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**MANAGING STATE ASSETS TO ACHIEVE DEVELOPMENTAL GOALS:
THE CASE OF SINGAPORE AND OTHER COUNTRIES IN THE REGION**
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This paper serves as background material for the Workshop on SOEs in the Development Process taking place in Paris on 4 April 2014. It was prepared by Grant Kirkpatrick working as a consultant for the OECD Secretariat.

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Managing State assets to achieve developmental goals: The case of Singapore and other countries in the region

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About this paper

This paper is set in the context of the OECD's Working Party on State-Ownership and Privatization Practices intermediate output on "SOEs and inclusive growth". The issues covered in different countries include: what role has been assigned to SOEs and other state controlled entities as agents of development strategies and industrial policy; how has this been implemented through corporate action and ; how have such practices been implemented in different countries. The final report covering a number of countries will be published by the OECD as part of a publication aimed at identifying national practices toward using state controlled corporate entities to support developmental priorities. The final report aims to draw relatively concrete conclusions regarding what seems to have worked, what did not, and pitfalls to avoid.

While the concept of development goals being achieved through different combinations of policy actions, including state owned assets, is conceptually sound, it is still difficult to apply in practical work. Developmental goals might actually mean very little, and just form the basis of political rhetoric and public relations material. As a result, both political scientists and economists often use revealed preferences: what those in power actually do rather than what they say. This involves intensive analytical work and a great deal of "fact finding".

Development will involve the development and interaction of many different institutions, that will be both complementary and substitutes for each other. The developmental question is achieving the right balance for the country in question. Corporate actions by state controlled bodies are an important aspect but they can be used for much more limited political and economic goals, although their macroeconomic impact may be much wider.

This paper therefore focuses on one city state, Singapore, to make the task manageable. Being a city state, one does not have to deal with agricultural policy which often forms a crucial part of the development problematique. Analysis of other countries in the SE Asia region is thus more discursive in nature.

Part I discusses Singapore since independence in 1963. It outlines the economic history and, more importantly, the political economy of the country, especially its concept of social equity. State assets have played a crucial role, especially since 1974 through its holding company Temasek, which has attracted attention in a number of countries. How it works and how it has evolved are discussed. However, the discussion needs to be set in the wider policy framework, especially monetary and financial policy.

Part II briefly discusses each SE Asian nation, how its development strategy has changed over time, how policy instruments have interacted, and how this has impacted on the use of state owned assets. For the purpose of this paper, SE Asia includes: Indonesia, Malaysia, Singapore, the Philippines and Thailand. However, some reference is made to Vietnam and its recent policies

I. Singapore

To understand the role of state owned assets it is essential to first know the overall development policy. The first section details the main thrust of policies since independence in 1964. Government linked companies (GLC) have played a special role but this can only be appreciated in the overall context. The second section therefore outlines the political economy of Singapore including the political background of GLCs. Temasek, the state holding company has been closely associated, not always correctly with the success of Singapore. Section III therefore outlines the structure, operations and procedures of the holding company, from the viewpoint of corporate governance arrangements of both the holding company and the portfolio companies. This section covers the structure and operation of boards and senior management. The third section examines what is known about performance of the holding company and its investments that, in the development context, is necessarily more speculative and controversial.

An economic overview

Since 1960, Singapore's per capita real GDP has risen some 12 times and now equals or exceeds that in many OECD countries. Indicators of living quality such as health are also impressive and it regularly scores highly on educational attainment.¹ In addition, income distribution appears relatively equitable and there is widespread access to social benefits. Thus Singapore appears to have been successful in achieving its development objectives. Hence, the experience of Singapore is closely watched in other countries both within and outside the region.

Like other Asian countries (World Bank, 1993), Singapore's growth has been driven, up till the last decade, by high rates of savings and investment: around 35 per cent of GDP and higher for investment. During much of the period since 1960, the growth of Total Factor Productivity (TFP) has not been out of the ordinary, but Singapore is now moving to a new phase with greater emphasis on TFP growth, and a greater focus on private start-up companies.

Contrary to some perceptions, the role of the state has been very important. One study (Hopf) calculates that the government has been able to "control" a high level of savings and investment (around 60 per cent). Whether and how (i.e which institutions), it has actually controlled such savings and investment, and to what ends, is discussed below in the context of state ownership.

¹ For example, infant mortality was over 26 per 1000 live births fell to just over 2 by the mid 2000, among the lowest in the world. Over the same period, the proportion of people living in and owning publicly provided housing increased from 4% to 85 %. The labour force with secondary education went up from 14% to 50 per cent and those with tertiary education went up from 2% to 35 %.

For private savings, the policy instrument has been compulsory contributions to the central provident fund (CPF) leading to some claims that Singapore has at times been over-saving. The state enterprise sector (termed government linked corporations (GLC) in Singapore) has also contributed via its profitability. In addition to health and retirement benefits, deposits with the CPF can also be used for housing purchases and sales, a major element of development policy (see below). The assets of the CPF are in turn controlled to an important extent by the sovereign wealth fund, the GIC (Government Investment Corporation), which one study claims invests funds abroad and into equities. (Hopf)

Private savings have also been invested with a postal savings bank (a GLC), which was amalgamated into the Development Bank of Singapore (DBS) before being partially privatised.

With respect to the allocation of capital formation, the state has been important in several ways. First, the Housing Development Board (HDV), which included several Ministers, has had a major role in determining housing expenditures in Singapore, facilitated by the state purchasing the bulk of land in the first decade after independence (see below).² Second, the government has had an important role in establishing an international financial centre with a great deal of capital provided by FDI. A new state body, the Monetary Authority of Singapore (MAS) was formed in 1971 to oversee the financial sector, a task previously undertaken by the Ministry of Finance. Third, the Economic Development Board comprising *inter alia*, senior Ministers was given responsibility for industrial policy through both tax breaks and the provision of industrial estates. In its early years it also acquired shares in a number of companies, later transferred to Temasek. Fourth, the way in which GLCs have operated has also affected investment. As noted below, the method of operation has changed over time.

The establishment and encouragement of Singapore as a financial centre has had major implications for policy choice. It meant that monetary policy was committed to a “hard Singapore dollar” policy, and to being an open economy. It is no accident that unlike other countries in the region, there has never been a full-blown financial crisis. The financial regulatory policy has been conservative and tax policies rather than import controls have been used to encourage FDI.

An important element of Singaporean growth has been the emphasis not only on FDI but also on GLC. The reasons were essentially pragmatic. As Lee Kwan Yew wrote in his autobiography: “We did not have a group of ready-made entrepreneurs such as Hong Kong gained in the Chinese industrialists and bankers who came fleeing from Shanghai, Canton and other cities when the communists took over. Had we waited for our traders to learn to be industrialists, we could have starved. It is absurd for critics to suggest in the 1990s that had we grown our own entrepreneurs, we would have been less at the mercy of the rootless MNCs. Even with the experienced talent Hong Kong received in Chinese refugees, its manufacturing technology level is not in the same class as that of the MNCs in Singapore” (Lee, 2000, pp 66).

² Land purchases and sales are booked as a financing transaction in the national accounts and not as positive or negative investment as in OECD countries.

Finally, although the government had a high level of control over the use of savings and capital, it followed successful development examples by emphasizing market prices and exports (and therefore competitiveness). Unlike many countries before and since, it avoided the pitfalls of import replacement and the state setting prices. This set an important operational framework for GLC.

The lessons that can be learned by other countries are not straightforward. Singapore is a city-state so has not had to solve complex agricultural issues and large populations that have often dominated other countries in the region such as Indonesia and the Philippines (Studwell, 2013). On the other hand, it has had to contend with being a multi-racial and multi-cultural country with, at the outset, no strong sense of national identity. Like many other countries at the time (early 1960s), it had a large unskilled, young, work force and was under great pressure to provide jobs—any jobs. (S. Yap, R Lim and L.W. Kam, 2009, Pp 627). In responding to these challenges, Singapore has developed unique political structures and has succeeded in avoiding business corruption. How it has evolved and changed or adapted policy settings is clearly of relevance to other countries even though the lessons for others must be carefully interpreted.

The political economy of Singapore: the development state and Singapore Inc

The developmental goals, and therefore the framework for GLC, were and remain the work of the dominant political force: the Peoples Action Party that is closely associated with Lee Kwan Yew. The party had a Fabian socialist background prior to independence in 1959 and therefore placed great emphasis on social equity, but in a highly pragmatic manner. It was not concerned with local Chinese business, viewing them as engaged in entrepot trade, which did not create jobs, the crucial variable at independence and for years afterwards.³

Rather, the government took the view that the key to growth was foreign investment and to that end, taxes and other regulatory reforms were pursued with considerable success. However, they took the view that there needed to be a counter balance to FDI in the form of GLCs that would act as a substitute for the lack of private entrepreneurs.⁴ With some exceptions, they were to be oriented to profitability in the medium term but, it was taken for granted that, GLCs would also pursue the more general development goals of racial and religious equality.

To obtain FDI and more recently to encourage startups in areas such as biotech identified by the economic plan, the government set up the Economic Development Board. This institution has had to develop criteria for tax breaks outside the parliament.

³ An important exception concerned the private Chinese banks, which became a focus of regulatory action such as the monetary authority having power to approve board and managerial appointments. More generally, to guarantee financial stability the monetary authorities have pursued a conservative regulatory policy.

⁴ The Fabian socialist origin of many founders of the PAP undoubtedly also played a role.

Social equity was to be ensured not through inefficient control of GLCs but via land acquisitions at undeveloped cost and social housing which would ensure affordable housing and no spatial segregation by income group: different income groups live in the same neighborhoods and there is no racial segregation.⁵ Thus, like Korea and Taiwan, Singapore did have a land reform with state ownership rising from 10% in 1965 to some 90 % in 2004 (Yap et al, page 620). One GLC is affected by the housing policy (Keppel Land) but other GLCs must pursue commercial objectives.

Even though the government was keen to distance itself from racial, linguistic and religious movements, it was concerned to preserve what it termed Asian culture, which was defined as one aspect of Confucian doctrine. By this they meant a focus on the family as a social unit which was organized along hierarchal lines. However, the hierarchy also required the acceptance of responsibilities by the head who was seen as having stewardship responsibilities to preserve and increase the wealth of the family for future generations. The government extended the idea of stewardship to its own operations and those of its GLCs. (Tsui-Auch and Y-J Lee, 2003)

In combination with the lack of interest in supporting, at first, a local Chinese business elite, a result has been the lack of corruption in general and in business life in particular. The World Corruption Perception Index lists Singapore at number five: significantly clean, whereas neighboring countries are around 50 to greater than 150 in rank. Whether GLCs favour each other (that could arguably be considered a form of corruption) is discussed below. However, since 2004 a competition authority has underpinned efforts to promote competition in the small, open economy but one characterised by concentrated ownership. The 119 enforcement actions in Singapore during 2007-2012 involved anti-competitive agreements (51 cases), prohibited mergers and acquisitions (36 cases), and abuse of dominant position (32 cases) (Waller,2014).

Although the general objectives set for GLCs have been clear for some time, and widely supported by managements and boards (see below), specific targets have varied over time. At first the emphasis was on jobs, which was also viewed as the best way to achieve social equity. As one source notes, “ this explained why garment factories sprouted in those days as they could absorb a large number of workers. Pictures of rows of women treading on sewing machines were proudly displayed in official publications. There were factories which produced matchsticks, plastic tooth brushes, cotton wool, zip fasteners and yes, chewing gum” (Yap et al, page 627).

By the mid-1980s, policy had changed to encourage regionalization by which was meant breaking up some unskilled activities to countries in the region. This policy was accompanied by specific policy measures such as a significant rise in labour costs (through another government influenced body) that proved perhaps too effective. GLCs were also part of the policy change.

⁵ Access to housing is in part a function of the Central Provident Fund that all citizens are obliged to join and make contributions. Buying and selling of property is via such accounts. See Yap et al 2009

Following the Asian financial crisis in 1997, policy objectives widened to cover globalization and not just regionalisation. The implications for GLC were important and are discussed below. At the same time, emphasis also shifted to encouraging local start-ups, especially ones based on high technology. Again, the evolution of objectives led to a number of policy changes such as the negotiation of investment treaties.

Although regionalization and globalization made sense in the context of a small economy, it was not an objective that could easily be met by GLC and has not always been welcome by recipient countries (Box 1). State owned or controlled companies were always open to charges that they operated as an agent of a foreign government. There have therefore been problems with investments in India, Thailand, Indonesia and Australia (Goldstein and Pananond). These issues have led to changes in the main state operating company, Temasek, including improved disclosure and transparency (Goldstein and Panamond, 2008). However, since the current CEO of Temasek is married to the Prime Minister, it is difficult to argue the case of an arms length relationship between GLC and the political authorities.⁶

Box 1 Responding to changed objectives is often difficult.

One of the elements in Singapore's regionalization strategy was the creation of industrial estate projects, and especially a number of trans-border industrialization estates in Indonesia, India, Vietnam, China and Malaysia. These were run by SembCorp Park Management, a GLC in which Temasek held 50.58 per cent of the equity and local partners the remainder. However, the returns have been disappointing due to the local partners. For example, Temasek has had problems with their Chinese industrial estate investments. As Goldstein and Pananond note, "Singapore has a contractual business culture in which deliverables, timeless and the nature of risk sharing are specified fully. This has proved excessively formalistic in China's emerging business community" (page 428).

With respect to globalization, it has been unclear whether Temasek was the investor or the GLC corporation. This has been the case in both telecommunications and in banking. With respect to the latter, Temasek was the controversial purchaser of the Thai conglomerate Shin Corp in 2006 (not the corresponding GLC, Singtel) that caused major political problems with Thailand. This raised ethical questions since Temasek used nominee companies to evade Thailand's local equity rule. The corresponding GLC, Singtel, has also invested in many countries (e.g. Optus in Australia) and has been in the process of integrating them into the company. The board has been widened to include an Australian director. The banking group DBS (Development Bank of Singapore) has also been integrating a number of foreign purchases and has also now broadened the board to include foreigners.

Common to all business, there have also been failures both by the GLC and Temasek. For example, Singapore Airlines (SIA) attempted to circumvent Australian foreign

⁶ The case was further weakened when the ex-prime-minister (Lee Kwan Yew) argued that the controversial acquisition of the Thai holding company owned by the ex-prime minister was a pure commercial deal.

ownership limits of airlines by investing in Air New Zealand, which at that time controlled an Australian airline. The latter went into bankruptcy forcing SIA to write off the investment.

Nevertheless, SIA continues to invest in airlines around the world in the form of equity participations. DBS continues to acquire foreign financial institutions. It is not known to what extent Temasek was directly involved in these decisions. Since the reserve the right to oversee major investments. Both companies have now broadened their boards to include foreigners.

The issue is also to what extent the Singapore government has been involved as well as Temasek. The Government clearly had an oversight role in the case of ShinCorp in Thailand with Temasek having operational independence.

One case did involve all state entities. Neptune Orient Line (NOL, a GLC) acquired US President Lines in 1997 but at that time both the Ministry of Finance and the sovereign wealth fund, GIC, needed to inject cash to the transaction. The board of NOL is now quite international.

In conclusion, Singapore has been very clear about what was expected of GLC and these have evolved over time in line with economic development. At the outset, GLC had a major role in industrial policy with both SIA and NOL aiming to establish Singapore as a transport hub. However, the state has also been clear that more general issues such as social equity were not the primary goal of GLC but of specific policies such as land acquisition, social housing and public health. To see how the GLC policy was implemented one must examine the operation of the state holding company, Temasek.

The special role of Temasek: structure, operation and control of investee companies

Temasek was formed in 1974 as a fully owned company of the Ministry of Finance⁷ and took ownership of a number of companies⁸ previously subject to a state body such a statutory board or Ministry.⁹ This allowed the government to separate regulatory authority from state ownership, a major evolution of policy. While Temasek is 100 per cent owned by the Treasury there are also safeguards against expropriation by the government. At the time of a change in government, the own capital is frozen and so cannot be distributed to the budget: only current earnings from

⁷ Some 35 companies were transferred from the Ministry of Finance of which 12 remain in the Temasek portfolio either directly or indirectly. The rest have been divested of liquidated. Temasek Review 2013, Pg 96

⁸ Apart from companies taken over when the British armed forces withdrew, they included equity holdings taken on by the Economic Development Board as part of its development mandate.

⁹ There remain other government bodies controlling companies. One is the GIC, which is a true sovereign wealth fund that has made co-investments with Temasek, and the other is Singapore Technologies Group. Several sales by Temasek companies ("privatisations") have been made to it.

which dividends are paid. The President approves nominations to the Temasek board. The Minister of Finance is not a board member.

Temasek raises some finance on the capital markets and has a AAA rating by Standards and Poor's. It has also attained perfect quarterly scores on the Linaburg-Maduell Transparency Index, a measure of openness of government-owned investment funds. Although not a sovereign wealth fund (that is the GIC), it voluntarily follows the Santiago Principles.

Temasek owns a large number of companies which together account for a high proportion of the Singaporean economy (Table 1). One estimate, which is biased downwards, is 20 % (Tsui-Auch et al 2011). They are market leaders in the areas of air transport, banking, telecommunications and real estate development. Each company is also head of its own corporate group (Table 1). In addition, Temasek also holds a large number of investments directly on its own balance sheet, the largest being an 18 per cent shareholding in Standard Chartered Bank. The investment in China Construction Bank accounts for 8 per cent of Temasek's portfolio, about the same as Standard Chartered. It also holds two new telecommunications companies that are in competition with the dominant carrier owned by Temasek, Singtel.

Table 1. Basic information on the largest Temasek business Groups, 2006

Name of Group	Total Assets (\$m)	No of subsidiaries	No of associated companies
Development bank of Singapore (DBS)	197,372	88	17
Singapore Telecom (SingTel)	33,606	139	36
Singapore Airlines (SIA)	23,369	24	32
Keppel Corporation	13,816	144	39
Neptune Orient Lines	6,550	123	45
Keppel Land	5,261	102	30
Semb Corp Marine	3,429	33	12
Singapore Petroleum (SPC)	3,140	123	10

Source: Lai Si Tsui-Auch et al 2011

At the time of its formation, the government transferred shares at book value to the company. These companies had already been formed into groups by the government along the lines of Korean chaebol (Tsui-Auch and Yoshikawa, 2010). The formation of such local champions has been followed by many other countries but not in the same context as Singapore.

Since 2004 and following a government review in 2002 (Report of the Entrepreneurship and Internationalisation Subcommittee, Economic Review

Committee, 2002) Temasek has been subject to a charter (Box 2) and has also improved its transparency by publishing annual, consolidated accounts. Temasek thus has full flexibility to take concentrated risks whether in owning up to 100 per cent of a portfolio company or in deploying most of their investments into a country or sector.

Box 2 The Temasek Charter

Temasek is an active investor and shareholder: we deliver sustainable value over the long term.

- We own and manage our assets based on commercial principles
- As an active investor, we shape our portfolio by increasing, holding or decreasing our investment holdings. These actions are driven by a set of commercial principles to create and maximise risk adjusted returns over the long term
- As an engaged shareholder, we promote sound corporate governance in our portfolio companies. This includes the formation and of high caliber, experienced and diverse boards.
- Our portfolio companies are guided and managed by their respective boards and management; we do not direct their business decisions or operations.
- Similarly, our investment, divestment and other business decisions are directed by our Board and management. Neither the President of Singapore, nor our shareholder, the Singapore Government, is involved in our business decisions.

Temasek is a forward looking institution; we act with integrity and are committed to the pursuit of excellence.

- As an institution and as individuals, we act with integrity and are guided by our Temasek values
- We foster an ownership culture which put institution above the individual, emphasizes long term over short term and aligns employee and shareholder interests
- We pursue excellence as an institution by developing our people's capabilities and processes
- We challenge and reinvent ourselves to stay relevant in a rapidly changing world. We do things today with tomorrow in mind.

Temasek is a trusted steward; we strive for the advancement of our communities across generations

- Temasek is a responsible corporate citizen. We engage our communities based on the principles of sustainability and good governance.
- We support community programmes that focus on building people, building communities, building capabilities and rebuilding lives in Singapore and beyond.
- We engage stakeholders in the development of sound governance practices
- Under the Singapore Constitution, Temasek has a responsibility to safeguard its past reserves

How does Temasek go about fulfilling its own Charter?

An important feature is the board which as at 31 March 2013 had 10 members, a majority of whom were non-executive, independent private sector business leaders, including two foreigners.¹⁰ However, one board member is also on the board of Singapore Airlines, one of the major investments of Temasek. Each Committee is chaired by a non-executive Director, who is independent of management. There is no ministerial representative. The shareholders right (i.e. the Ministry of Finance) to appoint, reappoint or remove board members is subject to the Presidents concurrence.¹¹ The appointment or removal of the CEO by the Board is also subject to the concurrence of the President.

In the past, the board of Temasek and its portfolio companies had a high proportion of civil servants, and ex military as directors, but this is slowly changing. Unlike experience in other countries, they appear to have been rather effective, showing few signs of risk aversion noted in other countries. It is interesting to speculate about the reasons (Box 3).

Box 3 Why is it that civil servants and ex military appear to have been successful in running GLC?

It should be remembered that prior to independence the human resources of Singapore were indeed quite modest. As a result, the new post-independence government introduced a wide-ranging scholarship scheme covering a very broad strata of society. Students were bonded after their study to the government for a period resulting in a public sector elite that seemed to feel at ease in business.

To some extent this resembles the French scheme set up by De Gaulle at the end of the Second World War at the Ecole National Supérieur Administrative, where training included a broad approach to running the country and its economy. The choice of candidates covered a wide set of Society. The UK by contrast in general continued past policies of recruiting the civil service from a narrow range of universities and backgrounds. Success in commerce was not an obvious strength of these people.

However, it is worth stressing that board members, civil service or not, were all appointed from the ruling strata of Singapore. As a result, there was widespread

¹⁰ One is the Swede Marcus Wallenberg who is also on the boards of a number of Scandinavian companies as well as a family holding company.

¹¹ The President of Singapore is directly elected as Head of State, not Head of Government. The Prime Minister is thus the key political force.

agreement about the developmental objectives of the government, which has remained in the hands of the Peoples Action Party since independence. They were also products of the “clean traditions” established early in Singapore, noted above.

Temasek has grown in the mean time to some 450 people, analysts and others, from 23 countries to oversee its broad portfolio of companies. But how do they oversee and run such companies?

Securing objectives and overseeing portfolio companies

With respect to specific company objectives there are no (or very few) formal documents. The board of Temasek and its main companies are all from the same “political family” so the objectives of the government are well known. When policy has changed as with a greater emphasis on globalization after 2004 (not just regionalization (Box 4)), the policy was well understood and was accompanied by other policy measures such as investment and double taxation agreements and the establishment of a competition authority.¹² The long-term policy to establish a nation without racial tensions has long been understood and accepted.

Box 4 The Globalisation of Temasek

Temasek has globalized its portfolio since 2004 at the same time that the portfolio has increased. Singapore accounted for 52 per cent of the portfolio in 2004 but by 2013 it had decreased to 30 per cent in 2013. At the same time, China’s share rose from 6 per cent to 23 per cent.

The rebalancing of the portfolio led to a decreased share for telecommunications, media and technology from 36 per cent to 24 per cent and financial services from 35 per cent to 31 per cent. Transportation rose from 14 per cent to 24 per cent in part due to a capital increase for the shipping line, NOL.

Source: Temasek Review 2013 and 2004

Unlike Australia and Canada (and Malaysia), no detailed objectives and KPIs are set for each company but there is now a risk-adjusted rate of return that serves as a benchmark. Temasek monitors the companies and for their main investments they meet the board every three years. The emphasis is on the role of the boards in portfolio companies and hence the efficiency of their nomination committees. As a result, boards have tended to become more formally independent, and management more professional in line with the evolution of corporate governance standards in Singapore. This is illustrated in Tables 2 and 3. Nevertheless, there is some way to go

¹² The exception was Neptune Lines, which received funds from both the Treasury and the Sovereign Wealth Fund (GIC) to take over the US President lines. (Tsui-Auch and Yoshikawa)

to a private enterprise model so that maintenance of high civil servant standards remains important.

Table 2. Identities of board chair/president, CEO/Managing directors in GLCs 1997, 2006 and 2012

Core companies	Board chair/president			CEO/MD		
	1997	2006	2012	1997	2006	2012
DBS	G	G	P	G	P	P
Singtel	G	P	P	G	G	P
SIA	G	G	p	G	G	p
NOL	G	G	G	G	P	G
SPC	NA	G		NA	G	na
Keppel Corp	G	G	p	G	G	p
Keppel Land	G	G	na	G	G	na
Semb Marine	G	G	na	G	G	P

Source: 1997 and 2006, Lai-Si Tsui-Aiuch, 2011. For 2012 based on annual reports. Notes. G= government linked (serving in government linked corporations, statutory boards/civil service, army or as members of the parliament and ministers.

Table 3. Percentage of outside directors on the board of the core companies of the Temasek business groups 1997, 2006, 2012

Core company	1997%	2006%	2012%
DBS	10	8	80
SingTel	0	45	70
SIA	10	30	80
NOL	38	54	90
SPC	13	33	na
Keppel Corp	0	27	70
Keppel Land	20	8	75
Semb Marine	NA	44	70

Source: 1997 and 2006, Lai-Si Tsui-Auch, 2011. 2012, the author. Notes: In the case of NOL, information on the backgrounds of three out of 10 directors was insufficiently stated and hence only 8 directors were considered. For the same reason, Lai-Si Tsui- Auch was only able to consider 8 out of 11 directors in the case of SPC. The company is now delisted and acquired by PetroChina.

For their other investments (those under 25 per cent shareholding), Temasek takes the same approach but they do not have regular meetings with the boards. Rather, they let the board know their concerns but then are careful. For example, with Standard Chartered Bank, where they are a major shareholder (18 per cent), they let the board know that they considered the number of executives on the board excessive. However, they did not vote their shares to avoid any impression of control.

Temasek trades their investments, and this is an important source of revenue. Over the past ten years or so have made some S\$400 million in new investments but have disposed of some 350 million of assets.¹³ As such, they are very sensitive about being open to the charge of insider trading. They therefore do not want their employees on boards as a general rule.

Temasek has stated that they encourage their companies to compete with each other. The example was given of Singapore Airport, which is the base of Singapore Airlines. Both are owned by Temasek. However, Qantas also uses it as a hub for their budget airline to compete against Singapore Airlines. They also own two small telecommunications companies that compete with each other and with the dominant carrier (also owned by Temasek). In the past, there was often a practice to establish two companies in a sector as a potential counter to aggressive trade union behavior (Yap et al). Nevertheless, Claims surface from time to time alleging that companies favour other Temasek companies (Report of the Entrepreneurship..., 2002). It should be noted that the Competition authority was established in 2004.

Performance of Singaporean GLC

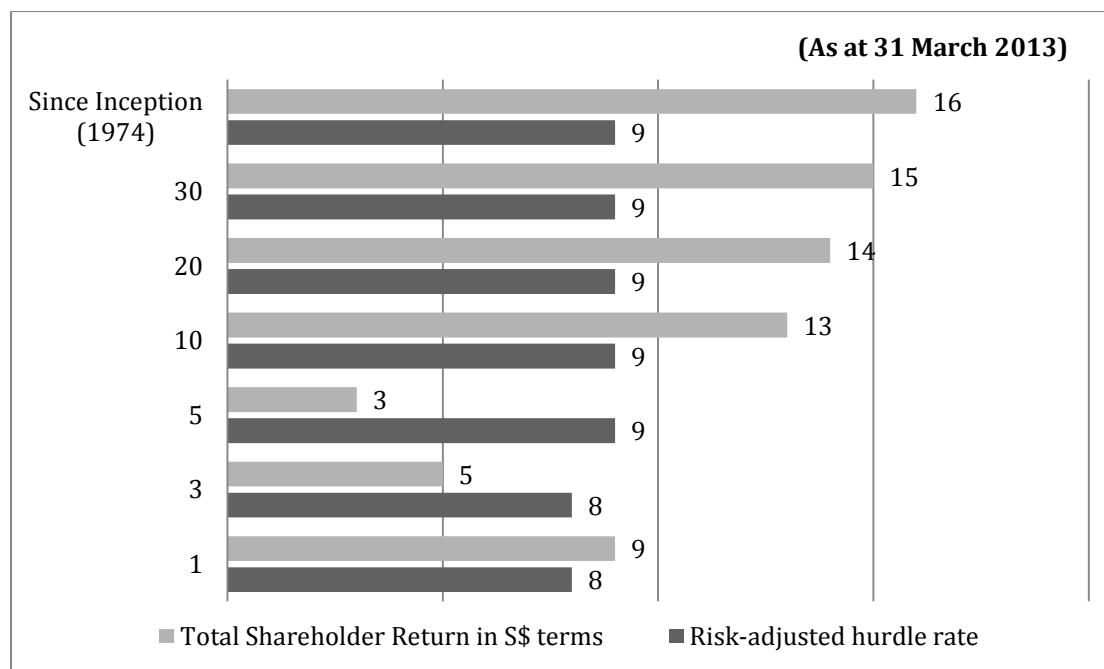
Around the world, discussions of GLC invariably raise questions about their performance relative to private or foreign companies. There are a lot of methodological and empirical problems with the work (Doamekpor, 1998). One problem is that it is difficult to determine externality effects (either negative or positive and perhaps even time varying) and the attainment of developmental goals. The other is that the counterfactual is not obvious: Singapore could just as well have ended up like Burma or Cuba (Yap et al, page 625).

One measure often used as an indicator of efficiency is the rate of return on either shareholder funds or, preferably, on assets. Temasek uses total shareholder return (TSR) that measures compounded annual returns to the Ministry of Finance (i.e. the shareholder). It includes dividends that Temasek has paid to the Ministry but excludes capital injections by the Ministry.

As shown by Figure 1, the TSR in 2013 was some 9 per cent against an average risk-adjusted hurdle of some 8 per cent. Inflation was 2 per cent. Over the past decade the TSR was 13 per cent against a hurdle of 9 per cent – excellent given their exposure to banking and other cyclical stocks such as aviation.

¹³ In 2013 they invested S\$20 billion and divested S\$13 billion. Temasek Review, 2013

Figure 1. S\$ Total Shareholder Return and Risk-adjusted Hurdle Rate (%)



Source Temasek Review 2013 Page 19

However, it is worth noting that some have challenged these claimed returns, especially over the long term (Balding, 2011). The study claimed that the returns appear high compared with Singapore Stock returns averaging less than 8 per cent. “If Temasek returns can be verified, it represents the greatest and most sustained period of investment brilliance in human history” (Balding, page 3).

It is not the place here to examine the arguments that might come down to the valuation of shares that were transferred to Temasek by the Ministry at nominal or historical cost. There are also questions about how investment write offs such as with Air New Zealand were handled as well as other write-downs (Goldstein and Panamond, 2008)

Around the world studies indicate that SOEs often have preferential access to capital thereby starving access by the private sector. A study by the IMF (Ramirez and Hui Tan) found no evidence that GLCs in Singapore have had easier access to credit. However, their share price has a premium over non-GLCs so that their cost of capital was less, perhaps due to investors pricing-in what they believe is an implicit government guarantee. Thus a capital market distortion is present.

II. Experience in other Asian countries

Singapore has, like other Asian countries, followed the examples of both Korea and Japan in developing large, integrated company groups which would be competitive abroad (“national champions”). But there the similarity ends, with Singapore’s focus on GLC and foreign investment that were not important in either Korea or Japan. The example of Singapore has, however, led to new thinking about GLCs in the SE Asian region.

Within the region, the Temasek model has been replicated to some extent in Malaysia (and the Philippines) and might be followed by Indonesia and Vietnam. China has an entirely different model (SASAC) but reforms, which might incorporate elements of Temasek, are being studied (Straits Times 2014). However, the above discussion illustrates that in examining other countries it is important to understand the macroeconomic policy framework as well as the political economy that affects both GLCs as well as the operation of GLCs.

Each section therefore first outlines the general features of economic history including the tendency to financial crisis that has formed a backdrop to the development and use of GLC. Developmental goals are noted. The approach to running GLC is then outlined.

Malaysia

Whereas the political economy of Singapore chose to de-emphasise its Chineseness, the opposite was true in Malaysia: right from independence Malaysia emphasized its Malay racial roots and gave preference to them through the Bumiputra policy.¹⁴ One aspect of this policy included forcing banks to meet minimum lending quotas to Malays.

As in Singapore, the government had significant control over private savings through a compulsory central provident fund that had control over some 30 per cent of deposits. Indeed, by 1980 government control of all financial assets reached a peak of 64 per cent of all financial assets.¹⁵ In addition to the control over the financial sector, the government also used the state oil company, Petronas, to support big industrialization projects such as an automaker, Proton. The allocation of state funds was highly distorted and there were no export tests as in Korea and Taiwan. As a result, a state owned investment bank, Bank Bumiputra, created in the 1960s required repeated bailouts.

From the early 1980s, the state-owned infant industry projects stepped up with a privatization drive for older government businesses. At the same time, the financial

¹⁴ Indeed, it was this emphasis which led to Singapore leaving Malaysia in 1965.

¹⁵ See Studwell page 161 for references to the estimate.

sector was liberalised, setting the scene for a property boom and thereby establishing the domestic basis of the 1997 financial crisis.¹⁶

The Bumiputra policy was in great part based on the national investment programme, which was also instrumental in creating GLCs. However, to support the policy not only were companies giving preference in employment to Malays but also giving preference to Malay private companies in their sourcing. Such arrangements are ideal for encouraging corruption and could evolve into supporting individuals rather than companies. Indeed, Malaysia ranks 53 in the world corruption perception index.

Apart from encouraging corruption, there were other indicators that the original policy was failing. In 2005, the CEO of Khazanah stated that a study had found GLCs to be; more highly indebted than the average listed company on Malaysia's stock market; to generate less profit per worker and to earn a lower return on equity. In the five years before he was appointed, shareholders made a total return of 3.6 per cent on GLCs but 7.5 per cent on other firms in Malaysia's stock market index.¹⁷ As an example, it is also reported that under the old system one transaction cost 100 million ringit (\$27 million), whereas the same transaction cost only 12 million ringits after competitive bidding was introduced later (The Economist op cit). Malaysia had no competition law till 2012.

In 1993, Malaysia founded a GLC holding company, Khazanah, entrusted to manage the commercial assets held by the government and to undertake strategic investments in new industries and countries. It is also tasked with shaping selected strategic industries in Malaysia, and with nurturing their development with the aim of pursuing the nation's long-term economic interests. Currently, it has 60 major companies in its portfolio, but there the similarities with Temasek ends.

The Asian financial crisis in 1997 and the collapse of some favoured companies such as Malaysia Airlines led to significant reforms of Khazanah and therefore of GLCs. With the appointment of a new CEO in 2004, young foreign educated professionals were brought in to run some GLCs. Senior executives were placed on fixed term contracts, with extensions and pay linked to performance. Government officials with a regulatory role have been removed from GLC boards. On the other hand, the board of Khazanah remains highly political, reflecting the importance of the Malay policy: the board of eight includes the Prime Minister and the Minister of Finance. The emphasis on industrial policy and especially the support of "high tech" firms remains.

In comparison with Temasek, Khazanah is highly interventionist with its portfolio companies and carries out extensive monitoring of them. On the other hand, there were probably more issues to deal with including loose definitions of company objectives such as Petronas, the national oil company, that has been used in the past as

¹⁶ It is important to note that very few bank loans went to industry: One study found that Malaysian companies met only 10-14 per cent of their financing needs from banks., only a fraction of the level reached in Japan and Taiwan. Studwell page 162 for references.

¹⁷ Interview with Azman Moktar as reported in The Economist, 18th August, 2005.

a financing vehicle.¹⁸ The separation of regulatory powers from the exercise of ownership and the development of complementary institutions such as competition authority have been late in being implemented. The situation in Indonesia has been much more complex driven by major political shifts.

Indonesia

The political economy of Indonesia is highly complex with significant regional, racial and religious differences and at times regional insurgencies. The political party structure since 1997 is complex and competitive. There is also a very significant rural economy. It is thus quite different from Singapore and Malaysia.

The economic history of Indonesia can be divided by two financial crises: 1965 and 1997. Policy objectives have also varied markedly. From independence in 1949 to 1965 the governments of President Sukarno had no viable policy for industrial development and for promoting exports. Indigenous traders were encouraged with import licenses and by being granted monopolies such as in the spice trade. Credit was granted by the central bank to them in abundance. Indonesia in the early 1960s became in the words of Studwell, a zero discipline financial environment: “the central bank fed the beast of credit demand unquestioningly, printing so much money that the economy experienced hyperinflation” Page 171. Reliance of the private sector on the whims of the government was thus well established.

In the years following 1965, Indonesia experienced high, constant growth, appearing to signal the discovery of a new development model. There was a first round of ambitious public sector investments in steel, chemicals, fertilizer, aluminium, machine tools and aircraft construction. They were financed by a big increase in central bank preferential credit. At this time, the term “crony capitalism” came into being as funds were directed to the families surrounding President Suharto. Unlike in Singapore, Korea and Taiwan, there was no export discipline. Financial liberalisation made the situation worse as credit flowed into construction speculation. And bank collapses increased in the years prior to the 1997 crisis. The pain of the crisis was great and became part of the collective memory: it was not until 2005 that Indonesia regained the level of GDP per capita that it had in 1996. By that time, fifty financial institutions had been closed, 26 had been taken over by the Indonesian Bank Restructuring Agency, 12 had been nationalized and 4 out of 7 state banks had merged.

Following the financial crisis, the primary objective of GLCs became at first one of helping to repay foreign debt (in part through privatization) and then maximizing dividends to help the budget. The first step was to bring all GLC under a new Ministry of State Owned Enterprises. The first minister had preferred a national holding company but as noted by Wicaksono “...the legal hinderance resulting from the lack of Indonesian laws regulating such a holding company forced him to opt for this second best option, something which proved to be part of the problem in managing SOEs as time went by” (Wicaksono, 2007, page 172)

¹⁸ Khazanah has had to deal with the Proton car company championed by a previous prime minister. Singapore has not had to deal with such a problematic company.

In the above conditions, the GLCs have become an important political target, and have also been under pressure to produce positive financial returns.

As of 2010, there were 141 GLC with plans to reduce the number to 78 by 2014. Eight of these companies were loss making, down from 36 in 2006. The plans call for sectoral holding companies in sectors such as plantations and pharmaceuticals. It is believed by some that the holding structure will serve as a layer shielding the SOEs from politics and governmental intervention. By itself this would not lead to greater professionalism, transparency and governance which is the apparent motivation. Indeed, a holding company structure has no legal basis. There are also other problems. As the OECD 2012, noted, the legal structure of the dual board system and other aspects of corporate governance remain underdeveloped.

A sectoral holding company might also exacerbate the problem of limited competition. Indonesia has had a competition law and authority since 1999 but at the beginning it was a very low key player. However, in the period 2000-2010, it has undertaken actions on collusive bidding and tenders that accounted for 85 per cent of the 237 anti-competitive actions initiated by the competition authority.

In determining which holding company model might be appropriate it would be important to take into account how to allocate the scarce resources: high level management and governance expertise. The Khazanah model, which is interventionist, might be more appropriate for the conditions. Singapore also has a developed competition policy and actually encourages GLCs to compete, something the Indonesian plan avoids by forming sectoral holding companies. However, the Singaporeans do not have to deal with the issue of regions and agriculture.

Thailand

Uniquely among the South East Asian states, Thailand was never colonized but remained distrustful of colonial powers in the region. The historical distrust of foreigners might be the basis for the ban on majority holdings by foreigners of domestic companies.¹⁹

Thai governments began the longest running strategy of import substitution industrialization in the region after WWII, with numerous sectoral development campaigns until the 1980s. However, with there being no incentives for export discipline as in Korea and Taiwan (or financial discipline as in Singapore), manufacturers did not make products that were globally competitive. As with Malaysia, there was only a modest and non-inflationary amount of rediscounting of bank loans by the central bank., most of which went to export crops, primarily rice. In the 1980s, finance was liberalised but was subject to capture by entrepreneurial interests. A series of financial rescues were required in the mid 1980s affecting institutions that held one quarter of all the financial systems assets.

¹⁹ Bilateral investment treaties have weakened these provisions in recent years. See US Department of State, 2012. It might also explain the fury which resulted when Temasek bought Shincorp, the telecommunications company, but offshore. See Goldstein and Panamond.

From the late 1980s, Thailand experienced both a real estate and stock market boom, leading to a current account deficit of some 8 per cent of GDP by 1997. As a result, 56 of the 91 non-bank financial institutions in 1997 were closed.

Since the 1997 financial crisis, the economy has grown quickly fostered by sound macroeconomic policy, import liberalization and FDI. The latter have improved competition even though competition law (in place since 1999) has not been effectively enforced and excludes branches of the economy such as SOEs (Kohaiboon et al 2010). Public procurement is also an issue. SOEs, like government in general, reserve the right to accept or reject any or all bids at any time and may also modify the technical requirements during the bidding process, if, according to regulations, corruption is suspected. The latter provision allows considerable leeway to SOE in managing procurement, while denying bidders recourse to challenge procedures. Allegations frequently surface that changes are made in procurements of a protectionist nature (US Department of State, 2012).

There has always been an important role for SOEs in Thailand. Currently, the state owns 58 companies, defined where the state has 50 per cent or more of ownership, and has minority stakes in dozens of others. These include five listed companies in which the government holds a majority position, and another 12 in which it is a majority shareholder. The 58 SOEs have over 250,000 employees, assets of 6 trillion THB, revenue of 2.7 trillion THB, dominate key sectors (including energy production and distribution, transportation and water), and are active in other areas. They include a number of large financial institutions, with about 30 per cent of banking assets (The World Bank, 2013).

The five listed SOEs include the largest listed company in Thailand as measured by market capitalization – two of its subsidiaries are also in the top ten-- as well as one of three of the largest banks, and the national airline and the airport authority. The direct holding in these companies is estimated to be around 15 per cent of market capitalization.

A number of SOEs run at a loss. The government regularly allocates three to four per cent of its annual budget expenditures to fund SOEs.

Corporate board seats have been typically allocated to senior government officials or other politically affiliated individuals.

A governance reform in 2008 focused on the independence and non-political affiliation of GLC board members. There is a directors pool for SOEs (run by the Institute of Directors) from which one third of the members of a SOE should come. Those selected to be in the pool are known to be non-political, independent minded, and with a track record of credibility. However, both the MoF and the supervising ministry are represented by senior civil servants on SOE boards. Other government officials are usually also on boards. Major subsidiaries of SOEs also tend to have at least a few civil servants or other state employees on their boards.

The Bank of Thailand oversees the governance of banks and other lending institutions. They are active in using these powers screening directors, senior

managers, block shareholders and auditors of the bank. Even though the state owned companies compete with commercial banks, they are not regulated in the same way including not being subject to competition law. They implement government policies, helping to support rural incomes, small business, housing and other policy areas.

The World Bank conducted a special review of state financial institutions that was also included as part of its 2013 ROSC. They concluded that reforms should seek to better account for the state's financial institutions commercial and non-commercial objectives. In particular, high-level decision-making should be clarified and regulations, audits, boards and disclosures should be brought in line with other banks.

The State Enterprise Policy Office (SEPO) in the Ministry of Finance is responsible for SOEs, including listed companies in which the state has either a majority or minority stake. It shares its ownership responsibilities with the relevant ministry in companies in which the state has a controlling stake, for example, with the Ministry of Energy in oil and gas major PTT, the largest listed company. It has issued guidelines on corporate governance and related areas for SOEs. SOEs have performance agreements with key performance indicators (KPI) and targets that have been contracted with SEPO. KPI are disclosed to the public. SEPO is also the secretariat for the State Enterprise Policy Committee, a cabinet level Committee chaired by the Prime Minister, and as such has the power to help set policy for SOEs. It monitors company performance.

Unlike Temasek, where the state is a minority shareholder, SEP exercises its voting rights and appoints one or two board members.

Although there have been some improvement in recent years the perception of corruption remains high: rank 102 out of 177 according to the 2013 index. This is hardly surprising given the allowances made for various sectors in competition policy and the strong relationship between regulation and ownership, especially of SOEs.

Philippines

The Philippines has a lot in common with Indonesia with its complex regional politics and limited central administrative capacity.

The post-war economic and political history of the Philippines was driven by a national elite with their own investment interests. The financial sector became in the words of Studwell the “personal piggy bank of entrepreneurial families” By the time Marcos was elected in 1965 there were 33 private banks and almost every major business family controlled at least one of them. In that year, the first in a series of bank failures started. To pay for foreign debt, the IMF demanded privatisations, but only two banks were actually sold. Many banks were nationalized and thus boosted the GLC sector. By and large, national sentiments made privatisations to foreigners unacceptable.

The election of Marcos led to a statement of development goals: he vowed he would deliver land reform and industrial development, and tame what he called the old oligarchs. However, the rise to prominence of the SOEs began when he declared

martial law in 1972. The total number of SOEs in 1970 was 65 and grew to be at least 303 in 1985 (De Ocampo Bantug, pg 2). They then tripled to 604 as of August 2010.

As in other Asian countries, the Philippines also suffered a financial crisis in the mid 1980s, leading to a payment moratorium in 1983 and to the collapse of banks and financial institutions. Loans to leading controlling families were often involved. In 1985, the central bank got rid of its multiple, below market rediscounting rates that “encouraged orgies of priority lending in which the main priority was to plunder” (Studwell, page 159 and references therein). The two big state financial institutions wrote down their loan portfolio by 67 per cent and 86 per cent respectively after making behest loans to associates of Marcos.

Against this economic and political background, the methods of administering GLCs and their objectives focused on political access and scarcely on national developmental objectives. Established by either special laws or as corporate vehicles they have on paper to remit at least 50 per cent of their annual net earnings to the national government. More often than not, it is the budget that pays the GLC. For instance the National Food Authority created in 1981 receives the greatest subsidies to meet the contradictory objectives of ensuring food supplies at cheap prices and returns to farmers. By setting floor prices in purchasing rice from farmers, they have incurred substantial losses.

A number of GLC also have regulatory powers such as the national oil company, which creates conflicts of interest. Having Ministers who are responsible for regulation on company boards creates similar conflicts.

Government financial institutions and other private banks often issue rules putting GLCs as one of their priority sectors. They receive funds because there is a national government guarantee, sometimes without debt ceilings.

GLCs have poor corporate governance. There is political interference with the decision making of their boards since Cabinet Secretaries serve as ex officio members or as ex officio Chairs of the Boards. The Cabinet Secretaries (i.e. Ministers) are appointed by the President to whom they are accountable. Ministers often have multiple board appointments. For example, the national power corporation has 8 cabinet secretaries on its board of 9 (De Ocampo Bantug, page 17). The cabinet secretaries exert influence and moral ascendancy on the other members of the board. Being presidential appointees, they are expected to remain loyal to and execute the desires of their appointing authority, the President. The cabinet secretary is also often the industry regulator.

In addition, reporting on finances has been poor and the State commission on Audit is reported to be corrupt, subject to bribery or collusion with GLCs officials to conceal corrupt activities (De Ocampo Bantug, page 12 and reference therein).

A reform bill came into force in 2011 and clarified the right of the government to set standards of performance, compensation and other matters incidental to the conduct of GLC affairs. This came after several high profile scandals. A centralized advisory, monitoring and oversight body has been established (Commission on Governance, GCG) presided by a Chairman with the rank of Minister. This will formulate,

implement and coordinate policies, formulate corporate governance standards for GLC; conduct periodic assessments of performance and most importantly; evaluate the conflicting mandates of GLC as to whether it is a regulatory body or engaged in the activity which it regulates, and make recommendations to the President about how to address the conflict.

However, while an advance, the law still lacks stringent corporate governance structures that would help insulate GLC from political pressures under current circumstances. In particular, GLC still remain under line ministries, transparency is poor (See De Ocampo Bantug) and boards are still dominated by ministers.

The political economy of the Philippines is extremely complex. Local demands are strong and varied so that the concept of national development goals might not be informative. Under these conditions GLC are available to respond to the situations with highly specific interventions. Current reforms of the GLC sector are a right step but remain insufficient.

Elsewhere

The centralized model such as represented by Temasek was adopted by Vietnam in 2005 when the government established the State Capital Investment Corporation (SCIC) to represent the state shareholding in the SOEs. Creation of SCIC integrated the ownership functions to one entity and separated them from the regulatory and policy function carried out by line ministries. It is organized as a financial holding company and is the sole authority in exercising the state's rights and functions as owner of the SOES.

However, the board of SCIC comprises exclusively ministers and deputy ministers. The company also has representatives on the boards of portfolio companies leading many to complain of having to wait authorisation from SCIC for business decisions. Apparently, the board members have limited powers to act. SCIC had 416 companies in their portfolio as of May 2012. As in other countries of the region, agriculture is classed as a sensitive sector.

The property agency in China (SASAC) is reported to be studying Temasek as a role model in reforming 116 major SOEs that are "owned" by it. However there are major differences at the outset from Singapore. SOEs are already complex interlinked company groups with often unclear property rights (Lin and C. Milhaupt). Corruption is also a major issue especially with respect to land.

One approach is to reform the boards by using independent directors. At present many positions are filled by Communist Party officials who come mostly from within the SOEs. A pilot revamp by listed Boasteel Group resulted in the board comprising four of its own management and five SASAC officials. (Straits Times, 2014). Moreover while there is a competition authority, it is not clear what impact they are making on SOEs that comprise hundreds of companies with linked shareholdings to other SOEs.

Conclusions

It is hard to generalize from what on closer inspection turns out to be a heterogeneous region. Nevertheless, some generalities do appear. First, all countries are characterised by path dependency. They are all to a greater or lesser extent marked by their histories. A misstep early in the process establishes an interest group that can frustrate future reforms. Second, corruption is widespread but could still be controlled by a sequence of difficult reforms. One such reform concerns the use of GLC that have often become the object of political control in favour of selected groups. However, it is not just GLC governance that matters but also competition and trade policy. For many countries, what is important is now to separate the regulatory policy from the control of state owned assets. In many countries this will require distancing ministers from the administration of GLC.

A more general conclusion is that the objects of development are often not well defined. Clearly, one goal is national independence and this is likely to frustrate privatization for some time to come. Hence the need for reforms to the operation of GLCs and wider steps to control corruption. Striking is however that development goals appear to have become specific to regions or groups, and GLCs have provided ways to achieve such specific goals, albeit at cost to others in the country. A general development objective requires broader policies and institutions to assist in achieving the goals.

A number of these more general conclusions become apparent when examining Singapore in more detail. Singapore's developmental objectives have on the basis of most indicators been achieved: per capita GDP has risen strongly, health and education indicators are amongst the highest in the world. Social housing has developed impressively and indicators of perceived corruption are very low indeed. On the other hand, the government has been rather authoritarian at times but hardly totalitarian. But the ban on political parties based on race or religion was certainly warranted in view of the situation it faced at the time of independence and the poor history around the world of divisive democracy.²⁰

A great part of the success has been due to the definition of objectives as one of social equity, by which was meant at first jobs, social housing and later, education. The real difference with others was that these objectives were assigned to specific institutions and policies that suited the objective. Thus land reform was an essential part of housing policy and removed the basis for a great deal of potential corruption. All of this meant that industrial policy and what was expected of companies was much more limited and focused; jobs and later technology, and growth which benefited the budget.

²⁰ A race riot in 1964 claimed 23 lives with 454 injured.

The initial strategy or industrial policy was focused on attracting FDI that, as in Japan and Korea, would promote exports but especially provide much needed jobs. It involved specific policies such as tax, administrative efficiency, and access to land. Not a lot was expected of the domestic business groups although since 1985 more attention has been given by, inter alia, Temasek, to encouraging domestic start ups. But expectations of FDI were realistic (i.e many would be footloose) hence the role for GLC to act as a recipient of technology and management transfers.

GLCs have made a major contribution to achieving the development objectives, but primarily because they were not distracted by other objectives such as the provision of housing and health care. They had a clear economic goal and managements and boards were driven to produce results by the emphasis on competition. The Singapore holding company, Temasek, has reinforced and strengthened this framework by having an emphasis on professional management and good corporate governance. Regulation and operation of companies have been clearly separated and company boards empowered to do what they can do best: run a company.

Temasek's policies have changed over time as the economy has developed. At first, civil servants and the military staffed many boards and managements but this has evolved to a greater stress on independent, private sector boards and professional managements. The interesting question is why civil servants and the military have been successful, whereas their track record in other countries has not been great. The differences might be due to a "clean society" with little corruption and that the appointments were competitive.

As Temasek and Singaporean policy moves forwards, there is quite rightly greater emphasis on globalization and not just on regionalization. Here there are challenges as many countries will perceive the companies as agents of a foreign government, and that Singaporean companies do not compete with each other: no level playing field. This will require greater transparency on the part of Temasek and perhaps some institutional improvisation such as the protection and promotion of a level playing field.

Finally, the case of Singapore is to some extent unique and difficult to transfer abroad. The supporting institutions for industrial policy and GLCs might be difficult to establish in other countries. The experience does not support the notion that industrial policy and state ownership is everything. Rather, to avoid clear downside costs, efforts are needed to establish supporting institutions: policy consistency.

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