State-Owned Enterprises: The Singapore experience

Mr Toh Han Li

17th International Conference on Competition, Berlin, 27 March 2015

Competition Commission SINGAPORE

State-owned Enterprises: Divergent views

Some condemn SOEs for corruption and poor economic performance, while others believe SOEs play a crucial role in economic development.

- **Singapore's experience is that:**
    - SOEs (and MNCs) have contributed significantly to Singapore's early phase of economic development
    - A number of SOEs have done well and compete globally
    - Next phase of economic development needs to be innovation driven with diverse enterprises competing on a level playing field

Competition Commission
SINGAPORE

Political economy and economic development

- "Unplanned" independence and colonial pull out left Singapore with massive unemployment, housing shortages and economic challenges.
- Government stepped in to fill vacuum and restructure economy.
- Government linked corporations ("GLCs") were set up in sectors lacking private enterprises, e.g. ship-building, air transport, shipping and development banking.

SINGAPORE AIRLINES

DBS

SingTel

CCS Competition Commission SINGAPORE

Profile of SOEs

- GLCs are partially or fully-owned through Temasek, a state-owned investment company.
  - Government's stated position is that GLCs are commercially run and Temasek does not interfere with how their companies are run.
  - GLCs are subject to government regulations, including the Competition Act.
- GLCs contributed to 13% of GDP in 2002 and is expected to contribute less than 10% since 2011.
- An academic study found that GLCs' better-than-market economic performance is linked to good corporate governance.

Competition Commission
SINGAPORE

A number of GLCs grew to become large international players

“ Government did not make them champions.

Temasek did not make them champions.

They competed freely against the best in the world for a customer base far larger than our home market. ”

President Tony Tan’s speech at Temasek’s 40th Anniversary Dinner, 23 Sep 2014

OECD Guidelines on Corporate Governance of SOEs

I. Regulating SOEs

The legal and regulatory framework for SOEs should ensure level-playing field in markets with private sector companies to avoid market distortions.

II. State as owner

State should establish clear and consistent ownership policy to ensure that governance is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness.

III. Equitable Treatment

State and SOEs should recognise rights of all shareholders and ensure their equitable treatment and equal access to corporate information.

IV. Stakeholder Relations

State ownership policy should fully recognise the SOEs' responsibilities towards stakeholders and request that they report on their relations with stakeholders.

V. Transparency

SOEs should observe high standards of transparency.

VI. Board responsibilities

Boards of SOEs should have the necessary authority, competencies and objectivity to carry out their functions of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

Gradual and careful divestment of GLCs

- In mid-1980s, the government commissioned a study resulting in the Michael Fam report, which identified:
  - 41 businesses for partial/full divestment (over 10 years);
  - 6 for further review; and
  - 43 for continued participation of government.

- By 2002, the government divested about 60 GLCs, particularly those without potential for international growth or serve no strategic purpose.

- Government will not sell off all GLCs if price is not right, or no appropriate buyer to maintain management oversight.

CCS Competition Commission SINGAPORE

Competition issue #1: Keeping SOEs in check

- A number of GLCs were "born" as large incumbent players in many industries.
- CCS ensures that dominant GLCs do not engage in anti-competitive practices to foreclose competitors.
- Example: CCS's decision against government owned ticketing services operator for abuse of its dominant position through exclusive contracts.

Competition Commission SINGAPORE

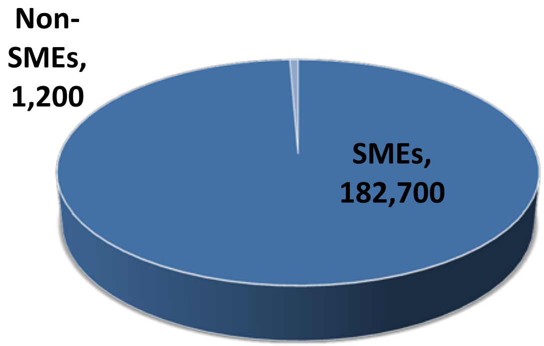
Competition issue #2: Scale and international competitiveness

- In a small open economy like Singapore, scale is often cited as a challenge for Singapore companies to compete internationally, and a reason for mergers/acquisitions.
- CCS ensures that such mergers/acquisitions do not adversely affect competition in Singapore.
- Proposed two-to-one acquisition of cruise terminal operators (50% and 100% owned by Temasek) was taken to Phase 2 in view of competition concerns.
- Merger application was subsequently withdrawn and did not proceed.

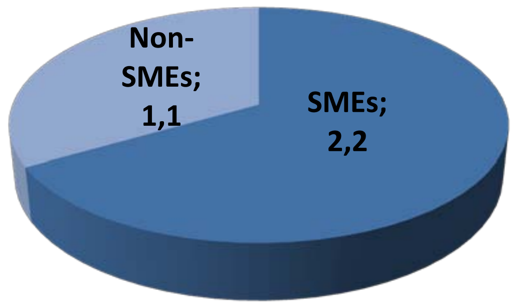
Competition issue #3: Building a vibrant and diversified economy

- SMEs made up 99% of enterprises, two-third of employment and about half of value-added in 2013.

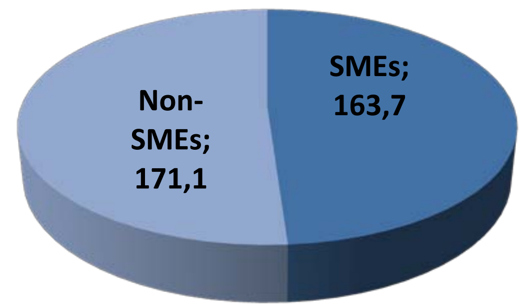
Number of Enterprises



Employment (mil)



Value-Added (SGD bil)



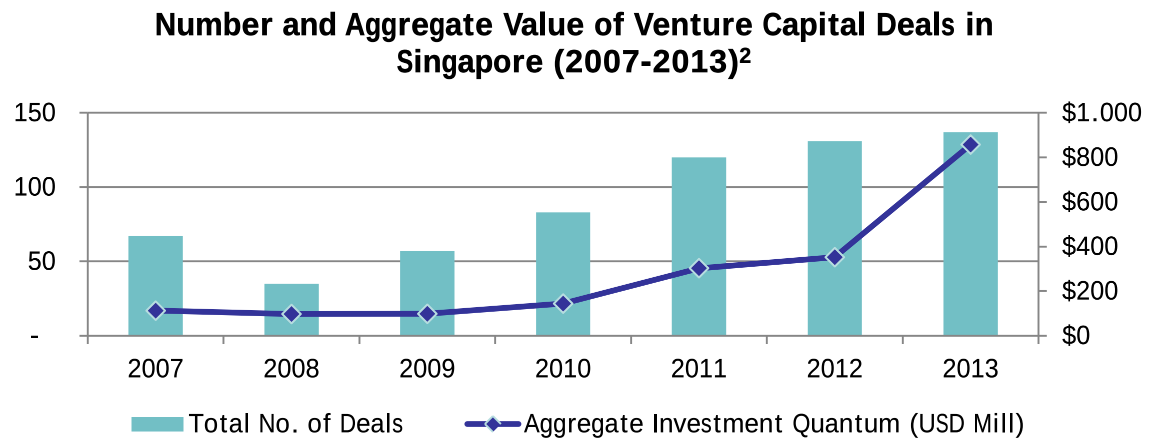
Source: Department of Statistics Singapore

Competition issue #3: Building a vibrant and diversified economy

Increase in start-up[1] activity over the years

	2005		2013
	43,000	Annual Start-up Incorporation	60,000
	24,000	No. of Employing Start-ups	42,000
	167,000	Employment by Start-ups	306,000

Increasing amount of VC investment



Increasing interest in entrepreneurship

2006: 4.9% → % of residents involved in business <42 months old[3] → 2014: 11.0%

1. "Start-ups" defined here as new enterprises within 5 years of formation
2. Source: AVCJ, S13H, SPRING SEEDS, NRF TIS and ESVF Data
3. Source: Global Entrepreneurship Monitor

Competition Commission SINGAPORE

Conclusion

- Singapore's sudden independence meant that GLCs were born out of state's active role in economic development
- GLCs contributed to early phase of Singapore's economic development, and have generally performed well.
- GLCs were gradually and carefully divested.
- Competition issues:
  - Ensuring that GLCs compete on a level playing field
  - Managing the need for scale and international competitiveness and any adverse impact on competition in Singapore; and
  - Growing SMEs to build a vibrant and diversified economy.