. In Singapore to deliver a lecture on "Emerging Attitudes Towards China's Elites", Yang was interviewed by Alvin Pang, Editor, ETHOS and facilitated by Soh Tze Min, Researcher in the Centre for Governance and Leadership, Civil Service College. The original interview was conducted in Mandarin and has been translated for publication in ETHOS.



Opinion

Lai Szu Hao

# China's Consumption Challenge

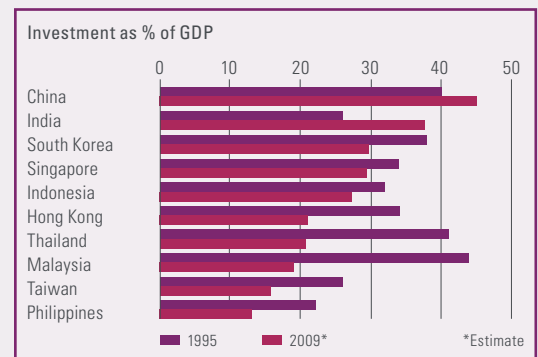
**China faces formidable challenges in its attempt to stimulate the domestic demand necessary to sustain economic growth in the long term.**

**T**he growth strategy that has served China so well over the past two decades and lifted millions out of poverty may have reached the point of diminishing returns. China's leaders have been aware that the state-directed model of export and investment-led growth was losing momentum even before the start of the global economic crisis. The developed world's synchronised recession in late 2008 was a system shock to China's export dynamic, and highlighted the vulnerability of China's unbalanced growth model, particularly in a climate of starkly weaker external demand.

Stephen Roach, chairman of Morgan Stanley Asia, has suggested that the post-crisis global economy is likely to experience a multi-year consolidation of the American consumer; export-driven economies like China are expected to face stiff headwinds in the years ahead.<sup>1</sup> While the global economy is on the path to recovery, China can no longer depend on the conventional cycle of a

robust rebound in global growth that has sustained its export-led growth model since the 1990s. The current European debt crisis and the plunging euro are hurting China's export to its biggest overseas market. Roach warned that if China stays the path of the old growth model and fails to embrace the pro-consumption model, it risks compounding its already formidable imbalances. This is the most apparent in the investment share of China's GDP, which is moving above 45%. This is a record for any major economy and is

**FIGURE 1. INVESTMENT AS % OF GDP FOR ASIAN ECONOMIES**



Source: Morgan Stanley

simply unsustainable for any economy, including China.

### CHINA NEEDS A CONSUMER-CENTRIC DOMESTIC ECONOMY

Economists like MIT's Professor Huang Yasheng and Cornell University's Professor Eswar Prasad have suggested that China turn to its greatest asset — its 1.33 billion citizens — whose private consumption capacity has yet to be fully tapped. The need for a pro-consumption transition in the Chinese economy is evident. But can the country's growing army of middle-class consumers be called upon to fill the demand vacuum created by flagging American and European consumer spending?

Stoking China's domestic private consumption is currently a top national policy agenda. As early as the first half of 2007, Premier Wen Jiabao had signalled that while China's economy appeared robust on the surface, it was increasingly “unstable, unbalanced, uncoordinated and ultimately unsustainable”.<sup>2</sup> In September 2009, Premier Wen emphasised that China should “make greater effort to enhance the role of domestic demand, especially final consumption, in spurring growth” and highlighted that this would be “a long-term strategic policy for China's economic growth”.<sup>3</sup> It is evident that even a competitive export-driven economy

like China could not sustain rapid increases in living standards without an accompanying degree of broad-based private consumption — which should arise as a consequence of economic growth, and which can then fuel the next cycle of demand and supply.

While the global economy is on the path to recovery, China can no longer depend on the conventional cycle of a robust rebound in global growth that has sustained its export-led growth model since the 1990s.

Indeed, the International Monetary Fund has noted that “raising private consumption over the longer term through structural reforms that lower precautionary savings would provide a large impetus to output growth and reduce the need for gaining further [international] market share. It could allow productive capacity in tradable sectors to be directed to the internal market and new capacity built in sectors that serve local consumers. As such, it would avoid the limits to over-reliance on export-oriented growth that were seen in other major exporters such as Japan and Korea”.<sup>4</sup>

### *The Reluctant Chinese Consumer*

At present, China has by far the lowest share of private consumption to GDP in Asia. Even though consumer spending is increasing, it is not growing rapidly enough. Private consumption has actually been declining as a share of GDP, from 46% in 2000 to a mere 35% in 2008.<sup>5</sup> In 2008, China's consumption-to-GDP ratio was only half that of the United States and about two-thirds those of Europe and Japan. On the other hand, household saving rates in China have been escalating. From 1995 to 2008, the average urban household saving rate in the country increased by 11% to about 28% of disposable income.<sup>6</sup>

This reluctance to spend and consume may have cultural roots. Observers such as Minister Mentor Lee Kuan Yew have pointed out that the Chinese citizenry's pro-savings mindset is "deep-seated, born

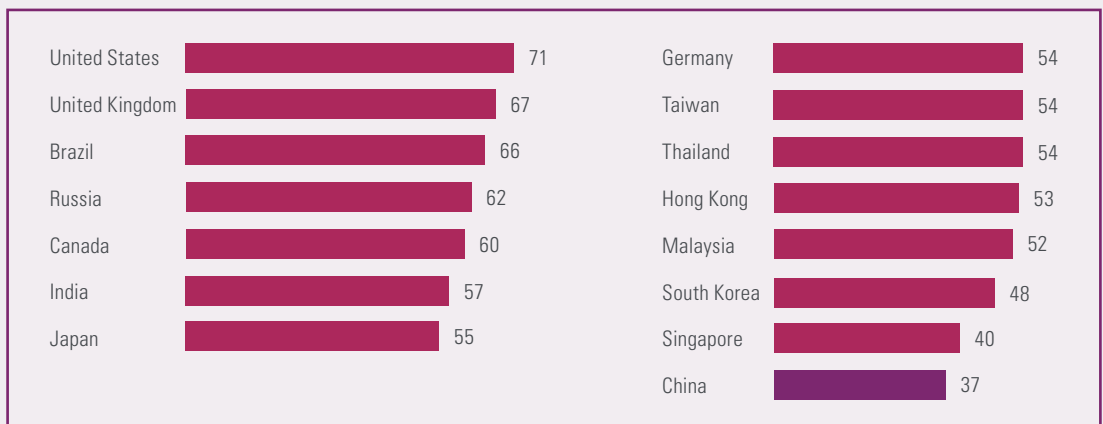
of centuries of deprivation. Their experience over the millennia is that during floods, famine, pestilence, earthquakes and war, the central government will not rescue them; therefore, savings are vital to survival."<sup>7</sup>

The challenge of low personal income growth has been further compounded by the lack of income security as a result of inadequate social safety provisions.

### *Lack of Private Income Growth and Security*

Low private consumption in China can also be attributed to low personal income growth. China has experienced rapid economic growth over the past two decades as a result of tremendous

**FIGURE 2. 2008 PRIVATE DOMESTIC CONSUMPTION AS % OF GDP (IN REAL 2000 DOLLARS)**



Source: McKinsey Global Institute

external demand for its goods. In the post-economic crisis period, China's strategy of paying low wages to its workers and depending on external consumers to absorb surplus production is likely to be far less effective. China may now need to emphasise personal income growth over production. However, the 2009 stimulus package demonstrated that the Chinese economy was not moving in this direction. On the contrary, China increased government spending and investment by state-owned enterprises to cushion the impact of weak exports, instead of implementing necessary measures to boost the income of its citizens.

The challenge of low personal income growth has been further compounded by the lack of income security as a result of inadequate social safety provisions. Analysts have highlighted several critical developments that may account for excessive savings among Chinese households. First, massive downsizing due to state-owned enterprise reforms over the past one-and-a-half decades has led to job and income insecurity. Some estimates put the total job loss associated with such restructuring efforts at over 65 million workers since the mid-1990s.<sup>1</sup>

Second, the lack of a social safety net to protect displaced workers has rendered it difficult for them to draw down excessive levels of precautionary

savings. Many of these workers used to derive immense security from lifetime employment, a steady income and the benefits of an "iron rice bowl" integral to state-owned enterprises in the past. The loss of these provisions means that households may now be saving more to cushion themselves from the effects of growing macroeconomic uncertainty as China transits to a market-oriented economy.

Third, the escalating private burden of expenditures on housing, education and health care may be encouraging precautionary saving. This may also have been amplified by an "underdeveloped financial system, which provides low returns on bank deposits and constrains borrowing against future income."<sup>6</sup>

### ***Structural Features Inhibit Private Consumption***

Current economic arrangements in China also greatly favour large, mostly state-owned industrial companies, which enjoy preferential financing from state-controlled banks, and exercise significant monopoly power (especially in sectors like telecommunications and energy). This stems from the beliefs among the Chinese political elites that deregulation could be a main source of market volatility and the state sector should play an instrumental role in promoting stable economic growth.

This state of affairs limits employment growth and disadvantages consumers, discouraging households from spending their relatively modest and shrinking share of the national income. Presently, Chinese households command only some 56% of national income, compared with more than 60% in Europe and more than 70% in the United States.<sup>8</sup>

### ***Policy Measures to Boost Private Consumption***

Any policy intended to boost domestic private consumption needs to address structural factors that both channel income away from consumers and discourage them from spending their share of national income. There is evidence that the Chinese government recognises the challenge of inadequate social safety net and the need for structural reforms.

In August 2000, the Chinese government set up the National Social Security Fund, a strategic reserve fund to mitigate the looming ageing crisis and help provide financial protection for pensioners. By the end of 2009, the fund had RMB776.6 billion of assets under management.<sup>9</sup> The State Council also enacted a 3-year RMB850 billion national health insurance plan in January 2009 to provide basic medical security to all Chinese in urban and rural areas, improve the quality of medical services

and make medical services more accessible and affordable to ordinary people. While the plan aims to provide some form of insurance for 90% of the population by 2011, each person covered by the system would only receive an annual subsidy of RMB120, starting in 2010.<sup>10</sup>

Measures to make goods and services better and more easily available could encourage consumption much more than strengthening the social safety net.

Since mid-2009, the Chinese government has expanded subsidies to help the country's vast rural population purchase home appliances and automobiles as part of its efforts to boost domestic consumption. They have also loosened consumer credit in the short term to encourage spending. In the longer term, however, the financial uncertainties faced by Chinese citizens can only be countered by major policy initiatives in social security, pension system, health care and unemployment insurance. Although China's 11<sup>th</sup> Five-Year Plan in early 2006 had established a broad framework for advancement to a consumer-driven growth model, there may need to be an expansion of social

security policies in the 12<sup>th</sup> Five-Year Plan, which runs from 2011 to 2015. According to the China Development Research Foundation, a government think-tank, the state would need to invest RMB5.74 trillion by 2020 to establish a comprehensive social welfare system for its citizens.<sup>11</sup> This would encompass pensions, education, health care, housing, employment as well as aid to rural residents and migrant workers.

Nonetheless, better health and pension benefits cannot guarantee a significant boost in private consumption. It depends on how the social security framework is financed. If enhanced social security benefits are financed through increased income taxes, households would have less money to spend, notwithstanding reduced pressure to save for rainy days. Much would depend on the impact of income allocation on private consumption. There may need to be policies to channel more income to the households (vis-à-vis the state and enterprises) which would require a macroeconomic adjustment via new fiscal policies. Another approach might be to enhance other revenue sources such as capital gains, inheritance and property taxes. State-owned enterprises could pay dividends to the government to finance social security. By increasing the income share of households, citizens would enjoy greater means to consume.

Deficiencies on the supply side of domestic consumption would also need to be tackled. Measures to make goods and services better and more easily available could encourage consumption much more than strengthening the social safety net. Given the largely underdeveloped consumer infrastructure in rural China, the development of large-scale consumer goods and services industries, especially retail, hospitality, transportation, logistics and other commercial services could be a real boon to China's employment and social stability imperatives. This can only be achieved if the state invests more in the service sector and if public policy is more favourable to small and medium enterprises as well as to private-sector development.

## CONCLUSION

The Chinese government is sensitive to any signs of social instability. In the face of a global economic crisis, it announced in November 2008, a RMB4-trillion (US\$586 billion) fiscal stimulus which was designed primarily to arrest politically-unacceptable unemployment rates. This was implemented despite the risks of intensifying both overcapacity and overdependence on investment and exports. The two trends of increasing Chinese investment and waning American as well as European consumption are simply incompatible

and China's export-oriented growth will be unsustainable under such a scenario. Hence China must find ways to expand its domestic demand on a lasting and substantial basis. But there is no single magic bullet for making a quick shift from excessive dependence on exports and investment. Policy innovations will be needed to promote private consumption and to ensure more balanced growth of the Chinese economy.

A consumer-led rebalance will result in a more sustainable growth model for China. This development will help to mitigate the country's overwhelming labour absorption problem and buffer the Chinese economy from future global demand shocks. This will also allow China's trading partners to participate in the expansion of its enormous base of domestic demand, thereby reducing their trade deficits with China. In addition, a major shift away from the industrial production underpinnings of exports and investment will also make growth less energy and resources intensive, as well as more environmentally sustainable. As the transition will bring about increased domestic investment, it could boost the productive capacity of the Chinese workers and help reduce income inequality. If China succeeds in making a major strategic shift in its growth model and adopts pro-consumption structural changes, it could reap significant benefits towards

its aspirations of a harmonious society, with higher standards of living for Chinese citizens as well as greater regional and global economic stability in the long term. 

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#### NOTES

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Augustine Chong and Andy Eng

# China's Clean Energy Thrust

Why China wants to become a clean energy powerhouse —  
and what it means for the global economy.

China has been able to achieve high growth rates for several decades by increasing inputs of labour and capital while tapping on cheap supplies of fossil fuels. Due to the rapid pace of industrialisation, urbanisation and motorisation, China's energy consumption has grown rapidly and currently takes up close to a fifth of worldwide energy demand. According to some projections, China alone will account for 34% of the global energy demand growth by 2020.<sup>1</sup>

However, Chinese policymakers have recognised that this high carbon and

energy-intensive development path is not sustainable and will undermine the achievement of key economic and social development goals if left unchecked. Consequently, China has in recent years stepped up efforts to transit to a clean energy economy, for a number of reasons.

## *Supplementary Energy Sources*

Firstly, rising energy demand in the country has generated a need for China to turn to alternative energy such as nuclear, hydropower and renewable

to augment its energy supplies from traditional sources.

### ***International Pressure for Clean Energy Development***

As the world's largest emitter of carbon dioxide, China is also facing strong international and domestic pressure to address environmental concerns brought about by its rapid development. Beyond pursuing the development of renewable and clean energy sources for power generation and implementing other "green" measures such as planting new forests, China has, for the first time, set domestic targets to cut, by 2020, the amount of carbon produced per unit of gross domestic product between 40% and 45% from 2005 levels.

China is aggressively driving energy efficiency and conservation even as it seeks to augment its energy supply.

### ***Clean Technology is a Growth Sector***

Beyond these resource and environmental concerns, Chinese policymakers also see the development of the clean energy sector as a means to fuel its next phase of growth. Cognisant of the growing demand for clean energy, China is now pushing to become the global manufacturing capital for the renewable

energy sector, specifically in solar panels, wind turbines and batteries. Besides harnessing renewable energy through its favourable natural attributes — these include the Gobi desert for solar power and rich natural resources such as lithium for producing renewable energy component parts — China is also building itself up to be the world's biggest market for these products.

The solar photovoltaic (PV) sector is a good example of China's push to grow renewable energy into a key export industry — Chinese solar PV manufacturers, many of whom did not exist 10 years ago, now supply 30% of the world's demand for solar panels.

It is worth noting that China's push towards clean energy is driven primarily by pragmatic economic reasons and does not yet reflect a fundamental shift towards green policies and a new state of environmental consciousness, where its record — especially on environmental protection — remains patchy. Its investments into alternative energy notwithstanding, the Chinese economy will remain fossil fuel-based for a long time to come, largely due to its huge resource base. Coal will remain the dominant energy source for the foreseeable future, and represent some two-thirds of China's projected total primary energy demand in 2020, with nuclear, hydropower, biomass and waste

accounting for most of the rest. And while China leads in making green investments, it remains a laggard in confronting environmental challenges, particularly the huge pollution problems arising from its rapid and largely unregulated industrialisation.

## CHINA'S KEY ENERGY POLICIES

While the Chinese government has yet to unveil an overarching and comprehensive energy policy framework for the country, it has taken first steps towards this with the establishment of a high-level national commission to coordinate energy policy.<sup>2</sup> Currently, energy goals and objectives are articulated in the Five-Year Plans developed by the National Development and Reform Commission (NDRC) – the main policymaking body in China on energy, environment and climate change – and implemented through various bills, such as the Energy Conservation Law, Public Sector Energy Saving Regulation and Civil Energy Bill. Such legislation has varying applicability to local governments (county, municipal and provincial); compliance with the guidelines and targets set by the central government depends on the alignment of interests between the central and local governments, which means that the policies may sometimes not be implemented in the manner intended by Beijing.

China's energy policies can be generally grouped according to the three key policy objectives they seek to address.

### *Improving Energy Efficiency and Enhancing Energy Conservation*

Energy efficiency is a key regulatory priority. In 2008, China revised its Energy Conservation Law to declare that it “implements an energy strategy of promoting conservation and development concurrently while giving top priority to conservation”. In terms of goals, each province has been assigned an energy intensity reduction target ranging between 12% and 30% of 2005 levels by 2020, with the respective governors held accountable to the targets.<sup>3</sup> To date, China has made some headway towards reaching this goal, having achieved a 14.4% reduction nationwide by end 2009.

Aware that surging energy demands means a growing reliance on imported energy, China is aggressively driving energy efficiency and conservation even as it seeks to augment its energy supply. Measures include setting energy efficiency benchmarks for enterprises,<sup>4</sup> rebate programmes to subsidise the purchase of energy efficient light bulbs and “green” government procurement. Steps are also being taken to enhance the efficiency of China's energy infrastructure. These include hastening the development of

the west-to-east power transmission system and replacing small oil-burning units to improve energy efficiency in the power generation sector.<sup>5</sup>

Chinese policymakers also see the development of the clean energy sector as a means to fuel its next phase of growth.

In transportation, apart from setting high fuel economy standards,<sup>6</sup> the Chinese government is also leading the adoption of energy-efficient vehicles. A total of 13 Chinese cities will be piloting subsidy schemes for “new energy vehicles”, ranging from US\$7,350 for small hybrid passenger cars to US\$87,700 for large, fuel-cell-powered commercial buses. The subsidies will target public-sector purchases such as public transportation, sanitation, and postal services. In addition, the government is building up its automotive manufacturing capacity to roll out highly efficient cars, including hybrid-electric and pure electric vehicles. This thrust is not only aimed at improving the overall efficiency of the transport system, but is also meant to create new export opportunities.<sup>7</sup>

### *Development of Renewable Energy Industry*

China's Renewable Energy Law of 2006 and the subsequent Medium and Long-Term Development Plan for Renewable Energy set an ambitious framework of targets to develop various renewable energy sources, calling for the percentage of renewable energy to rise to 10% of total energy consumption by 2010 and 15% by 2020.<sup>8</sup>

Correspondingly, the NDRC expects the country to have to invest more than 2 trillion yuan (US\$260 billion) in renewable energy development to reach these goals. Half of this proposed investment will go towards exploring China's rich hydropower potential. Hydropower, which accounted for 15% of China's electricity generation in 2006, has become an important alternative to coal in its energy mix, as have wind and nuclear power. Wind power is projected to increase 25-fold and contribute 3% to China's power needs by 2030. Nuclear energy is also projected to increase its share of power generation from 2% in 2007 to 6% in 2030.

These developmental initiatives are supported by a series of tax policies, ranging from preferential tax treatment for companies in the renewable energy sector<sup>9</sup> to a levy on electricity tariffs that is channelled towards renewable energy projects.<sup>10</sup> From 2010, China's utilities

will also be required by law to buy all the power produced by wind farms and other renewable sources.

### ***Securing Energy Resources All Over the World***

Whilst it seeks to develop its renewable energy capacity and capabilities, China is realistic about the limits of energy efficiency and diversification, and recognises that it will not be able to completely wean itself off dependence on imported fossil fuels. Consequently, it is actively negotiating contracts to secure piped gas and oil from the Central Asian republics, e.g. Kazakhstan, Iran and Myanmar. In the last two years, China has made large overseas oil investments in Venezuela and Latin America, a move which would help reduce its reliance on existing suppliers in the Middle East, Africa and Australia. These sources also have the strategic benefit of sidestepping vulnerable sea-lanes such as the Straits of Hormuz and the Malacca Straits, thereby lowering exposure to external geopolitical turbulences.

## **CHALLENGES**

Despite strong financial and political backing, China's push towards clean energy and a low carbon economy is not without its challenges. One such challenge comes from the continued dominance of energy intensive industries,<sup>11</sup>

which has been identified as a contributing factor in China's inability to meet its first short-term energy intensity reduction target.<sup>12</sup> Recognising this, the NDRC has recently announced plans to raise power prices for some energy-intensive firms in renewed efforts to control the expansion of such energy-guzzling and pollutive industries.<sup>13</sup> In the years ahead, China will need to carefully calibrate the contribution of such industries to its economy to effectively manage the inherent tension between its low carbon aspirations and ongoing industrialisation drive.

China's push towards clean energy is driven primarily by pragmatic economic reasons and does not yet reflect a fundamental shift towards green policies and a new state of environmental consciousness.

Another key challenge for China would be to augment its current suite of legislative and industrial policy tools with market-based tools to drive consumer and business behaviour towards energy conservation/efficiency and low carbon technologies. This will include re-looking the practice of energy subsidies in the country, which

is hindering the full realisation of the potential energy efficiency savings in China.

## GLOBAL IMPLICATIONS

China's massive clean energy investments, coupled with her huge domestic market, have allowed it to stake a lead in the global clean energy race. In particular, its strategy for dominating the global clean energy sector through targeted and coordinated public investments in the development, deployment and procurement of new technologies has enabled it to establish an edge over competitors such as the US. Although it has already established market leader position in areas such as solar PV manufacturing, China is planning further direct investments totalling at least US\$440-US\$660 billion over 10 years,<sup>14</sup> with much of the investments directed at growing domestic clean technology industries in order to meet aggressive low carbon and technology deployment targets.

In the face of such competitive pressures from China, countries that are seeking a slice of the clean energy pie would have to come up with strategies that are tailored to their strengths and natural attributes. In the case of big economies like the US, this would mean

closing the investment gap, particularly in the area of public investments into clean technology R&D, manufacturing, deployment and infrastructure.

Countries like Singapore, which have limited capacity and resources to take as aggressive a stance in making clean energy investments, will face more challenges. Hence we have to move quickly into specific niches where we can remain competitive in the clean energy race. Although Singapore may lack China's financial wherewithal, manufacturing capacity and market scale, we can still ride industry growth trends by playing to our competitive strengths. From an overall system perspective, we remain an attractive "living laboratory" for companies to develop, showcase and export clean energy products and services. We should make full use of this advantage to anchor major clean tech players in Singapore.



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2. According to a statement by the State Council, the commission, headed by Premier Wen Jiabao, will formulate a "national energy development strategy", review energy security and development issues, and coordinate international cooperation. Besides Wen, the 23-member commission will include several of the country's ministers, including those with the finance, foreign affairs, commerce and environmental protection portfolios.

3. Wong, Julian and Light, Andrew, *China Begins Its Transition to a Clean-Energy Economy* (Center for American Progress, 4 June 2009).

4. The Top 1,000 Energy-Consuming Enterprises programme, which China started in 2006, sets energy efficiency benchmarks for the top 1,000 energy-consuming enterprises across nine sectors of heavy industry. These 1,000 industries alone constituted 33% of China's overall energy consumption.

5. Smaller and less efficient power plants in China are closing down as larger, more efficient power plants are built. This active policy of "opening the large and closing the small" has led to the shutdown of 34GW worth of small, inefficient plants between 2006 and 2008, with another 31GW of such plants expected to be closed over the next three years.

6. China has fuel economy standards that translate to 36.7 miles per gallon (mpg), which compares well to that of the US, which currently stands at less than 30mpg and will be raised to 35.5mpg by 2016.

7. A good example of this would be China's push to gain first mover advantage in the mass production of electric vehicles. The world's first, mass-produced, plug-in hybrid (the FD3M) was launched by China's BYD Auto in December 2008.

8. Specific targets for the various renewable energy sources, especially in the power generation sector, include 300,000 MW for hydropower, 30,000 MW for wind power and 1,800 MW for solar power.

9. For example, companies in the renewable energy sector and other energy technology sectors identified by the government stand to enjoy a preferential tax rate of 15% (compared to the normal tax rate of 25%). Buyers of renewable energy component parts – for example, wind generation equipment – also enjoy a lower VAT of 8.5% for such purchases compared to the standard 17% VAT applied to other goods.

10. All electricity end-users (other than the agriculture sector and residents of Tibet) have had to pay a renewable energy surcharge of 0.001 yuan per kWh since 2006. This surcharge doubled to 0.002 yuan per kWh for commercial and industrial users in August 2008. The fee increases residential electricity bills by 0.25% to 0.4%. For industrial users of electricity, the fee doubled in November 2008 to roughly 0.8% of the electricity bill. Proceeds from the surcharge have been distributed to renewable energy projects, mostly in wind and biomass.

11. These include heavy metal/minerals industries such as aluminium, steel, zinc, ferroalloy and the chemicals-producing sector

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Lee Chor Pharn and Yap Zhi Jia

## The Future of Global Trading Regimes: Three Scenarios

As former export-led trading relationships decline, the interplay between the Chinese and US economies could shape the course of global trade in the coming decade. How should Singapore respond?

**I**t is unlikely that the global trading landscape in the next 10 years will resemble the one in the past decade. Before the financial crisis, the prevailing narrative in international trade had been one of emerging economies producing cheap exports to meet G3 demand. This is reflected in a sharp increase in the value of merchandise exports from non-G3 economies from 1999 to 2008.<sup>1</sup> By the end of 2008, emerging economies

were responsible for almost 40% of world merchandise exports, a significant increase from 20% a decade ago.

### **DRIVERS OF TRADE IN THE BOOM DECADE**

The boom period in world trade (evident even after discounting the effect of increasing oil prices<sup>2</sup>) was driven by a few significant factors:

- **Cheap and abundant credit in the US** after the US Central Bank cut federal rates sharply following the 2001 dotcom bust and kept them low for a long time. This fuelled a succession of asset bubbles — from equities to property to credit — which allowed US consumers to go on the biggest consumption binge in modern history by leveraging on increasingly overvalued assets.
- **Export-led growth in developing Asia, centred in China**, as multinational corporations internationalised their supply chains to take advantage of the cheaper production costs in emerging Asia. To keep their exports competitive, Asian economies were unwilling to let their exchange rates appreciate and instead recycled their massive foreign exchange reserves back into dollar-based assets. This in turn ensured low interest rates for American consumers, further sustaining credit availability in the US.
- **A benign global trading architecture and low costs involved in trading across borders.** Countries were mostly happy to work within the existing post-war Anglo-Saxon system of international organisations. Institutions such as the World Trade Organization,

World Bank, and the International Monetary Fund succeeded in maintaining a relatively open global trading system. Environmental concerns, such as carbon pricing, remained backburner issues that had little impact on the cost of trading.

The trade interdependence between G3 and emerging Asia that resulted from these driving factors led to an unsustainable macroeconomic imbalance. This became apparent during the 2008/2009 recession. As traditional sources of global demand struggle out of recession, these factors are likely to change or decline in significance. The world may settle into a new way of doing business together.

## GROWTH NOT JUST ABOUT CHINA

Although China has drawn the most attention in the trade story of the past decade (particularly with China surpassing Germany to become the world's largest exporter in 2009), the trend of a rising Asia extends beyond China. China's role as a lower value-add producer and final assembler in global production and supply chains means that only a small percentage of total exports are actually accrued to domestic value add. Indeed, the share of foreign content in China's exports has been estimated to be about 50%.<sup>3</sup> Sectors that

are labelled as relatively sophisticated (e.g. electronic devices) have even higher foreign content (about 80%). In fact, current global trade interdependence is between G3 and emerging Asia as a whole, with other emerging Asian economies also benefiting economically from the proliferation of global production and supply chains, set up to produce and feed the G3 demand. Nevertheless, China's development is expected to be a key driver in determining the future of trading regimes in the decade ahead.

Current global trade interdependence is between G3 and emerging Asia as a whole. The trend of a rising Asia extends beyond China.

## POSSIBLE SCENARIOS

There are several broad uncertainties that could influence how the future of global trading regimes might evolve — such as climate change, global resource constraints (food, energy, water, etc.) and technological advances. In the immediate decade leading up to 2020, however, two factors are likely to be most pertinent: First, the ability of the US to fundamentally change its consumption behaviour and reinvent itself as an export powerhouse, and

second, China's success in unlocking its domestic demand.

An exploration of these two key uncertainties in combination yields three possible scenarios to consider: **Chimerica Reborn** (where both US and China succeed), **China's World** (US stumbles; China succeeds) and **Bloc-ed World** (both US and China stumble).<sup>4</sup>

### ***Scenario 1: Chimerica Reborn***

The USA returns to strength after successfully emerging from recession. Heavy investments in its traditional strengths of entrepreneurship and innovation pay off, re-establishing the US as a high-quality manufacturing and export powerhouse in new growth areas such as green tech, digital media, advanced pharmaceuticals and energy products. In exchange, China supplies a broad spectrum of consumer and capital goods. Chinese consumption of goods and services increases significantly, driven by a burgeoning urban middle class. Global imbalances gradually decline as world trade enters a long and stable boom. Although the US no longer holds hegemony, the symbiotic relationship between the two giants dominates global affairs, displacing other international platforms in relevance; G2 replaces the G20 as the premier economic forum. The US and China compete intensely for the lion's share of the world's resources and

talent, leaving the non-G2 world subject to price and supply volatility, tariffs and resource export bans.

In this bi-polar world, Singapore's friendship with the two giants requires a delicate balancing act. Resource grabs creates real threats of resource scarcity and periodic price shocks for Singapore. Squeezed out of the Chimerican dynamic at both ends of the value chain, Singapore finds renewed importance in the European Union and Japan as export destinations. Nevertheless, Singapore becomes a safe and neutral ground for the constant stream of new ideas from both Asia and the West to meet and meld.

### ***Scenario 2: China's World***

In this scenario, China is the centre of global demand in a uni-polar world, as US efforts to restart its export economy falter. The US economic recovery is hampered by stricter immigration laws, massive public debt and the inherent risk of new industries; the US consumer is forced to cut back on spending. However, the Chinese leadership manages to enact reforms which stimulate China's domestic private consumption and unlock the country's large "savings surplus",<sup>5</sup> further stimulating domestic demand to make up for the decline in US consumption. China's growing urban middle class drives demand for quality-

of-life products such as urban planning expertise, clean technologies, wealth management and other premium goods and services.

As a result, China dominates global demand; trading partners re-orientate towards China in order to participate in this growth. China-centric trading and financial platforms emerge, in parallel to existing international frameworks which are now unable to accommodate China's growing demands. A China-Japan-Korea trade core forms, at the expense of Southeast Asia. Likewise, global talent and resources are sucked into China's relentless rise; it soon has the intellectual wherewithal to project thought leadership and determine global discourse.

By attracting its share of talent and thought leadership, Singapore could become a "horizon scanning base", sniffing out emerging pockets of growth opportunities dispersed around the world.

In this uni-polar world where the centre of gravity has shifted north to East Asia, Singapore's geopolitical and economic space is greatly curtailed. Its value as a hub is likely to diminish; its success depends crucially on its ability to

play by the new China-centric rules, and to continue to be attractive — counting on its urban planning, education and public governance expertise — to the Chinese elite and other affluent regional players.

### ***Scenario 3: Bloc-ed World***

Bloc-ed World is a multi-polar scenario where both China and the US stumble. In a prolonged global slowdown, China's domestic demand fails to step up as a viable alternative to lacklustre world markets; instead, China's property and equity asset bubble bursts, stalling the real economy. China enters a period of economic slowdown, leading to unemployment, social tension and political crisis. With both China and the US in recession, there are no strong global leaders that can move on complex global issues; with no global watchdog, protectionism escalates and it becomes increasingly difficult to maintain a viable, open and consistent global trading system. International organisations become diffused and ineffective and trade becomes politicised. The cost of trading escalates, causing trade to retreat behind regional blocs. Growth becomes sporadic and scattered, as economic activities restructure along geographical lines to reduce costs. The flow of resources and talent are restricted and often limited to regional blocs or a hub-and-spoke system of

distribution. Ideas still travel; in a multi-polar, volatile scenario, a large variety of think-tanks and other sources of intellectual capital flourish in a diverse marketplace of ideas.

In this environment, Singapore finds shelter in ASEAN, producing higher-end goods and services for regional elites. Repatriated income and profits from investments abroad overtake trade as a critical income source for Singapore. By attracting its share of talent and thought leadership, Singapore could become a “horizon scanning base”, sniffing out emerging pockets of growth opportunities dispersed around the world.

### **FURTHER IMPLICATIONS FOR SINGAPORE**

It is useful to note that while current global developments seem to point towards a China-dominant future, this scenario affords Singapore the least political and economic space to carve out a niche for itself, despite the substantial resources it has invested into being “China-Ready”. Although Singapore has prospered in the context of globalisation and under the leadership of a single dominant global power (the US) historically, the same conditions under the leadership of a Chinese superpower may not be the most advantageous to Singapore's trading position in 2020.

Nevertheless, the three scenarios present different challenges for Singapore. For the present, there is a delicate balancing act to be maintained, for instance in terms of diplomatic positioning relative to the dominant powers. However, some general measures will stand it in good stead as the different possibilities play out:

**STAY RELEVANT:** Singapore must continue to cement its reputation as a secure, reliable and high-quality service hub and port even if its customer base may shift. Likewise, Singapore's reputation and expertise in urban planning, premier education, public governance and similar capabilities are likely to find markets in the future, either in a China-led core or alternatively in the Southeast Asian region. It can further develop its indigenous, bespoke capabilities in these areas in order to nimbly and effectively serve a fast-urbanising Asia.

**DIVERSIFY DEMAND AND SUPPLY:** Singapore should cultivate non-G2 trading opportunities and maintain its economic relevance in ASEAN, particularly as a Southeast Asian middle class elite emerges (in Indonesia and elsewhere). A robust alternative supply of reliable and affordable resources, particularly food and energy, would also help hedge against potential resource scarcity and price volatility.

**ATTRACT TALENT AND IDEAS:** Singapore must continue to draw and anchor its share of global talent, who will continue to be a key differentiating factor in all scenarios. It should also seek to cultivate a positive, substantial and enduring mindshare among the international elite who live, work and play here. To keep Singapore plugged into the global traffic in ideas, think tanks, top universities and other leaders of intellectual capital could be encouraged to set up offices in Singapore as part of their international network of activities. 

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## NOTES

1. Over the last decade alone, the value of global merchandise export has tripled, reaching a peak of US\$16 trillion in 2008.
2. There is currently no world trade data that breaks down the exported goods into intermediate versus final goods.
3. Koopman R., Wang Z. and Wei S. J., "How Much of Chinese Exports is Really Made in China? Assessing Domestic Value-Added When Processing Trade is Pervasive", National Bureau of Economic Research Working Paper, Number 14109, June 2008.
4. The combination of a successful US and a weak China is not discussed because it most resembles pre-WTO China.
5. While the conventional wisdom is Chinese households "are saving too much and unbalancing the economy", or that China's industrial sector "are making all the money and keeping the money and unbalancing the economy", another analysis shows that Chinese government savings is an unnamed part of the problem. The government coffers have profited immensely from China's economic boom. In the period from 2005 to 2007, government revenues have grown faster than nominal GDP. In 2007 alone, the government's total income rose to 35% of GDP. Proposed solutions to unlock domestic demand would have to answer all three: households, industrial sector and government surplus savings. Adapted from: Green, Stephen, "The imbalance that dares not speak its name", Standard Chartered Global Research, December 2009.

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## The ETHOS Roundtable

# Gearing Up for a Multi-Polar World

In this session of the ETHOS Roundtable, three eminent participants from Singapore's 3<sup>rd</sup> Leaders in Governance Programme reflect on the evolving challenges facing public sectors as global economic and political balances shift in the post-Crisis world.

**Participants:** **HON. IKE CHINWO**, Member, House of Representatives, National Assembly, Federal Republic of Nigeria  
**MR HAU DO SUAN**, Deputy Director General, Political Department, Ministry of Foreign Affairs, Union of Myanmar  
**DR ADEL A. AL-WUGAYAN**, Secretary-General, Supreme Council for Planning and Development, Kuwait

### ON THE RISE OF CHINA AND INDIA, AND THE EASTWARD SHIFT IN GLOBAL ECONOMIC INFLUENCE

**HAU:** I see the rise of the new powers as a good sign: it indicates the breakdown of ideological divides and a growing trend towards international cooperation and trade. Myanmar is situated right between India and China. There is tremendous opportunity, because ASEAN and Asia have become engines of growth, particularly with the free trade agreement between China and ASEAN. We don't need to look to the US or EU for our trade or investment; China's Yunnan province, along with India's north-eastern regions such as Assam and Bangladesh, can serve as our hinterland, and take whatever we can export at competitive prices. They

are our neighbours and traditional economic partners, and we have always maintained friendly relations with them; security is not an issue. Of course, on the other hand, there are issues associated with such close proximity, such as trans-boundary crime, terrorism, pandemics and so on. But it also means we have a greater motivation to cooperate closely with one another. On balance, the benefits and opportunities outweigh the disadvantages.

**CHINWO:** Africa is rich in natural resources, but that alone is not enough to attract investors; who would continue to do business in an environment that is perceived to be hostile, unstable or simply unfriendly to business? Money does not wait for anybody. Companies

started going to China because they saw an advantage in terms of cheap labour and infrastructure, although some have now run into hidden costs that may discourage them from doing further business there. We've seen this in the Google China incident, Rio Tinto and so on. So in order to compete with the new economic powers, Africa will need to develop democracy and transparency, the rule of law, pragmatic policies, and a robust infrastructure to support business in addition to its natural resources and a relatively cheaper cost of labour. Governments of African countries should begin to address these issues very seriously, before they are overtaken by the competition. I am optimistic for Nigeria, because democracy is stabilising especially over the past five years, and a lot of effort has been made towards policies that can encourage the inflow of foreign direct investment.

**ADEL:** The growth of China's and India's economies is expected to lead to higher demand on oil and its derivatives, hence major decline in demand in the energy market is unlikely in the next few years. However, it's dangerous to omit the possibility that new major scientific breakthrough may render oil obsolete as an energy source as was the fate of coal almost a century ago. Hence for Kuwaitis, developing new national

sources of income are a national priority.

In my opinion, the real national concern for Kuwaitis is to radically improve market competitiveness for the future. Kuwait is striving to become a regional financial centre, and we are trying to gain a foothold. Kuwait hosts several successful banks and we can capitalise on our strengths in the finance and investment sector to diversify our income sources. Although our regional counterparts such as Dubai, Bahrain and Qatar have a head start in this area, we can still find a niche of our own.

Any government, whether in a developed or developing country, that wants to stay relevant and stay in power, ought to periodically review and renew itself.

Before there was oil, Kuwait had historically been an intermediary between neighbouring production-based countries and their consumer markets. Although we have now become reliant on oil, we can revive our capabilities in this direction. Some of our major economic diversification initiatives include establishing Bubiyan Island as a hub port in a regional free trade area, commercial centres such as Madinat Al-Hareer ("City of Silk") and

transport networks reaching into the landlocked areas of Central Asia.

Although Kuwait is stable internally, it is situated in a very politically unstable region. The conflict and unwanted international attention create an unstable platform, unlike East Asia which is much more stable, so that is an issue. But this challenge could be transformed into an opportunity. We can present Kuwait as an oasis of stability and a safe haven for international companies to be based in the region.

### ON THE KEY CHALLENGES FOR GOVERNANCE AND LEADERSHIP IN AN UNCERTAIN WORLD

**HAU:** There's no doubt that a strong, honest, competent and educated public service remains important. But its effectiveness can sometimes depend on other factors such as a country's political situation or cultural background, and so on. Nevertheless, as a consequence of globalisation and rapid advances in technology, we can no longer isolate ourselves. Transparency is a given – if you do something, everyone knows. Domestically, this also means the population is more savvy, more knowledgeable, more connected, and has greater expectations of the public service. If you do not deliver or if you do not satisfy the public, it's a sign of danger for the future. Therefore, the government

and civil service have a responsibility to foresee and prepare for the future, making the necessary preparations, adjustments and corrections ahead of time. But you cannot set a rigid 5-, 10- or 15-year timeframe, which can sometimes become an excuse for inertia. If you have to take action now, then the time to do it is now.

**CHINWO:** One of the principles of good governance is to be ready at all times to implement necessary changes. Take the concept of scenario planning, for example. What it does is to present the possibility of change in circumstances, and then pose the question to leaders: What should your policy reaction be? How will your policies hold up to these changes? It's about thinking across time and across possibilities, which you can only do if the government is dynamic, pragmatic and willing as well as able to adapt to change.

Any government, whether in a developed or developing country, that wants to stay relevant and stay in power, ought to periodically review and renew itself. But when governments become complacent and fail to think ahead or prepare for the future, they are more likely to face political and social pressures; they then make mistakes because they have not had time to think through programmes fully. I think that

is a problem with many governments in Africa. No matter how good a policy is, it means nothing if it is not well implemented. Therefore, a civil service must have the capacity to deliver, and the system should be fair, transparent and based on merit and results. I believe processes are key, because if you get your processes right, you enable growth. For instance, I believe the world has moved beyond simple welfarism. People want to work to earn a living and the government is not the best employer of labour, but it can nurture an environment that is conducive or private investment to flourish. That is the only way in which the creation of wealth can translate into individual well-being.

**ADEL:** We have seen how local disturbances in a developed country can become global crises with contagion effects of significant magnitude on other economies. This is a sharp contrast to the past where negative impact of events tended to be localised. In the 1997 Asian financial crisis and the present economic storm, we have seen a tremendous knock-on impact on oil prices, which has affected our fiscal policy in Kuwait in ways that were very far from our minds when we were planning. Alternative scenario building and sensitivity analysis in economic forecasting become more necessary to deal with sudden changes.

Currently, Kuwait is reliant on a single commodity, which is oil. Our forefathers were wise in setting up the Kuwait Investment Authority, which takes specified portion of oil revenues and locks it away in a sovereign fund to be invested elsewhere, so it can become an alternative source of income for our future generations. But we face increasing pressures from a growing population (with a native fertility rate of 3.3). Kuwait is a society that has no taxes and generous social provisions in healthcare, education and so on — the proportion of fiscal resources being spent on public subsidies is set to grow, and it will eventually eat into what we have set aside for investment. So a long-term challenge for us is the diversification of the Kuwaiti economy. To do so, we will need to have markets in which we can engage, assets upon which we can rely, and a competitive advantage that we can use.

You cannot intervene  
with drastic policies  
overnight; you must win  
the hearts of the people with  
step-by-step measures.

Another challenge we face relates to our human capital. From a period of illiteracy before independence, we have evolved to become a modern society

with a vibrant Parliament and media scene, supported by highly educated immigrants from developed countries who have come because of economic opportunities. However, although education is available for everyone, it has not translated into higher productivity in the marketplace — likely because people with know-how go into the government sector which employs 93% of Kuwaitis, and where they do not reach their full potential. This is a waste of resources and talent which could go into developing the private sector.

One important approach would be to stop the crowding-out effect of the public sector in the Kuwaiti economy; allow the private sector to flourish, let people have a choice of jobs that are more challenging but with potentially higher pay or more satisfying opportunities for growth, where people can contribute in areas they really want to. The government may have to intervene and create a safety net with which you can convince people that the private sector is the prime employment choice.

We will need to convert our current competitive advantage, which is oil, into one that is based on our infrastructure and good governance in our institutions, be they state-owned or commercially owned. The way we do this is by creating a very strong educational system with high standards, so that we can nurture

our own human capital to apply knowledge to new products and services, solve problems, pinpoint opportunities and stay ahead of the market. This will require deep changes in the education system. The universities will be the driver for change, but we will have to wait at least 12 years to see the first batch of these new leaders.

I don't think all this will happen quickly. You cannot intervene with drastic policies overnight; you must win the hearts of the people with step-by-step measures. But we have an awareness in Kuwaiti society that this diversification away from our dependence on petrodollars needs to happen, for the sake of Kuwaitis 40, 50 years down the road. We must do so before current fossil-based energy sources become irrelevant, which was what happened to coal at the beginning of the 20th century.

## OBSERVATIONS IN SINGAPORE

**ADEL:** I look at Singapore as a good example: You take the anxiety of being small, diverse and limited in resources and employ it in a constructive direction. Your success, instead of breeding conceit and complacency, generates even more uncertainty — what's going to come next? We are already doing well, how can we become better?

I am impressed by your operating principle that everybody is equal. You

don't care where they come from or what ethnic group they are, whether they are male or female. You treat them all the same under the law as long as they have something to contribute in terms of skills or knowledge from elsewhere. You attract global interests to Singapore and that helps to secure your future.

One challenge you may face is that your population may not be enough to sustain future growth. You have had to rely on immigrants, but the problem with immigrants is that you may not have the same strong alignment of core social values and shared goals. In the past, when skilled people worked in very small shops, they were both the manager and the owner of their business — there was no conflict of interest. Now with the modern corporation, managers and owners have different sets of objectives. This is the dilemma behind Agency Theory, and it is the same with skilled immigrants. National strategies may be going one way but the values and priorities of immigrants may differ, and you have to find a way to align the two. There will always be some gaps, but I have been impressed by the cohesion among people here, in practice.

**HAU:** What interested me the most is the way all the public agencies are integrated in implementing the country's policies. We have been to different departments

and sites and they are all independent in operation. Yet there is coherence and coordination between agencies; the policy guidelines are given from the top, and the implementation details are executed by the individual agencies. These agencies are empowered with the authority to carry out policies and projects, and are staffed by professional, effective, efficient civil servants and technocrats, who take their own initiative and use their skills and talents to carry out government policies to the utmost. That is most remarkable.

National strategies may be going one way but the values and priorities of immigrants may differ, and you have to find a way to align the two.

**CHINWO:** What I found striking apart from our classroom sessions were some of our site visits, where we could clearly see that the knowledge economy isn't just about ICT, science and technology. It is also about applying know-how to transform a harsh environment into a beautiful and enjoyable one. The Urban Redevelopment Authority has a master plan for Singapore where you can project future developments and ensure that growth follows a sustainable pattern, green spaces are protected and so on. You

have your ERP to limit car use but also an efficient public transport system as a realistic alternative. And you have the Marina Barrage, which is able to control floods and also serves as a reservoir of water for industry, recreation and also drinking. Coming from a city that has similar topography, by the sea, this is something we can think about back home.

Strategically speaking, Singapore is located among bigger countries and bound by the seas. Given your position, I think that it is important at all times to make sure that your citizens understand the basis of your society's existence, and to keep that in focus so that no matter who comes into power tomorrow, that fundamental understanding will not be lost. If you lose this understanding, the foundation for your success, that has been so beautifully laid and built upon, will disappear. 

The ETHOS Roundtable was conducted by ETHOS Editor Alvin Pang in March 2010. Mr Chinwo, Mr Hau and Dr Adel were participants in the 3<sup>rd</sup> Leaders in Governance Programme (LGP) organised by the Singapore Civil Service College from 22 to 30 March 2010. Drawing from Singapore's development experience, the LGP offered practical insights into the fundamentals of good governance and effective policy implementation for sustainable economic development and social cohesion. Over the eight-day Programme, participants interacted with senior government officials and thought leaders, and visited key government agencies to understand their operating philosophies and values.



Goh Phek Suan

## Developing Public Sector Leaders

Self-awareness and shared responsibility are key to the cultivation of holistic leadership in public organisations today.

### LEADER DEVELOPMENT VERSUS LEADERSHIP DEVELOPMENT

There is a growing recognition that what we have traditionally deemed as leadership development — the focus on developing individuals as effective leaders — is now better regarded as leader development. The Center for Creative Leadership (CCL) has defined *leader development* as “the expansion of a person’s capacity to be effective in leadership roles and processes”.<sup>1</sup> The emphasis is on building individual knowledge, skills and abilities associated with leadership roles, such as capabilities related to self-

management (e.g., developing self-awareness, self-regulation and self-motivation), social effectiveness (e.g., maintaining relationships with others, building effective teams), as well as the accomplishment of work within organisational systems (e.g., management skills, technical or task-related knowledge and skills, influencing and implementing change and innovation).<sup>1,2</sup>

In comparison, *leadership development* goes beyond focusing on the development of individuals as leaders, to include the wider context in which leadership is desired. It is defined as “the expansion of the organisation’s capacity to enact

the basic leadership tasks needed for collective work: setting direction, creating alignment, and maintaining commitment”<sup>1</sup>.

This distinction in thinking between leader development and leadership development can be attributed to the increasingly complex and unpredictable challenges faced by leaders and organisations in current times, and the realisation that it would take more than just a group of highly effective individual leaders to navigate through these challenges. There is recognition that shared or collective leadership capacities are required across organisations, where people come together to make sense and create shared meaning of their work.<sup>3,4</sup> In this regard, leadership development would include facilitating the process of establishing these connections among individuals, groups and organisations, as well as encouraging “relational dialogue”<sup>4</sup> as a source of leadership. Such developmental interventions would allow individuals, groups and organisations to acknowledge and enhance their understanding of the interdependencies that exist among them, and to explore effective ways of working together to address shared, complex challenges.

Despite these nuanced distinctions, both approaches are not mutually exclusive.<sup>2</sup> Indeed, individual leader development could well serve to lay the foundation of personal maturity and behavioural change necessary in order

for broader organisational leadership to flourish.

## **DEVELOPING LEADERS — PERSPECTIVES FROM THE CIVIL SERVICE COLLEGE**

### ***Leader Development Begins with the “Self”***

A key aspect of leader development involves the discovery and awareness of individual attributes and behaviours, such as preferences, strengths, limitations, beliefs, values and motivations, to form a clearer and more accurate model of oneself.

While leaders may act with good intentions, they need to be sensitive to how their behaviours may be perceived by others.

Beyond that, it is important for individuals to develop awareness of the impact of their personal attributes and behaviours on the people around them. This is particularly relevant to a leader’s development, as positive intentions do not necessarily lead to positive impact. We tend to judge ourselves by our intentions, but are likely to judge others by the impact of their behaviours on us. Hence, while leaders may act with good intentions, they need to be sensitive to how their behaviours may

be perceived by others. By relating their personal attributes and behaviours to the workplace, leaders can also develop a better appreciation of their current impact on their environment as leaders and how to further enhance their effectiveness.

### ***Self-Regulation and Adaptability are Important Aspects of Leader Development***

There is a common misperception that developing as a leader means shedding all shortcomings and attempting to change natural preferences in order to adopt the styles and behaviours of good role models. Instead, the appropriate strategy is to learn to regulate one's behaviours, to adapt flexibly and effectively to manage roles, tasks and challenges at hand as well as to expand one's repertoire of behaviours to suit the context. It would include leveraging on one's strengths, developing and practising new behaviours and finding ways to ameliorate, but not necessarily eliminate, one's shortcomings.

Related to this is the concept of contextual leadership where there is no one-size-fits-all formula for good leadership, and that different leadership qualities are called for in different settings.<sup>5</sup> Thus, a great leader in one situation may not necessarily be a great leader in a different situation; qualities and skills that have proved

useful in a past context may not be most appropriate in the present or future. Dotlich et al<sup>6</sup> also noted from a recent study that "context leaders" are three times more effective than "content leaders" (those who draw mainly from their knowledge to add value), as they are able to contribute by recognising resources in their environment and to use them effectively. Hence, while self-regulation and adaptability are vital in pursuing personal development, they are also important leadership qualities. Effective leaders are generally able to adapt their leadership styles to suit the context, and are able to develop new leadership behaviours to cope with situations in which their usual approach may not work well.

Different leadership qualities  
are called for in  
different settings.

In practice, it is useful for leaders to gain awareness of and to understand the match between their personal capacities and the unique demands of the environment in which they are operating in, so that they can better learn to leverage on their existing qualities or consider the development of new behaviours to enhance their overall leadership effectiveness.

### ***Leader Development Revolves Around Whole Leadership***

The notion of whole leadership presented by Dotlich et al<sup>6</sup> provides a useful framework to understand the qualities that are desired in today's successful leaders. Whole leadership is about providing clear direction and strategy (*Head Leadership*), empathising with and developing others (*Heart Leadership*) and being prepared to take risks on the right actions, guided by a clear sense of values (*Guts Leadership*).<sup>6</sup> This holistic approach is particularly important when dealing with challenges in a constantly evolving and complex environment.

Organisations tend to overemphasise *Head Leadership* in identifying and developing leadership potential. While such qualities may allow the leader to demonstrate competence in analysing issues, making decisions and addressing problems, there is increasing recognition that other qualities related to *Heart* and *Guts Leadership* are equally important. For instance, leaders need to be able to stay connected with people within and across organisations, demonstrate support and empathy, balance conflicting needs between stakeholders, and make difficult but necessary decisions for the greater good in the face of ambiguous and complex challenges. These qualities are of particular relevance to leaders in the public service, who are entrusted with

tremendous responsibility not only on behalf of their agencies but public interests at large.

Organisations tend to overemphasise *Head Leadership* in identifying and developing leadership potential.

Following the principle of contextual leadership, leaders should adapt their use of head, heart and guts leadership according to the context (e.g., some situations may require more heart leadership than head leadership). Indeed, whole leadership does not mean using all three sets of qualities all the time; it is about drawing upon the qualities that are most appropriate for a given situation. In practice, whole leadership can apply to every level of leadership within an organisation. Leadership programmes can also address the development of head, heart and guts, although the focus and intensity for each area would vary across the different organisation levels.<sup>7</sup> Furthermore, while individual leaders may find themselves having natural preferences for certain aspects of whole leadership (e.g., being more of a Head than Heart leader), the key to development is in helping individuals uncover and enhance their capacities in all three aspects of their repertoire,

and to avoid over-reliance on any one strength – which could ironically result in leadership derailment.<sup>6</sup>

Leaders develop best by undergoing a *variety* of experiences.

### ***Leaders Develop Through a Variety of Experiences Often Beyond the Classroom***

Traditional leadership development programmes often take place in the classroom, where content knowledge is shared and some opportunities provided for participants to practise within small groups in class. However, it is common to find individuals not following through with the newly learnt knowledge and skills once they return to the workplace, due to a variety of reasons. It may be difficult to bridge the gap between classroom lessons and the real workplace, or individuals may find it easier to stick with what has been working rather than trying out untested new approaches even if they may be more effective in the long run.

Over the years, there has been a shift in approach towards the development of leaders: it is increasingly about creating opportunities for and helping people *learn from* their work, rather than taking people *away from* their work to learn.<sup>8,9</sup> This emphasis on learning from work-

related experience has led to a greater call for development to be integrated into the daily work of the organisation, so as to encourage greater relevance, learner motivation and sustainability of developmental changes.

Leadership lessons are best learnt when one's development experience is reinforced by other experiences, and when individuals are able to work on change through several development experiences somewhat simultaneously.<sup>8</sup> A recent research study, undertaken jointly by the Center for Creative Leadership, the Singapore Civil Service College and the Public Service Division has also shown that leaders develop best by undergoing a *variety* of experiences that take place within the workplace (e.g., challenging assignments, developmental relationships and adverse situations).<sup>10</sup> Development opportunities also have to be created intentionally and clearly linked to specific developmental goals and needs, instead of relying on random learning to take place.<sup>2</sup>

Learning through on-job and varied experiences can therefore be more intentionally built into leadership programmes to provide for semi-structured learning in real situations. In practice, it could include action learning projects, which provide opportunities for a “continuous process of learning and reflection, supported by colleagues, with

a corresponding emphasis on getting things done”.<sup>2</sup> Peer networking and sharing sessions across organisations can also encourage ongoing feedback and support, as well as the sharing of good practices and leadership experiences. In addition, coaching and mentoring experiences can be provided to facilitate leaders’ personal growth and learning, and also allow them to enhance their own coaching and mentoring skills in order to support the learning and development of other younger leaders.

***Leaders Hold Primary Responsibility for Their Own Development Though Some of the Responsibility is Shared with Their Organisations***

Successful developmental efforts rely a lot on the individual’s self-direction and intrinsic motivation; no one can force a change of behaviour if there is fundamental unwillingness to do so; any externally imposed stimulus to change (e.g., incentives or dictate) will not be sustainable without a fundamental belief in the need for behavioural change. People must have the desire to change their behaviours for the better and feel confident that they can do so.

Individuals are also often in the best position to engage in self-reflection and to appreciate the insights on their strengths and limitations, and to know what developmental strategies work best for themselves.

Nonetheless, individuals operate as part of an open system in real life. Their behaviours have an impact on others, and can be influenced by the response of others. Well-intentioned behavioural change can sometimes fail if faced with obstacles and resistance from the external environment (e.g., resistance from colleagues, limitations within or imposed by the organisation), often beyond an individual’s control. Leaders in development can only thrive with ongoing support from their organisations and colleagues.

More specifically, senior management and supervisors can support *leader development* by offering intentional and meaningful developmental experiences (e.g., challenging work assignments, informal learning opportunities), extending support and encouragement on individuals’ developmental plans and initiatives, as well as giving constructive and ongoing feedback for their development. Research has shown that senior management and supervisors can have a significant lasting impact on their staff’s learning and development, through the developmental relationships that they offer.<sup>10</sup>

Organisations can also provide support for *leadership development* by being receptive to leadership development trends, by encouraging a culture of networking and by practising collective

leadership across boundaries in dealing with shared challenges.

***Development is an Ongoing Process That Occurs Over an Extended Period of Time***

Development does not take place overnight or as a result of a one-off event or intervention; leadership development is not an event so much as a process over time.<sup>8</sup> As such, there needs to be a devotion of conscious effort to creating and building on developmental experiences over an extended period of time.

It is important to note, however, that time and experience alone does not guarantee development and growth. Even motivated individuals need to work through their development agenda at their own pace. They can also benefit from understanding their personal learning styles in order to maximise their own learning from developmental experiences. Sustainable and intentional behavioural change does not always occur in a systematic manner, but tends to be largely discontinuous, arising from a series of discoveries or emergent conditions.<sup>11</sup> This relates to the “sleeping effect”, in which a sustainable behavioural change can occur long after a change intervention and may be misperceived as unrelated to the change effort.<sup>11</sup>

**WHAT'S NEXT?**

Current leadership development practices

in the Singapore Public Service can be further enhanced. In particular, the focus on developing whole leadership and the expansion of organisational leadership capacities as part of leadership development are areas that require more attention and concerted efforts to build into current practices. There is also a need to continue to deepen our understanding of the unique environment in which the leaders of the Singapore Public Service operate in. This includes gaining clarity on our leadership brand through discussing and creating shared awareness of public service core values and aligning these values to the leadership development curriculum. Greater supervisor involvement in leadership programmes need to be instilled, so as to enhance the developmental support available to emerging leaders. The Singapore Civil Service College has embarked on new initiatives to provide a greater variety of developmental experiences for our leaders (e.g., the use of action learning projects) and to reinforce learning experiences over an extended period of time (e.g., integrating regular check-in sessions into a leadership programme) (see box story on page 64). In time, the College hopes to extend such initiatives to other leadership programmes within the public service to bring about greater learning and growth for all levels and categories of public service leaders. 

# Leadership Development in the Singapore Public Service

## ***A Shared Responsibility for Leadership Development***

The Civil Service College's (CSC) leadership programmes often encourage individuals to learn and take ownership of the process in which they engage in self-reflection, seek ongoing feedback, set personal developmental goals, as well as plan and pursue their own development. At the same time, they are provided with ongoing support to experiment and practice new behaviours in a safe learning environment to build confidence and a positive attitude towards driving their personal development.

CSC has also made efforts to promote developmental relationships by creating opportunities within milestone programmes for senior public service leaders to mentor or coach junior public service leaders. It has also facilitated the establishment of developmental networks that extend beyond hierarchical relationships (i.e., senior and junior leaders) to include lateral relationships across organisations (e.g., peer networks).

## ***Ongoing Opportunities for Learning***

In CSC's leadership development modules, participants are usually exposed to a variety of learning activities prior to, during and post-programme (e.g., pre-course work, facilitated group discussions and simulation exercises or action projects during programme, follow-on coaching sessions). One of the programmes for young leaders include regular check-in sessions, carried out over a period of seven months after the programme, to promote consistent peer support and networking, allow sharing of personal experiences from applying the acquired knowledge and skills at their workplace, as well as to offer additional skills training that complements and reinforces earlier learning experiences. Furthermore, reflections on experiences and opportunities for feedback are typically woven into the various learning activities and encouraged beyond the programmes to facilitate ongoing development. 

Goh Phek Suan is a Consultant Psychologist in the Centre for Leadership Development in the Civil Service College (CSC). The Centre serves to strengthen and build up the various leadership development work undertaken by CSC, as well as to promote greater collaborations on leadership assessment, research and development work for the benefit of the public service. Some examples of leadership development initiatives undertaken by CSC and its partners include the implementation of a development centre for Management Associates, the delivery of leadership modules within milestone programmes, the development of a CSC pool of coaches to support the roll-out of executive coaching within the public service, as well as the establishment of a conceptual blueprint to guide the design of leadership development curriculum for the public service.

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June Gwee

## Redesigning the Service Experience

**Design thinking approaches could catalyse breakthrough innovations in public service delivery.**

**F**orward-looking public organisations seeking to enhance public value and reduce the inconvenience of public services have often pursued reforms on the basis of efficiency gains. However, there are limits to how much more efficient processes can be made, and the marginal utility of faster services declines sharply after a point; speedy service soon becomes a given. Instead, process-oriented agencies stand to gain when they look beyond incremental efficiency improvements and consider ways in which their services can allow

for more meaningful engagement with their users.

When relevant intangibles are taken into account, and the planning approach allows for the gradual discovery of users' true needs (which may not be the ones which users fully articulate), service transformation can occur. This can lead to a fundamental rethinking of services in terms of their *concept* (e.g. reliability, accessibility, availability), *delivery* (e.g. service centre, web portal) or *communication* (e.g. information management, unique propositions).

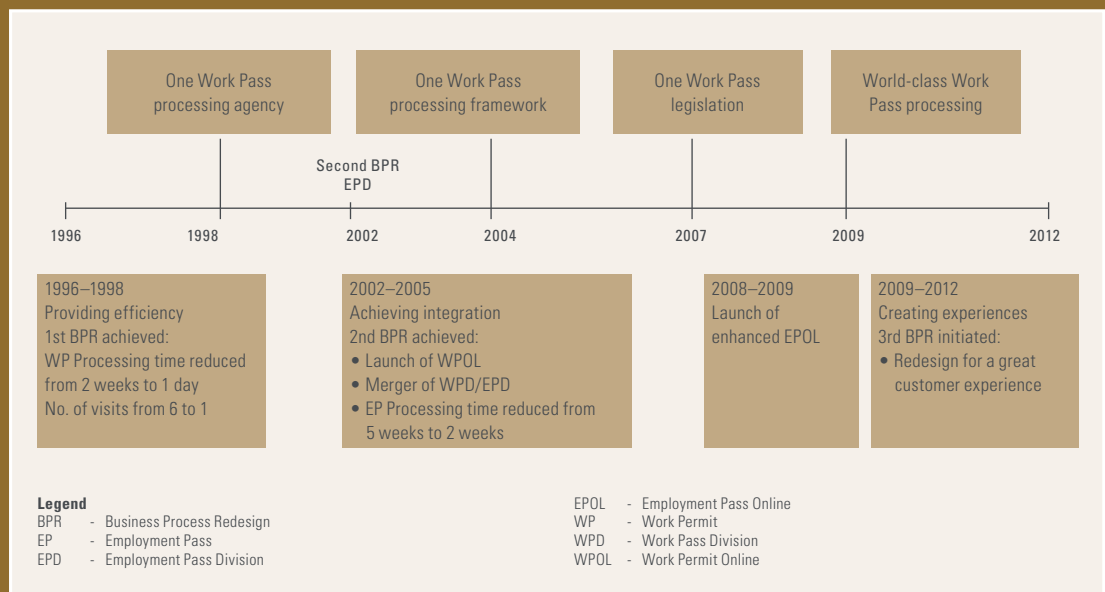
# Redesigning Employment Pass Services

In 2009, the Ministry of Manpower's Work Pass Division (WPD) used design thinking as a tool to develop better ways to support foreigners who choose Singapore as a destination to live, work and set up businesses. The process of applying for an Employment Pass used to be a laborious 13-step procedure with long waiting times for both employers and foreigners.

Process re-engineering efforts in 1996 and 2002 were geared towards reducing processing times, since it was believed customers most desired speed in their applications. It was also easier to derive indicators for efficiency.

In 2009, design thinking methods were applied for the first time. Instead of looking at Employment Pass services as a series of functional processes, WPD began to consider them through the eyes of their users — the employers, employment agencies and foreign workers. The Work Pass application transaction was recast as an experience — applicants were not units to be moved from point to point in the process but instead were individuals with aspirations, preferences and relationships. The new orientation made clear that Singapore's demand for their contributions was as important as their

**FIGURE 1. A CHRONOLOGY OF THE WORK PASS DIVISION'S BUSINESS PROCESS RE-ENGINEERING**



Source: Ministry of Manpower Work Pass Division

desire to have a pleasant experience living and working in the city.

The service redesign process required a better understanding of the decision points of both users and non-users. This involved taking a closer look at the opportunities and difficulties facing users, including those who had succeeded and failed within it, or had encountered problems or avoided it.

## TWO KEY SERVICE TOUCHPOINTS

The Employment Pass service involves two critical touchpoints: the Employment Pass OnLine (EPOL) system which applicants first encounter while still in their home countries, and the Employment Pass Services Centre (EPSC) where applicants visit Singapore to submit documents for verification, register biometric data and complete their application.

### EPOL

#### EPOL Factsheet

**Build Time & Cost:** 2 years, S\$5million

**Time Savings:** Online applications processed within 3 days to 1 week (versus 3 weeks for paper submission)

**Usage Rate:** From 20% (2005) to 80% (2009)

The EPOL was first offered in 2002 but it had limited functions. Fewer than 20%

of applications were submitted through the system, leaving some 25,000 hardcopy applications to be received and manually processed each month. Applicants had little information on how applications were evaluated.

Between 2005 and 2009, the EPOL was enhanced and redesigned to increase the information flow to users of the system. This has helped to shift the perception of WPD from an opaque and high-handed regulator to that of a responsive and transparent facilitator of employment. An Employment Pass Self Assessment Tool was introduced to help employers and applicants determine the likelihood that their applications would be approved, minimising efforts wasted on clearly non-qualifying applications. In this collaborative spirit, employers of EP applicants take ownership of the process by ensuring that their background checks on candidate employees meet the stipulated guidelines.

The new EPOL serves two critical functions: it is an information portal for applicants, accessible to anyone anywhere in the world who may be considering taking up employment in Singapore. It is also a direct channel of communication between applicants and the WPD; applicants can submit or cancel applications, check their eligibility and application status, or seek clarifications through email from WPD officers.

## EPSC

### EPSC Factsheet

#### Building Time and Cost:

5 months, S\$2million

**Time Savings:** All users served within 15 minutes; 90% within 10 minutes (versus a 4-hour wait in 2002)

**Usage Rate:** 800 to 900 users a day

**User Satisfaction:** Rated 5.5 out of 6 (95% of users)

Using design thinking methodology, the EPSC was reconceived as a space where user experience would determine how its various service transactions flowed. Space design insights and ideas were derived from field observation of the way users navigated existing systems. Trial solutions were then visualised and translated into quick, rough, life-sized prototypes of the new Centre, and tested for feasibility. WPD staff, employers and current users were invited to try out the prototypes, and their feedback helped to further refine EPSC design, production and operation.

Field observation was preferred over surveys and focus groups because it could give clues to instinctive, non-verbal behaviours, which users might not have been able to articulate in a formal manner. Special attention was paid to outlier and extreme users of services, because these exceptions could lead to radical new insights or solutions. One of these insights was that users

appreciate certainty in their application — such as waiting times, outcomes, or even whether their applications have been received. As a result, visits to the EPSC are now appointment-based, ensuring that applicants would be served at their selected date and time.

The form and function of the Centre were redrawn to create the desired user-centred experience. The space was divided into three areas according to their distinctive roles: the arrival lobby, the waiting area, and the enrolment bar.

The new arrival lobby has been kept uncluttered as a space for guests to step away from the hustle and bustle of the streets when entering the Centre. Customer service staff, known as service ambassadors, greet visitors at the arrival lobby at once and guide them in using the Centre. These ambassadors replace unwieldy counter queues, complicated signage and awkward navigation, reducing the chances of disorientation during a user's first visit.

Within the waiting area, a main service counter occupies the center of the room (which by convention would have been taken up by rows of hard-backed chairs and numeric queue prompters). This brings the service experience to the fore and closer to users. Wall-to-wall counters have been replaced by purpose-built modular service counters; no longer do counters appear frustratingly unmanned if service staff step away from their posts. Waiting areas recede against

the perimeter of the room, with clear window views overlooking the Singapore River and the city skyline, offering a pleasant waiting environment. Adding to the sense of personalised service, a single-row display for names has replaced the old, large numeric queue number displays.

The new enrolment bars are sites for recording applicants' biometric data, photo-images and verifying submitted documents. The name is a deliberate move away from the clinical notion of a fingerprinting "service desk" and reinforces its envisioned role, which is to

assist in the enrolment of a foreigner into the workforce. Different service points cater to users with special needs, such as those with families in tow or physical difficulties. Some of these points are family cabanas and play corners to occupy young children as they wait with their parents to be served. The interior design and layout are inspired by those of banks, restaurants, airport lounges and shopping malls; there are café-styled booths to create a relaxed atmosphere while documentation and other procedures are taking place. 

## A "DESIGNFUL"<sup>1</sup> ORGANISATION

Design thinking is a methodology to develop products and services, solve problems or create experiences. It is an approach that applies human-centred and creative principles to create a desired future. Design thinking requires strategy and implementation to happen at the same time where, at every stage, ideation (strategy development) is interlinked to "making" (implementation and production). New insights are formed while moving from idea to operation, and vice versa. It is this integrated and iterative interplay between strategy and implementation which brings about innovation.

While design thinking has gained currency in the private sector, it has

yet to become widespread in the public sector. There are several reasons why this might be so. First, such an approach may appear irrational, abstract or even extravagant with outcomes that may not be directly measurable or tangible and hence at odds with the quantitative indicators that customarily account for public spending. Second, design is often regarded, at best, as a good-to-have element in support of other key public roles instead of being itself a strategic function of operational planning. Third, most public agencies are the sole providers of unique and often mandated services; there is inherently no strong impetus to radically reinvent their services and operations, and little comparative basis with which to make changes.

Three factors can determine a public organisation's success in using design thinking to transform service provision: a design thinking mindset, appropriate methodologies, and the infusion of design thinking into the organisation's culture and core competency.

### ***Mindset***

Service transformation through design thinking happens when there is an appreciation of the value of design principles to continually discover insights about the customer. At the same time, the organisation must have the capacity to experiment, take risks and explore radical possibilities. It is also important to have someone within the organisation who can champion and demonstrate the benefits of design thinking for service innovation. Throughout the service redesign process, users are active participants at the heart of service transformation. This change in mindset can drive behaviours which in turn allow for more refinement and reinvention of service to take place.

### ***Methodology***

The choice of an appropriate design thinking methodology depends on the agency's experience with the concept. Agencies that are new to the approach would benefit from the appointment of qualified design consultants who

are able to transfer knowledge of the methodology to their clients.<sup>2</sup> Such client-consultant partnerships allow public agencies who are new to the design thinking methodology to learn how the consultant uses the process, and gain hands-on experience in the approach by directly participating in the development of service prototypes.

The challenge many public organisations will face is how to reconcile the use of abstract and intangible elements in the creation of the absolute and the concrete.

### ***Organisational Culture and Competency***

Structurally, design thinking must be part of the organisation's long-term and short-term planning, as well as day-to-day decision-making throughout the entire value chain: from product and service development to planning, communications, and service delivery. In the early years of design thinking development, the emphasis is often placed on maximising participation and buy-in to the process among staff, service partners and users, as services are prototyped and redesigned.

Once employees are empowered and confident enough to ask difficult questions, they will learn to push the

envelope of existing parameters, and begin to exhibit design thinking across their work. The real test of success is how the agency sustains design thinking as part of its corporate culture, where both management and the line staff apply design thinking principles in the way all strategies and projects are conceptualised and implemented in the organisation.

## CONCLUSION

Design thinking does not encourage thinking out of the box; it is about recognising that there is no box. It draws attention to the need to imagine a new space and establish fresh parameters in order to generate the right experience and potentially transform the perception and meaning of public service. The challenge many public organisations will face is how to reconcile the use of abstract and intangible elements in the creation of the absolute and the concrete; how to bridge the gap between utility and experience, in order to anticipate new needs, environments and futures. 

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## NOTES

1. Neumeier, Marty, *The Designful Company: How to Build a Culture of Nonstop Innovation* (USA: New Riders, 2009).
2. MOM worked closely with design consultancy, IDEO LLC, for the Work Pass Division's third Business Process Re-engineering and the EPSC was the first project deliverable as a result of this collaboration.



## Book Review

Aaron Maniam

# Scientific Thinking and Public Policy

A leading philosopher and statistician applies discipline and wit to the most pressing issues of our time.

**Book Title** : Galileo in Pittsburgh

**Author** : Clark Glymour

**Published by** : Harvard University Press, Massachusetts: 2010

Like most of us, I have forgotten many of the things I learned at university. Some theories were overtaken by new developments and relegated to the archives of my mind; others buckled under the stresses of the real world and were put out to pasture with other interesting but ultimately untenable models.

Some lessons have been strikingly durable though. I still recall, from undergraduate Philosophy, René Descartes' idea that we must shine the "natural light" of Reason onto the analysis of problems, and the idea from various British empiricists that philosophy should help clear the thickets and brambles cluttering our minds.

Clark Glymour's collection of essays offers exactly the illumination and intellectual robustness envisaged for the

best philosophy, directing it at thorny policy problems facing governments today in education, the environment and science.

Glymour unsentimentally and dispassionately examines his chosen issues. Exploring the rationale and performance of the "Teach for America" programme, he eschews political posturing (and correctness), delving instead into "four reasons" why students' ethnic and economic backgrounds are correlated with school performance, and "five things we can do about it". In the book's title essay, which deals with Harvard Professor Herbert Needleman's work on the effects of low-level lead exposure on children's intelligence, Glymour explores the nature of correlation, causation, step-wise econometric regressions and Bayesian probabilism with the clinical

efficiency of a university professor in front of an awed lecture theatre, all with remarkable linguistic economy and elegance. Glymour describes the handling of the Needleman case with balanced, parallel-structured sentences — “one of the best-documented modern examples we have of misguided canons of scientific ethics based on misconceptions about sound scientific method” — other examples of which are found in abundance throughout the book. There are also numerous instances of what I like to think of as the intellectual equivalent of the 😊 emoticon — deeply thought-through answers to complex questions, expressed with a hint of grinning mischief and bathetic deflation. Two of the best examples: “World food shortages have a lot of causes, but the principal causes are four: oil, weather, population and thuggery”, as well as “If there is a moral imperative to use agriculture to feed people, then surely other crops take precedence over the making of wine. So there is one solution (to the problem of world hunger): rip out some of the vineyards. There are others.”

Like the best philosophy, Glymour’s essays glow not just with the light of abstract logic, but with an abiding concern for improving the human condition. He notes, for instance, that

“while official scientific methodology in applied science is sometimes silly, real practice is often more sensible. There is something deeply troubling about the fact that applied science sustains the difference between rhetoric and practice”

and:

“Those who eat too much keep others from eating enough, the logical inverse of my mother’s illogical injunction to eat everything offered because of the starving Armenians. The economics of that argument seems a bit shaky, but even I, a lackluster slob if ever there was one, look with some disapproval on wanton waste...”.

That last quote is a superb example of how Glymour blends personal anecdote with practical, professional philosophy — a technique that he applies most fully in *Bert’s Buick: A Conversation on Climate Change*, a modern-day Socratic dialogue between Glymour and his “late, consummately American father-in-law... a smart man who admired Ronald Reagan and loved his family and big Buicks”. Bert’s conservative, free-market instincts might leave the more liberal among us slightly discomfited — he opposes open immigration policies on the grounds that “We would equilibrate to overpopulated misery” — but create a

useful counterpoint to Glymour's more left-leaning, Millennium-Development-Goals-supporting predilections.

If there is a fault in these essays, it occurs when their clinical efficiency and philosophical parsimony overextend. They could delve deeper; while the best explore their subject matter trenchantly and with sophisticated ease, the shorter ones tease and tantalise without extending the light of Reason into the more distant, cobwebbed corners of the issues. On finishing *The Computer in the Classroom*, for instance, I wondered whether some of the ramifications could have been teased out further, particularly in a day and age when the opportunities (and risks) of Web 2.0, with its overlapping strands of social networking sites, blogs and ever more powerful search engines, are squarely in the media glare. Even the dialogue with Bert lacks the sense of philosophical completeness in Plato's best work, touching on a range of issues that are contiguous with climate change — immigration, trade, energy use and security, *inter alia* — but providing little, even partial, denouement or resolution.

As far as they do go, however, the pieces in this collection illuminate key issues of our time with unflinching clarity. Regardless of how much we recall from our college classroom days, they

are a shot in the arm for all who believe in the value of ideas, their disciplined examination and the language with which they are expressed. 

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## Opinion

Robert H. Frank

# Using the Tax System to Create New Resources Out of Thin Air

**Cornell Professor of Economics Robert Frank believes a progressive consumption tax could cut down wasteful competitive spending without compromising public resources.**

Economists are fond of saying “there is no free lunch” — by which we mean that having more of one good thing requires making do with less of something else. An apparent exception occurs when existing arrangements are wasteful. In that case, we can have more of everything by eliminating waste.

A cursory review of historical attempts to eliminate waste in the public sector offers little encouragement. For decades, conservative political leaders across the globe have been cutting taxes on the promise to eliminate wasteful public programmes, but wasteful programmes remain. The problem is that government programmes tend to have constituencies. When pressure to cut government spending grows too strong to resist, the programmes that get cut are not the most wasteful ones, but those with the least powerful constituents. History

cautions against expecting more than token victories from such efforts.

Private waste is a different matter. Although conventional wisdom holds that far more waste occurs in government than in the private sector, the truth is actually the reverse. More importantly, private waste is far easier to eliminate than public waste.

One important form of private waste is caused by garden-variety market failures such as congestion and pollution. This type of waste yields easily to simple instruments such as gasoline taxes, effluent charges and congestion fees, as many of Singapore’s economic policies already demonstrate. A less widely recognised but far larger form of private waste stems from “positional arms races”, which are well illustrated by the familiar stadium metaphor: all stand to get a better view, yet no one sees any better than before. It is the same with

many forms of consumption. Hedge fund managers need huge houses and Gulfstream jets only because their peers have them. Evidence suggests that if top earners all spent less on such things, their lives would be no less fulfilling than before. Like the waste that stems from pollution and congestion, the waste caused by positional arms races can be curtailed sharply by a relatively simple change in tax policy.

### **SLOWING THE POSITIONAL ARMS RACE**

As the economist Richard Layard has written, “In a poor society, a man proves to his wife that he loves her by giving her a rose, but in a rich society he must give a dozen roses.”<sup>1</sup> For the last three decades, virtually all income gains in the United States have gone to top earners. In most other countries, the growth in inequality began somewhat later, but virtually no country has escaped this global trend. In Singapore, as in most other nations, inequality is growing because most income and wealth growth has been accrued to those who were already near the top of the economic pyramid.

Top earners have spent much of their extra income on positional goods — things whose value depends heavily on how they compare with similar things bought by others. Like mutually offsetting weapons in a military arms race, consumption of this sort is largely

wasteful. Such wasteful competition occurs because people take too little account of the costs that certain types of consumption impose on others. When one job applicant spends more on an interview suit, for example, others must spend more as well, or else accept lower odds of getting a call back. Yet when all spend more, no one’s odds of landing the job are any higher than before.

Evidence suggests that satisfaction depends more on relative consumption than absolute consumption.

Although there is little evidence that middle-income families resent the spending of top earners, they are nonetheless affected by it in tangible ways. Additional spending by the rich shifts the frame of reference that defines what the near-rich consider necessary or desirable, so they too spend more. In turn, this shifts the frame of reference for those just below the near-rich, and so on, all the way down the income ladder. Such expenditure cascades help explain why the median new house built in the US is now about 50% larger than its counterpart from 30 years ago, even though the median real wage has risen little since then. In Singapore as well, expenditures on housing have

been growing at rapid rates, even among people who have experienced little income growth.

Higher spending by middle-income families is driven less by a desire to keep up with the Joneses, than by the simple fact that the ability to achieve important goals often depends on relative spending. In almost every society, for example, the best schools tend to be located in the most expensive neighbourhoods, which means that if the median family failed to match the spending of its peers on housing, it may have to send its children to below average schools. Instead, middle-income families in most countries have opted to save less, borrow more, work longer hours and commute longer distances than ever before, all in an effort to keep pace with escalating consumption standards. While additional outlays for positional consumption goods — such as houses beyond a certain size — do not accomplish much, the same dollars could be spent in other ways that would produce real improvements in the quality of life, such as freeing up more time and resources to spend with friends and family, or on a healthier lifestyle or continuing education.

Such waste can be easily curtailed by existing policy instruments. In a world of perfect information, the ideal remedy would be to tax different

goods in proportion to the extent to which their use generates negative side effects. In practice, we lack the detailed information necessary to implement this remedy. But a *steeply progressive tax on each family's total annual consumption* would serve almost as well.

If a progressive consumption tax were phased in gradually, its main effect would be to shift spending from consumption to investment, causing productivity and incomes to rise faster.

First, a brief word about how this tax would work. The amount a family consumes each year is simply the difference between what it earns and what it saves. People would report their income to the tax authorities as they do now, and also their annual savings, much as how people in the United States currently document their annual contributions to tax-sheltered retirement accounts. The difference between these two amounts, less a *large standard deduction* — say, US\$30,000 for a family of four — would be the family's taxable consumption. Rates would start low, perhaps only 10%. In this illustration, a family that earned US\$50,000 and saved US\$5,000 would have taxable

## How A Progressive Consumption Tax Would Work

Consider a wealthy family that currently spends US\$10 million a year and is debating whether to add a US\$2-million wing to its mansion.

If the top marginal tax rate on consumption were 100%, the project's cost (including tax) would be US\$4 million.

Alternatively, the family could scale back, building only a US\$1-million addition. Then it would pay US\$1 million in additional tax and could deposit US\$2 million more than before in savings. Government revenue would

rise by US\$1 million, and the additional savings would stimulate investment, promoting growth.

Either way, society would come out ahead with no real sacrifice required of the wealthy family. Because the tax would induce most other wealthy families to scale back their mansion additions, it would lower the bar that defines an acceptable mansion for families in their circle. In effect, it would create real resources out of thin air. 

consumption of US\$15,000 and pay only US\$1,500 in tax.

As taxable consumption rises, the tax rate on additional consumption would also rise. With a progressive income tax, marginal tax rates cannot rise too far without threatening incentives to save and invest. Under a progressive consumption tax, however, higher marginal tax rates actually strengthen those incentives. Even more striking gains would result from the tax's indirect effect on the expenditure cascades that have made life more difficult for middle-income families. If the rich spent less on housing, gifts and

other things, the near-rich would spend less as well, and so on, all the way down.

Some may worry that tax incentives for reduced consumption might create or prolong an economic downturn. But it is total spending, not just consumption, that determines output and employment. If a progressive consumption tax were phased in gradually, its main effect would be to shift spending from consumption to investment, causing productivity and incomes to rise faster.

Should a recession occur, a temporary cut in consumption taxes would actually provide a much more powerful stimulus than the traditional temporary cut in

income taxes. People would benefit from a temporary consumption tax cut only if they spent more right away. In contrast, consumers who fear that they might lose their jobs in a recession are often reluctant to spend a temporary income tax cut.

When large pollution or congestion tax increases have been proposed in the past, critics have objected that they will impose unacceptable hardships on the poor. If a progressive consumption tax had a large standard deduction, that would largely insulate the poor from additional economic hardship. But if policymakers wanted to do more to promote the economic well-being of low-income families, they could use some of the revenue from a progressive consumption tax to finance a simultaneous reduction in the payroll tax.

Free-market enthusiasts often complain that higher taxes make the economic pie smaller, but taxes on harmful activities have precisely the opposite effect. When the economic pie grows larger, it is always possible for everyone to have a larger slice than before. By eliminating waste, these taxes free up resources for things we actually value.

## TAX MORE TOMORROW

With much of the world economy still in the midst of a deep downturn, no

additional taxes should be levied on low- and middle-income households in the short run. Under the circumstances, however, there would be considerable advantage in a gradual phase-in of a progressive consumption tax, to begin once unemployment has again fallen to a suitably low threshold. At first, we could collect income taxes as before and levy a progressive surtax only on consumption in excess of some high threshold — say, \$500,000 annually. The threshold could then be lowered gradually until the consumption tax completely replaced the income tax.

By eliminating waste, these taxes free up resources for things we actually value.

Alternatively, the current income tax could be retained permanently and be supplemented with a progressive surtax levied only on extremely high levels of consumption, as the economist Larry Seidman has proposed.<sup>2</sup> Since this surtax would apply to fewer than 1% of households, Seidman's approach would be administratively far simpler and hence likely to provoke less political resistance.

One compelling advantage of a gradual phase-in is that it would provide an immediate and powerful demand

stimulus. With a steeply progressive consumption tax looming on the horizon, top earners would accelerate any major purchases they had been planning to avoid paying the additional tax.

Intelligent policy design requires realistic models of human behaviour. Contrary to the assumption that underlies traditional economic models, evidence suggests that satisfaction depends more on relative consumption than absolute consumption. This finding is confirmed by experience. Most people, for example, recall being happy during their student days despite living at a much lower material standard. If we take the relevant evidence at face value, there is nothing controversial about the claim that by slowing the rate of growth in spending on positional consumption and cutting back on activities that pollute the planet, we can free up resources to spend in more effective ways. Nor is there any controversy about the policy instruments needed to bring about this change. Pollution taxes have proven their effectiveness in the environmental domain. Precisely the same type of market failure that leads economists to favour those taxes is present as well in the case of positional consumption expenditures.

Progressive consumption taxation has long been proposed by both economists from all parts of the political spectrum.

It is a policy move that would create valuable new resources out of thin air. 

Robert H. Frank is the Henrietta Johnson Louis Professor Management and Professor of Economics at Cornell University. Until 2001, he was the Goldwin Smith Professor of Economics, Ethics, and Public Policy in Cornell's College of Arts and Sciences. He has also served as a Peace Corps volunteer in rural Nepal, chief economist for the Civil Aeronautics Board, fellow at the Center for Advanced Study in the Behavioral Sciences, and was Professor of American Civilization at l'Ecole des Hautes Etudes en Sciences Sociales in Paris. His books include *Choosing the Right Pond*, *Passions within Reason*, *Microeconomics and Behavior*, *Luxury Fever*, and *What Price the Moral High Ground? The Winner-Take-All Society*, co-authored with Philip Cook, was named a Notable Book of the Year by *The New York Times*, and was included in *Business Week's* list of the ten best books for 1995. Professor Frank holds a BS in mathematics from the Georgia Institute of Technology, an MA in statistics and a PhD in economics, both from UC Berkeley. Professor Frank visited Singapore in November 2009 at the invitation of the Centre for Public Economics, Civil Service College, to speak on "The Economic Naturalist: In Search of Solutions to Everyday Enigmas" and "Falling Behind: Income Inequality and Middle Class Disaffection".

## NOTES

1. Layard, Richard, "The secrets of happiness", *New Statesmen*, 3 March 2003, <http://www.newstatesman.com/200303030016>
2. Seidman, Laurence S., *Pouring Liberal Wine Into Conservative Bottles: Strategy and Policies* (University Press of America, 2006).









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