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SINGAPORE'S STATE-GUIDED ENTREPRENEURSHIP: A MODEL FOR TRANSITIONAL ECONOMIES?

ANTHONY SHOME[1]
Massey University

Introduction

This paper examines the rationale that active entrepreneurial engagement by the state is crucial for small, transitional economies for global competitiveness based on the assumption that the state has the wherewithal to support such competitiveness. While this view goes against the trend of popular and current thinking of free market economics of non-interventionism, persisting asymmetrical economies render scant evidence of a narrowing gap. A government's role in promoting productivity and export development is not in dispute but it is the government playing the entrepreneur that is the issue. Using the Singaporean experience, this paper will consider whether emulating the ideology of state-guided entrepreneurship has any merit.

History has shown how classical economic theories have been criticized and challenged in their attempt to address current global situations. However one theory that continues to be relevant is Adam Smith's *Wealth of Nations* (1776) that laid the foundations of classical free market economic theory. The theory of the mercantile system maintained that wealthy nations should accumulate wealth through exports rather than imports. The imperialistic tendencies that emerged during Smith's lifetime and throughout the nineteenth century showed this to be a continuing phenomenon. Since World War II (1939-45) entrepreneurial practices of developed nations in postcolonial societies were often more exploitative than benevolent.

The enterprise state has undergone several phases of change relating to how nations and individuals trade: medieval European feudalism of absolute ownership evolved to national ownership under the industrial revolution that fostered a money-based economy that, by the nineteenth century, had created

[1] Anthony Shome (A.Shome@massey.ac.nz) is currently a Senior Lecturer in the Department of Management and International Business of Massey University, Albany Campus, Auckland, New Zealand.

large scale capitalism that brought forth a new type of entrepreneurship. The Calvinist Protestant ethic of paternalism that followed maintained that the wealthy have a duty towards the less fortunate, and this, according to the emancipators of the New World, brought about the idea of Social Darwinism.[2] This, in turn, justified European colonization, thus completing the process of the imperial notion of the mercantilist capital economy.[3] For a period it seemed that the socialist egalitarian concept of the planned economy was the fairest system whereby wealth was equitably distributed. Marxism failed because it lacked entrepreneurial impetus.[4] Post-war reconstruction demanded unprecedented capital, and governments turned to borrowing from the competitive private capital market that in turn fuelled the supply and demand of the market economy. The altruistic socialist ideals of what impacted on social policy, and as a compromise against rapacious capitalism, the idea of a mixed economy was developed where laissez-faire and planned economies seemed like a workable symbiosis.

Between the collapse of the Soviet bloc, the paragon of socialism, and the advent of the new economic order of globalization, the only path to economic maturity was apparently the West's model of democracy and capitalism that subscribes to Smith's mercantilism of unchecked global expansion of multinational corporations. This path, however, has been fraught with inequities by emerging economies that a compromise model has yet to be found to develop themselves as viable and competitive players in the global economy. Pragmatic Western and Japanese businesses disregard the niceties of ideologies or have been unwilling to do business with countries whose values are contrary to theirs. What then has happened to the great Western and democratic idea of non-interventionist capitalist ideology? Is there a need for a new ideology?

The present study proposed a theory of state-guided entrepreneurship supported by three hypotheses, viz. political underwriting, the surety of collateral, and collective global thrust.

A Background of State-Guided Entrepreneurship in Singapore

Lee Kuan Yew (hereafter Lee Senior), Singapore's first prime minister (1965-1990) and currently minister mentor (2004-present) said, 'we did not have enough entrepreneurs, and those we had, lacked the capital or interest,

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[2] Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. by Talcott Parsons, London: Routledge, 1992, p. 67.
[3] Ibid., p. 99.
[4] Frank Parkin, *Marxism and Class Theory*, London: Tavistock, 1979, p. 89.

so Government ministers undertook the task of starting new venture(s)'.[5] At the Russia-Singapore Business Forum, he maintained that, 'To be successful, economies need to foster more entrepreneurs [;] governments cannot run businesses as well as individuals can. Owners of businesses are profit-driven and they stay up at night worrying about their business. Successful economies need to foster more of such enterprises.'[6] Despite this admission, the Singaporean government has persisted in actively engaging in business. But was Singapore lacking in entrepreneurs?

Singapore has a big population of shopkeepers, hawkers, merchants and petty traders who are not stereotypical westernized entrepreneurs. But some of Singapore's most successful entrepreneurs have their origins as these very shopkeepers and petty traders, such as C.K. Tang (a second-hand junk store), Robin Loh (a scrap metal dealer), Arumugam Pillai (a shop-keeper), Ong Hiang Kie (a coffee and pepper dealer). However, the term 'entrepreneur' is not loosely applied to these entrepreneurs but to a relatively recent crop of highly successful business people who have brought innovations and created value in investments and economic opportunities. For example, Sim Wong Hoo of Creative Technology, Ong Beng Seng of Hotel Properties, and Kartar Singh of Takhral Corp. That appears to be the conventional view of entrepreneurs—risk-takers of new enterprises—and, according to Low, they are no different from Singaporean entrepreneurs, who, though, are older than their Western counterparts.[7] In contrast, however, Singaporean entrepreneurs do not generally accept failures as 'a continuous learning experience,' as there is no history of failed Singaporean entrepreneurs of note to support this assumption.[8]

In fact, Singapore does have a strong history of entrepreneurial successes that helped the economy to make consistent high growth since independence with home-grown names such as Lam Soon, Amoy Canning, Hong Leong, hotelier Khoo Teck Puat of the Goodwood Hotel Group, and banker Lien Ying Chow of Overseas Union Bank, Wee Cho Yaw of United Overseas Bank, and property owners and traders, Jumabhoy, Govindasamy Pillai, and Tyebally. Gradually, the government has assumed the principal role of the entrepreneur in major trading, finance, manufacturing, and property ventures.

Soon after independence, the Singaporean government launched a highly ambitious and aggressive industrialization programme to attract

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[5] 'An Entrepreneurial Culture for Singapore', The Ho Rih Hwa Leadership in Asia Public Lecture, 5 February 2002, Singapore Management University, Singapore.

[6] *Straits Times*, 22 March 2006.

[7] Linda Low, 'Entrepreneurship Development in Ireland and Singapore', *Journal of the Asia Pacific Economy*, 10, 2005, pp. 116-38.

[8] S. Choo, 'Developing Entrepreneurial Culture in Singapore: Dream or Reality', *Asian Affairs*, 36, 3, 2005, pp. 361-73.

foreign direct investment (FDI) or, more accurately, foreign multinational corporations (MNCs). But in its haste to industrialize and to attract foreign investments, the government paid scant attention to the country's merchant class and the small but active sector of local manufacturing. As a result, Singapore failed to properly nurture its entrepreneurial potential.[9]

In 1985, in the wake of a recession, the government resolved that local entrepreneurship should be encouraged to counter the over reliance on foreign capital, and this was to be done through a shift in employment culture and an education system that fostered creativity, innovation and enterprise.[10] Then, again in 2001, a government review recommended 'ways to strengthen the spirit of entrepreneurship and innovation in Singapore and to foster the growth and internationalization of Singapore-based companies, including Government-Linked Companies [GLCs]'.[11]

Despite these initiatives, the development of private entrepreneurship was slow and undeveloped. Singapore then had 80,000 small and medium size enterprises (SMEs) employing about 40% of the total workforce.[12] When Lee Hsien Loong assumed office as Singapore's prime minister in 2004, he was conscious of the need to revitalize the economy that had been hammered by massive job redundancies and the threat of more MNCs contemplating to relocate to cheaper venues in the region and to China.

As a deputy prime minister in the previous 14 years and head of the Monetary Authority of Singapore (MAS), Lee Hsien Loong had overseen the recovery of the economy that was devastated by the 1997 Asian Financial Crisis, the recession in 2001, and the Severe Acute Respiratory Syndrome (SARS) pandemic in 2003. Rocky relations with Malaysia over a number of economic issues added much uncertainty to the recovery efforts. Furthermore, the new security threats following the 11 September 2001 bombing of the Twin Towers in New York City and the US initiated Iraq War made Singapore a target of terrorist groups because of its support for, and close alliance with, Washington. As national interests took precedence, Singapore consolidated its hold on its GLCs and investments with a strategy to increase and diversify its portfolio.[13] Temasek Holdings, the Singapore government's holding company indicated a radical restructuring of its then S$90 billion portfolio: 52% in Singapore; 32% in the Organization for

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[9] C. M. Turnbull, *A History of Singapore, 1819-1988*, 2nd ed., Singapore: Oxford University Press, 1989, p. 312.

[10] The Sub-Committee Report on Entrepreneurial Development, *Economic Review Report of Singapore 1987*.

[11] *Economic Review Report* 2002.

[12] T. Shanmugaratnam, 'Entrepreneurship Education—Why it Matters?', Keynote Address, Inaugural Roundtable on Entrepreneurship Education Asia, Singapore, 29 July 2004, Singapore Ministry of Trade and Industry, 2004.

[13] *Temasek Review*, November 2004.

Economic Co-operation and Development (OECD) countries with a strong Australian bias; 16% throughout Asia. Over the next eight to ten years Temasek plans to reduce the proportion of its operating assets in Singapore to one-third of its portfolio, and to have a third each in Asia and the OECD countries. The intention is for diversification as well as to seek growth beyond the confines of Singapore's small market.

Singapore enjoyed an average growth of 6.4% annually from 1965 to 2000.[14] But such a growth rate appeared to be unattainable to Prime Minister Lee Hsien Loong in 2005 and beyond. He did not expect continuing high inflows of FDI as cheaper options and geopolitics worked against Singapore. Consequently, Lee Hsien Loong felt that Singapore should restructure from an investment-based to an innovation-led economy by boosting private entrepreneurial initiatives through state-driven entrepreneurship development in 2003. But there was little success.

Entrepreneurship, according to Lee Senior is, ‘a way of thinking and acting that is opportunity-obsessed, holistic in approach and leadership-balanced … few are born entrepreneurs, and not many will succeed. To succeed as an entrepreneur one has to have some extraordinary qualities’.[15] Lee Senior and his government, then, either did not believe that private entrepreneurs could be developed or relied on, or believed that state bureaucrats were more trustworthy to drive the economy. Apparently, thereafter Lee Senior and his government proceeded on the path of state-guided entrepreneurship. Interestingly, it has been convincingly argued that people can be motivated to undertake different tasks,[16] and there is no reason why civil servants cannot be entrepreneurially innovative.

Temasek Holdings and the Custodian of the State-Guided Entrepreneurship Ideal

Lee Senior’s answer was the incorporation of a government holding company, Temasek Holdings that was tasked to oversee all state ownership and entrepreneurial activities.

The genesis of Singapore’s experiment with state-entrepreneurship dates back to the period of self-government (1959-63). British assets were handed over to the Singapore government by the Minister of Finance Incorporation Act in 1959 that empowered state involvement in business. Inheriting millions of dollars worth of British property and ownership in joint

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[14] *Statistics Singapore Newsletter*, 2001.
[15] ‘An Entrepreneurial Culture for Singapore.’
[16] S. Borins, ‘Loose Cannons and Rule Breakers, or Enterprising Leaders? Some Evidence about Innovative Public Managers’, *Public Administration Review*, 60, 2000, pp. 498-507.

ventures made the government consider that state-ownership of assets could be expanded and managed as a commercial enterprise.[17]

Sim Kee Boon, formerly head of the civil service, and director of Temasek and several GLCs recalled, 'Two decisions were made: Invite multinational corporations to enter our market and get the Government involved, to give confidence to the whole industrialization effort. There was no conscious decision which industries the Government would go into—we were even making pyjamas! The objective then was simply job creation. It was an eclectic and pragmatic policy'.[18] The government's move into business was initially intended as developmental where state interest in investments would lead to economic growth, principally job creation, but because of the faster rate required for industrialization and a lack of local entrepreneurs, the government was forced into business collaboration with foreign companies that went beyond mere developmental objectives.[19] Consequently, the government's business interests grew phenomenally; according to Sim, it accounted for some 60% of Gross Domestic Product (GDP) by 2000. This quick transition of the government's developmental policy to entrepreneurship was, in Sim's opinion, strategized some four decades ago.

Singapore's experience in government ownership of businesses was not institutionalized in its present form until 25 June 1974 when Temasek Holdings was formally established, bringing together all GLCs under one roof (a GLC is defined as a Temasek entity possessed a minimum of 20% government interest). Temasek Holdings is directly accountable to the minister of finance. Temasek was incorporated under the Minister of Finance Act of 1959 that empowers the Ministry of Finance (MOF) to acquire, purchase, hold, transfer, dispose or otherwise deal with real assets. Under MOF Incorporation there are several operational holding companies: Temasek Holdings (for commercial entities, including GLCs); Ministry of National Development (MND Holdings) for certain remnant, but mainly dormant, company shares; Ministry of Health (MOH Holdings) for hospitals; and the Government Investment Corporation (GIC), which invests Singapore's reserves. Temasek Holdings, as a registered company, enjoys an especial exemption from filing financial accounts but is subject to all the same requirements of the Company Act as other private businesses.

According to its website, 'GIC is a global investment management company established in 1981 to manage Singapore's foreign reserves'.[20]

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[17] Henry H. W. Yeung, *Entrepreneurship and the Internationalisation of Asian Firms*, Cheltenham: Edward Elgar, 2002, p. 81.
[18] *Straits Times*, 3 March 2001.
[19] Alex Pereira, 'State Entrepreneurship and Regional Development', *Entrepreneurship and Regional Development*, 16, 2, 2004, pp. 129-44.
[20] http://www.gic.com.sg/aboutus.htm. Accessed 13 September 2007.

Temasek Holdings, on the other hand, is involved in a variety of investments, viz. manufacturing, trading, banking, etc., and raises funding in the commercial money market. 'The Singapore Government, as a shareholder, is not involved in our investment decisions and business operations . . . All our investment and business decisions are taken independently by our own board and management, based on commercial considerations', says Gan Chee Yen, Temasek's Senior Managing Director of Investments.[21] While this may be true, it should be remembered that Temasek is dealing with state/taxpayers' money and it is inconceivable that Temasek is completely free of the government decision-making apparatus.

At Temasek's inauguration, 36 companies were transferred to its control. Temasek has a board of nine directors of which two seats are allocated for government representatives, namely the Permanent Secretary of the Ministry of Trade and Industry (MTI), and the Permanent Secretary of the Ministry of Finance. Temasek's first-tier GLCs (GLCs held directly by Temasek) that are listed on the Singapore Stock Exchange account for about 27% of the total market capitalization. Temasek has interests locally and internationally in telecommunications, media, financial services, property, transportation and logistics, education, airlines, food, energy, engineering, shipbuilding, and ordnance.

At the start of its operations, Temasek had S$345 million invested in the 36 companies, and its job was to monitor the progress of its investments and keep the minister of finance and the cabinet informed.[22] By 1979 Temasek had initiated an aggressive plan to seek out new investments by direct acquisitions or mergers. By 1983 it had increased its portfolio to S$2.9 billion in 58 companies that in turn had 490 subsidiaries. By the 1990s many of the GLCs (Singapore Airlines, Keppel Corporation, Sembawang Holdings and Singapore Technologies) became blue-chip stocks on the Singapore Stock Exchange with extensive international interests. Other lesser-known interests include international companies such as Global Crossing, Hamilton, a Bermuda-based fibre-optic telecommunications network operator, and the Singapore-based Swissotel hospitality chain as well as a 25% share of China Aviation Oil, a state-owned company of the People's Republic of China (PRC). Through Singapore Airlines, Temasek owns 49% of Virgin Atlantic Airways.

As at 31 March 2005 Temasek has ownership stakes with market capitalization of some S$103 billion spread over 200 companies.[23] But the exact and most current number of GLCs is unavailable due to Temasek's constant involvement in acquisition sprees. One source reported Temasek

[21] *Business Times*, 30 March 2006.
[22] Yeung, *Entrepreneurship*, p. 81.
[23] *Straits Times*, 13 October 2005.

adding a further 22 companies or US$7.6 billion (S$12.9 billion) to its portfolio.[24] In terms of ownership, it has interests in many more companies if we consider that one of its companies, Singapore Technologies, alone has 24 subsidiaries. It is also worth noting that 68% of Temasek's companies have more than 20% shareholding, many, in fact, give Temasek controlling interest.[25] The MOF Inc (through Temasek) retains special voting rights in the GLCs, which gives it the right to veto any decisions of the board. MOF Inc, in turn, as the sole shareholder of Temasek Holdings, has the ultimate right of veto over Temasek. MOF Inc also independently holds special shares in some of the first-tier GLCs, from both listed and unlisted stocks, quite separate to Temasek's. The reason is unclear but a plausible explanation is that the MOF would like certain shares under its direct control for immediate access for security to avoid cumbersome share transfers. MOF special shares, however, are the exception rather than the rule, and it is believed that, where this arrangement exists, it involves national security.

Listed GLCs with special share provisions include Singapore Airlines, Singapore Technologies Engineering, and Singapore Telecommunications (Singtel). Unlisted GLCs with special shares currently include Singapore Technologies, Singapore Power and its subsidiaries, Port of Singapore Authority Corporation (PSA), Media Corporation of Singapore (MCS), and Singapore Post. The articles of incorporation of Tuas Power, Power Seraya, and Singapore Mass Rapid Transit (SMRT) have been changed to remove the special share provision. Lee Hsien Loong, then deputy prime minister, said in Parliament on 14 March 2001 that the government would ultimately give up its special share in Singtel.

In the 1990s, the Singaporean government corporatized several statutory boards into GLCs. These included the Public Utilities Board, Economic Development Board, National Science & Technology Board, Productivity & Standards Board, Trade Development Board, Housing and Development Board, and Jurong Town Corporation. They have been known for a long time to have engaged in activities that compete with the private sector.

The services that these GLCs once held monopolies over are now open to competition and foreign ownership. As Temasek has no qualms about investing in foreign-government entities, it did not oppose foreign governments taking similar interests in Singapore's GLCs. Through market and political pressure, the Singaporean government has divested or reduced its share of some GLCs through Initial Public Offerings (IPOs) on the Singaporean Stock Exchange.

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[24] *Asia Times*, 19 October 2005.

[25] See http://www.temasekholdings.com.sg.

The basic idea of state entrepreneurship rests on the state engaging financially and operationally in the management of its assets under the control of holding company, Temasek Holdings. While Temasek is often mentioned in the media and linked to some acquisitions, it is always one of its GLCs that is actually directly involved, such as the Keppel Corporation, the Development Bank of Singapore (DBS Bank), or Singtel. According to Ho Ching, Temasek's then chief executive officer (CEO), Temasek's role is one of strategy and oversight, and distances itself from the operational management of the GLCs. Temasek's 'voluntary abstinence from direct involvement in the operational management of state-owned enterprise[s] is a unique and admirable ownership stance'.[26] Speaking in Parliament in March 2001, Minister of Finance Richard Hu 'reiterate[d] that GLCs operate on a commercial basis; they do not receive any subsidies or preferential treatment from the Government and are subject to the same regulations and market forces as private entrepreneurs'.[27]

Its controlling stake notwithstanding and regardless of whether MOF Inc also has a special shareholding, Temasek executives emphasize that they do not interfere in the day-to-day operations of the GLCs. In a June 1999 interview in the *Straits Times*, Temasek's Chairman, S. Dhanabalan, stated that the purpose of Temasek was 'not to control and manage but more to monitor: Temasek collated all the information of the various government investments and kept the Minister for Finance and the Cabinet informed about the performances of government companies'.[28] Of Temasek's recent acquisition of Thailand's Shin Corporation where allegations were made of the intrusion of the Singaporean government, spokesperson Angelina Fernandez of Singapore's watchdog MAS said, 'Temasek operates like any other company. Even though it is government-owned, it is not government-directed. The Ministry of Finance does not tell Temasek what to do'.[29]

Temasek Management

Temasek Holdings at the time of writing is headed by Ho Ching, wife of Prime Minister Lee Hsien Loong. She is an engineer by profession and had served in senior capacities in the armed forces and as CEO of GLC, Singapore Technologies, before being recommended to head Temasek by its Chairman, S. Dhanabalan. Although Temasek comes under the purview of the Minister of Finance, who also happens to be the Prime Minister, Ho

[26] *Straits Times*, 13 February 2004.
[27] Ibid.
[28] *Straits Times*, 15 June 1999.
[29] *Guardian*, 24 March 2006.

apparently reports to Dhanabalan. Nonetheless there has been a lot of disquiet over her appointment despite the sound management and performance she has brought to the company.

Temasek, that oversees all the GLCs, has 200 staff members including 21 managing directors. Most are young and fairly new to Temasek. Only 4% are over 50 years of age while 55% are under 35. Nearly two-thirds have been with Temasek for three years or less; only 8% have served more than ten years.[30] The majority possessed good academic credentials and were hand-picked from government ministries and the armed forces. The management of GLCs is no different from the private sector.

On accountability, the Singapore Companies Act confers on Temasek and privately-held GLCs room for opaque accounting. The Act provides Temasek 'exempt private company' (EPC) status, a type of company that has three special provisions that other companies do not enjoy: it need not file its balance sheet and profit and loss statements; it may lend money to its own directors and companies, even those in which its own directors have an interest; and it has directors or their companies that not only have shares in the GLCs, but are similarly exempt from disclosure.

On the issue of transparency, Temasek's Ho Ching, in her address to the Institute of Policy Studies, declared that, 'This will be part of a measured process of opening up and demystifying Temasek'.[31] But it was over a year before Temasek issued its first financial performance.[32]

Temasek's forays have been profitable according to an unpublished report prepared by Associate Professor David Ding, head of Nanyang Business School and Professor James Ang of Florida State University. They say Singapore GLCs are 'actually outperforming or at least equalling non-GLCs in the areas of profitability, efficiency and final returns'.[33] Their findings are based on 25 GLCs and 204 non-GLCs listed on the Singapore Stock Exchange over an 11-year period from 1990 to 2000.

Temasek Performance

Data for Temasek is not easily available, but as an indication of its enormous contribution to the economy, *Statistics Singapore Newsletter* revealed that in 1998, it contributed 12.9% to the GDP. Considering that the total contribution of locally-controlled companies stands at 46%, Temasek's contribution is not insignificant.[34]

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[30] http://www.temasekholdings.com.sg.
[31] *Straits Times*, 13 February 2004.
[32] *Business Times*, 14 October 2005.
[33] *Far Eastern Economic Review*, 7 November 2002.
[34] *Statistics Singapore Newsletter*, March 2001.

But, despite its huge investments, Temasek's return of investment is not remarkable as Ho claimed.[35] In 2003 it achieved 13% and, in 2004, it returned 16% at S$7.6 billion net profit up from S$7.4 billion a year ago.[36] For 2005, Temasek's net profit was S$4.8 billion on group revenue of S$43.4 billion and an asset base of S$125.5 billion.[37] This is an 11% return, by industry standard or compared to the previous two years, a performance that is unspectacular.

Furthermore, it was also reported that Temasek was under-performing as judged by its Total Shareholder's Return (TSR) in both market value and shareholder's funds (TSR considers the dividends received alongside the changes in market value of a portfolio less net new capital issued).[38] Temasek's shareholder return of 1% over the five years to 30 March 2005 from its S$103 billion portfolio was considered poor compared with the Straits Times Index's 2.7% gain of other public stocks over the same period. Defending Temasek, Minister of State (Finance and Transport) Lim Hwee Hua assured the Singaporean Parliament that, 'Since its inception, we have received a healthy average annual cash dividend of more than 7% from Temasek'.[39] However, the *Economist* of 28 January 2006 reported earlier that 'Temasek's total annual shareholder return has dropped to only 6% for the past ten years'. Moreover, Temasek did not dispute when *Bloomberg News* reported on 27 January 2005 that Temasek and Nasdaq-listed Chartered Semiconductor Manufacturing had not made a profit since 2000.[40]

Temasek's 25% shareholding of China's Aviation Oil (CAO) came under the spotlight amid a major financial scandal after CAO lost a massive US$550 million in oil derivates trading that culminated in the conviction of its CEO and other directors in February 2006.

Temasek had been under pressure to diversify its foreign investments which, with the newest acquisition in 2006 of Thailand's Shin Corporation in February, brought its foreign portion to 55% of its total portfolio. Temasek's acquisition of Shin Corporation was not without controversy. The company acquired 49% of Shin Corporation at a price of US$1.88 billion. Questions were asked if the price it paid, about 15 times the projected earnings of Shin Corporation for 2006, was too high.[41] Thailand Prime Minister Thaksin Shinawatra, whose family owned Shin Corporation, was bitterly criticized for evading tax on the sale proceeds. Thais took to the streets condemning

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35 *Economist*, 12 August 2004.
36 *Straits Times*, 13 October 2005.
37 *Far Eastern Economic Review*, May 2006 cited in the *Singapore Window*, 14 May 2006.
38 *Straits Times*, 7 February 2006.
39 *Straits Times*, 15 February 2006.
40 *Bloomberg News* cited in China's business paper, the *Standard*, 27 January 2005.
41 *Economist*, 28 January 2006.

Thaksin, Temasek and the Singaporean government.[42] A rapid drop of Shin Corporation's shares followed on the Thai stock market, and Temasek suffered a paper loss of some S$1.49 billion.[43]

The government of Singapore has always maintained that Temasek is an autonomous and commercially-independent company and it asserted a hands-off policy in the company's operations. But in countries like India, South Korea, Malaysia and Hong Kong, the Singaporean government's ownership of Temasek has drawn criticism; and in Thailand and Indonesia it was the subject of anti-competition litigation.

Temasek's failure to bid for Hong Kong Telecom was attributed to its state ownership.[44] Similarly, some quarters in the UK voiced their resentment of the Singaporean government's involvement in Temasek when the company vied aggressively for UK Cunard's P & O Ports. Singapore's PSA bid of £3.7 billion or S$10.7 billion for P & O Ports was defeated by Dubai World Ports. If the PSA had won, its purchase of P & O Ports would have been precariously close to PSA's net worth. Ironically, UK cynics did not make much of the fact that Dubai World Ports was also government-owned. Singtel, a Temasek GLC, successfully bid for Optus Australia in 2001 but faced strong Australian opposition owing to its government ownership. There were allegations that Singtel's acquisition of Optus would compromise Australia's intelligence, since an Optus satellite was leased to Australia's Defence Ministry.[45] The price of AUD$17.2 billion for Optus too created some alarm in the telecommunications industry, given Optus's average performance in recent years and its ageing communications satellite that had a lifespan until 2005.

Without the Singaporean government's link to Singtel, Optus could possibly be less enthusiastic about a bid from the company. Even if Singtel had tried to bid entirely on its own standing, it would have found it difficult to raise the finance since it did not have a high enough credit rating to attract funds of the magnitude of the Optus purchase in the international money markets. Nevertheless, Optus, rather its former owner, British Telecom, had every reason to be pleased with the very high price that was offered notwithstanding the nagging issue of Temasek-Singtel government ownership. That the deal went through was little surprise, since it was known all along that the cash-rich Singaporean government would provide the collateral and political underwriting for the multi-billion purchase by a Temasek GLC.[46] Besides, Singtel was the only credible contender in the bid. Despite its position as a government entity, Singtel's credit rating was

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[42] *Guardian*, 24 March 2006.
[43] *Bloomberg News*, 22 March 2006.
[44] *South China Morning Post*, 19 April 2000.
[45] *Sydney Morning Herald*, 23 August 2001.
[46] *Straits Times*, 26 March 2001.

downgraded from stable to negative by credit agencies Standard & Poor's and Moody's within months of its acquisition of Optus.[47] This was due to a less than optimistic forecast of Optus's earnings.

One of the most controversial Singaporean government's overseas investments was the China-Singapore Suzhou Industrial Park (CSSIP) that was headed by another Temasek GLC, Keppel Corporation, in 1994. The project involved the building of an industrial township estimated at S$30 billion. There were apprehensions over the wisdom of the project, and true to the doomsayers' predictions, the project incurred massive losses by 2000 despite Temasek having cut its losses when it sold 30% of its stake in CSSIP to the Jiangsu provincial government a year before.[48] One of the major reasons for the poor performance of the project was the Jiangsu's government tie-up and support for a rival industrial park, the Suzhou New District (SND). Temasek officially pulled out of the venture on New Year's Day in 2001.

On 22 March 2006, the *Straits Times* reported that Temasek's GLC, the DBS Bank's bid for the Korean Exchange Bank hit a snag as Korea's regulators expressed reservations about the DBS Bank's links to Temasek. The Korean regulators maintained that the Korean Exchange Bank was not allowed to be owned by a non-financial body, namely Temasek.

Modeling the Singapore State-Guided Entrepreneurship for Transitional Economies

Factors in Favour

Political Underwriting. The biggest factor in favour of the model is that it gives the GLCs an assumed credibility of strength and reputation by virtue of their being state-owned and thus having political clout. Singtel's purchase of Optus is a case in point where the political backing of the Singaporean government was taken for granted. Private enterprises of developing economies are not large and many do not enjoy a huge reputation in the international market. It would, therefore, be hard for them to make quick inroads. To include government involvement in an enterprise is also a matter of expediency and can cut through cumbersome political red-tape as has been the experience in many emerging economies, especially in China.[49] According to McMillan and Woodruff, many new enterprises under Deng Xiaopeng's 'Open Door Policy' in 1979 were not private entrepreneurs but

[47] *Business Times*, 22 August 2002.
[48] Yeung, *Entrepreneurship*, pp. 223-5.
[49] K. Yang, 'Institutional holes and entrepreneurship in China', *The Sociological Review*, 2004, pp. 370–1.

village enterprises that were run by local governments.[50] Such village entrepreneurs, they contended, benefited from government ownership by having better access to state banks, the easing of quotas for raw materials, and getting protection against arbitrary expropriation, and assistance with contract enforcement.

Surety of Collateral. International financial markets work very much like insurance companies, where the risks of loans are spread out and shared by several institutions. The quality of the loan instrument is measured by a credit rating that is attached to the debt. Credit rating agencies, whose business is to make scrupulous evaluation of the borrower, apply a rating or a benchmark to the borrower. The lower the rating, the more difficult and more expensive to build up funds, which also attract higher interest and financial costs. State-owned enterprises can raise loans in the market far more easily than private ones, on the assumption that the repayments of such borrowings will be government guaranteed. It is this surety of collateral that allows state-owned enterprises an advantage and confidence in bidding for mega acquisitions.

Collective Global Thrust. With government backing, holding companies such as Temasek can combine as many GLCs as appropriate in presenting a bid for international projects. By international standards, Singaporean public companies have neither the stature nor the financial strength to compete. Of the world's 100 largest economic entities, 51 are corporations and 49 are made up of countries. Of the corporations 16 (7 American, 7 Japanese and 2 owned by the UK) have sales turnovers larger than Singapore's GDP.[51]

Decades of creditable economic management have immunized the Singaporean government against criticism and in some cases even held up their economic model as worthy of emulation.[52] GLCs as objects of the state-

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[50] J. McMillan and C. Woodruff, 'The Central Role of Entrepreneurs in Transition Economies', *Journal of Economic Perspectives*, 16, 3, 2002, pp. 153-70.

[51] GDP: World Development Report, World Bank, 2000.

[52] For instance, Philippine President Gloria Macapagal-Arroyo on a visit to Singapore (25-26 June 2007) said she hoped her state visit would strengthen the fraternal bonds with Singapore, a country she describes as a model of economic prosperity and social harmony in the region. She pointed out that some of her financial managers in the cabinet were trained in Singapore's financial district: 'They were all honed in the Singapore financial community.' She added that some of the things that impressed her in Singapore are transparency and level-playing field in the business sector, efficient public service and clean environment. When asked in a press conference what she would like emulate from Singapore, she said the Lion City is famous for its efficiency 'and that is what we seek, to cut down on red tape'. 'Singapore is very efficient in the sense also that from intention to action, there's a very short lag, and we'd like to do that,' she said. She also described Singapore as 'very clean and very pretty … It's a very good model for us in terms of how

guided entrepreneurship model prosper better than companies of similar size in the private sector because they have access to more capital and resources, and can write off losses more easily, by virtue of the fact that GLCs as preferred volume buyers can purchase at record prices and move the market up artificially. GLCs have the state to provide them with business infrastructure that is bigger and better than the ability of the private sector.

As government-sponsored entities, the GLCs whilst abroad have access to consular exchanges that at the same time provide them with diplomatic leverage they could count on in the event of conflicts. They also enjoy access to government archives and data banks for quick dissemination of information.

In favour of state-guided entrepreneurship, it is argued that the private sector could not be entrusted with the interests of their country because of the following:

- They have no role in national welfare and therefore no social responsibility;
- They are only motivated by profit;
- Their forecast of future growth is unfairly set only to shareholder interests;
- They have few or no altruistic objectives, and will venture into areas that are not always congruent to the national interest.

Factors Not in Favour

Business is high risk and GLCs' business is funded with taxpayers' money. Therefore, losses incurred by GLCs mean depletion of state coffers. Modern business is about the market economy[53] and is positioned according to the

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to address your physical environment, especially in Metro Manila'. http://www.ops.gov.ph/brunei-g/news2.htm accessed on 20 Oct 2007.

Mr N. C. Naidu, chief minister of Andhra Pradesh, India known as the chief executive officer (CEO) of his state for his business-like style of governance, complimented Singapore when he said 'We cannot succeed in IT. We are not America; we are not Singapore. We have changed that climate of opinion'. The Singapore-Indian overview also reports that Mumbai (formerly Bombay), 'would like to borrow Singapore's expertise in areas such as public housing, urban re-development, mass rapid transit, airport management. Hyderabad is another Indian city in which Singapore companies are building housing projects; in Chennai (formerly Madras), a Singapore company is building an IT park'. http://www.iseas.edu.sg/viewpoint/mhoct03.pdf accessed on 21 Oct 2007.

[53] The path of modern business is said to have been set by the emergence of the market economy upon the demise of feudalism. The term 'market economy' is owed to Adam Smith's epic *An Inquiry Into the Nature and Causes of the Wealth of Nations*, published in 1776 in which he describes market economy as the supply and demand of goods and services as dictated freely by the market.

supply and demand of goods and services. It allows a free choice of trade for both the producer and the consumer. This is the cornerstone of democracy upon which capitalism is built, according to theorists such as Schumpeter (1942) and Swedberg (2000).[54] Business is ideologically impartial and it trades everywhere and with anyone under mutually acceptable conditions. Government, on the other hand, is inherently ideological. Political differences could have serious consequences on the relationships between countries. There is also contention that there will be fewer opportunities for the private sector if the government is actively engaged in the market.

'Temasek's overall rates of return may have been dragged down by the kinds of things they invested in for national strategy rather than pure financial return,' commented Linda Lim, a Singaporean academic, who said that, 'The role of the state in business has become at best unnecessary and at worst dysfunctional'.[55] The *Far Eastern Economic Review* of 7 November 2002 suggests that 'Temasek must ensure the GLCs are commercially run and are not asked to do "national service". The Singaporean Government should look radically and creatively at how to introduce the private sector more into its economy . . . [they should ask themselves] why are we in a particular industry? If we are in it, why can't the private sector do it?' Furthermore Wee Cho Yaw, prominent banker and chairman of the United Overseas Bank said Singapore produced few 'true' entrepreneurs because of the government's link to business making it difficult for new entrepreneurs to do business.[56]

A recurring objection to Temasek's forays is its state-ownership and the 'parentage' of its GLCs. However, on balance, Temasek had more successes and advantages and apparently is unconcerned. Besides, acquisitions of local businesses by proxies of foreign governments are a

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[54] According to Schumpeter, 'History clearly confirms this suggestion: historically, the modern democracy rose along with capitalism, and in causal connection with it. But the same holds true for democratic practice: democracy in the sense of theory of competitive leadership presided over the process of political and institutional change … the democratic method was the political tool of that reconstruction. We have seen that the democratic method works, particularly well … modern democracy is a product of the capitalist process.' Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, First published in 1942, New York; London: Unwin University Books, 1970, pp. 296-7.
For free markets to work, people must be allowed to make decisions free from government intervention. Agreeing with Max Weber, Swedberg maintained that 'ascetic Protestantism helped to create a new type of economic mentality, namely national capitalism and with this, the emergence of modern capitalism as a gradual process'. Upon this freedom that is given by democracy, Swedberg argues, free market built the foundation of capitalism. Richard Swedberg, *Max Weber and the Idea of Economy*, London: Allen & Unwin, 1998, p. 7.

[55] *Bloomberg News* cited in China's business paper, the *Standard*, 27 January 2005.

[56] Christopher Lingle, *Singapore's Authoritarian Capitalism*, Barcelona, Spain: Edicions Sirocco, 1996, p. 79.

recent phenomenon and there is little legislative restrictions in the host countries to block them. Regional regulators have, understandably, been dismayed at Temasek for its overt involvement, especially in certain strategic sectors such as banking, aviation, energy, telecommunications and defence-related industries. The South Korean regulators' forbidding DBS Bank's bid for the Korea Exchange Bank was disputed by Temasek which illustrates the ambiguity of regulations. In 2005, the Indian authorities disapproved a joint bid by Temasek-linked Singapore Technologies Telemedia and Telekom Malaysia for 48% of mobile phone operator Idea Cellular on account of Temasek having stakes in another Indian operator, Bharti Tele-Ventures, thereby breaching a regulation that prohibits ownership of two cellular licenses. Likewise, in Malaysia, Temasek apparently had breached the 5% ownership threshold when it acquired another bank.[57] Another concern is about the conflict of interest of Temasek's 'single presence' ownership of several competing entities within the same country. A clear example is Temasek's partial acquisition of Standard Chartered Bank, where both parties have separate banking interests in China, Indonesia and Thailand.

It is debatable whether Temasek would be in a better position under more autonomous management. Temasek is staffed by former or seconded civil servants who are accustomed to job-security and low risks in their choice of careers. Its management ethos is primarily one of risk-avoidance, as shown in the type of ventures it has, both at home and abroad, where the majority are with established companies and parastatals or with tycoons of large corporations.

A factor that argues against state engagement in business is the state's control of the competitive process: its ability to manipulate wages, foreign exchange, and credit control. In its position as both buyer and seller, it can influence commodity and share prices. It can also apply special treatment to certain industries it considers more strategically important through high subsidies or policy interventions.[58] The Singaporean government has natural monopolies on all the major strategic assets in the economy and is not likely to shed state ownership of the GLCs given its entrenched ideology of patriarchalism.[59]

It has often been said that the lack of opposition in Singapore is due to the apathy of its citizens who seemingly appear either indifferent or too accepting of government policies. The problem, apart from a highly

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[57] *Straits Times*, 3 April 2006.

[58] F. L. T. Yu, 'Towards a Theory of the Entrepreneurial State, *International Journal of Social Economics*, 28, 9, 2001, pp. 752-66.

[59] Lingle, *Singapore's Authoritarian Capitalism*, p. 69. Lingle refers to Prime Minister Goh Chok Tong's speech at a convocation ceremony at Williams College in 1995 when he said that his government had to maintain the Internal Security Act (ISA) due to the political immaturity of his fellow citizens.

paternalistic culture, is ironically, a government that delivers. The continuous success of Temasek underlines the belief that the government knows best. Therefore, the logic of state-guided entrepreneurship is that the people of Singapore are nearly totally dependent on the government making all the decisions for its numerous GLCs. This assumption works as long as Temasek continues to enjoy success. But when it does fail, is it conceivable that the people of Singapore will want a say? In an entrenched culture of dependency where apathy has been firmly embedded, such a situation would be a challenge.

Whether GLCs could be even more successful in the hands of private entrepreneurs is a choice that has never been tested or offered. Moreover, the secrecy surrounding Temasek's operations raises the question of its true performance. The Singaporean government does not think it owes its taxpayers full accountability of Temasek's performance.

Finally there is the issue of power; the ideology of state-guided entrepreneurship cedes enormous economic power to the state. Public funds belong to the taxpayer. Apparently it is abhorrent for the government to engage in businesses, but be exempted from the same monitoring mechanisms and audit reporting it imposes on all publicly-owned companies.

Conclusion

For transitional economies, there are certain advantages of adopting the state-guided entrepreneurship model. This has been the experience with several postcolonial states, and China's success in the new global economy is still owed to its state-owned enterprises. State control of business can ensure the productive exploitation of national resources. Governments have public visibility and project a perception of public interest. The state, in these economies, can seek international aid for enterprise development better than companies in the private sector. State-guided entrepreneurship can provide surety of collateral for government-backed companies that means not only state protection but also a measure of political underwriting for added assurance to their business partners. The ability to use political clout legitimately to overcome bureaucratic hurdles is imperative in international business. The state-guided entrepreneurship model offers GLCs the credentials of assumed trust and a stature of some size that allows them to be regarded with respectability in the global arena. This is important for the collective global thrust they are able to pull in competing internationally. In other words, GLCs can bring with them the government and other related agencies to give them the impetus and size to compete with bigger rivals.

Opposing this view is that the state-guided entrepreneurship model is not for everyone; neither should it be used as a panacea for the lack of home-grown entrepreneurial development, nor as a long-term economic objective.

The reasons are quite simple. The prevailing wisdom of business is that the less the government intervenes the better it is for the development of entrepreneurship, because government involvement in business invites favouritism, conflicts of interest, monopolies, and stifles competition.

There seems no reason why Singapore's GLCs cannot be free of government ownership and control, given that Singapore has excellent financial and industrial infrastructures to allow them to operate as normal private or publicly-held companies. Singapore is coming under the increasing scrutiny from the world business community and facing continuing criticism of its interventionist entrepreneurial policies. It is also often chastised for its authoritarian, one-party rule and the lack of democratic practices which underpin its control of entrepreneurship development. Efficient governance and the success of Temasek have inured the people to a lack of interest in any change to the status quo.