CITY OF INDUSTRY

Singapore is a development success story. Choo Chiau Beng, CEO of Keppel, a key company in that story, says critics of the Singapore model have got it wrong

INTERVIEW BY CHRISTINA PANTIN, BRUNSWICK, HONG KONG

The "Singapore Miracle" has fascinated economists for decades. How is it that Singapore, a small, tropical city-state with few natural resources, has seemed able to get the balance between government involvement and private enterprise right when so many developing countries have struggled in this area?

At the heart of Singapore's unique model are government-linked companies, or GLCs. These include the national carrier, Singapore Airlines, whose branding is so closely identified with the country's image of polite efficiency. Loosely defined as companies that are at least 20 percent owned by Temasek Holdings, the government's main investment vehicle, GLCs occupy leading roles in banking, telecoms, property, media, shipping, and utilities.

However, Singapore's "state capitalism" approach has long had its opponents. The criticism of GLCs has two sides to it: that they are both too cosseted and too powerful. To critics – growing in recent years as Singaporeans have become more exposed to globalization – GLCs crowd out competition among small- and medium-sized businesses, are risk-averse, benefit from an explicit or implicit tie with the state, and use the caché of being "Singapore Inc." to expand overseas more easily than peers without powerful connections.

At Keppel Corporation – oil rig builder, property developer, power producer, and one of the original GLCs in the 1960s – CEO Choo Chiau Beng firmly denies such special treatment. "We don't have any iron rice bowl," he says, using the Chinese idiom that conjures up an image of secure jobs for life. GLC employees are not civil servants, he says, "We can fire people."

Singapore's brand of paternalistic capitalism, directed since full independence in 1965 by Lee Kuan Yew and his successors, has always had its detractors, though its economic and social success has

Keppel Corporation is one of Singapore's original government-linked companies (GLCs), with offshore and marine, infrastructure, property, and investment interests served to deflect the criticism. However, economic growth has slowed in recent years and Singapore has lost some of its competitiveness, leading critics to argue that the hand of government is too heavy in the business world. Singapore's unique state capitalism, borne out of necessity in a newly independent country with an uncertain political future, has outlived its usefulness, they say.

The case for the defense of GLCs is based on the argument that they have evolved over the years to suit the prevailing conditions in Singapore as the country developed.

At Keppel, the share ownership of Temasek is down from the original 100 percent to 21 percent, which is lower than Temasek's stakes in other GLCs, such as Singapore Airlines, Singapore Telecom, and shipper Neptune Orient Lines.

Choo says the GLC-government relationship is to be distinguished from other models of ownership in the region, for example the state-owned enterprises (SOEs) in China. "SOEs are the instruments of the government," Choo says. "Singapore has no such tradition."

There are strategic benefits to having the government as a long-term shareholder, but Choo says this neither gives market advantages nor puts constraints on companies like Keppel.

"It's good to have an anchor shareholder with long-term views. But they [the government] never ask us to set prices. We have to invest in our own R&D. We get the same treatment as MNCs [multinational corporations]. In fact, I would say that MNCs pay less rent than we pay, and they pay less tax than we pay, because we have no tax holidays." Furthermore, GLCs are as accountable to stakeholders as private companies because "they operate fully as for-profit commercial firms and are expected to provide returns that are commensurate with risks taken," he says.

A paper by the International Monetary Fund a few years ago – *Singapore, Inc. Versus the Private Sector: Are Government-Linked Companies Different?* – supports Choo's contention. There is "no basis for the lingering public suspicion that GLCs have easier access to credit," the report's authors concluded. "This suggests that GLCs are competing on a level playing field as far as access to financing is concerned. However, we do find that being a GLC is rewarded in the financial markets with a premium of about 20 percent," the paper went on. "This GLC premium has to reflect the market's perception of the benefits – whether real or illusory – of being linked to the government." The IMF cautioned against creating more GLCs or expanding existing ones as that would dilute the benefits.

Nonetheless, the critical voices continue to be raised.

Singapore business professor Mak Yuen Teen, who specializes in corporate governance at the National University of Singapore, has raised questions about the need for the GLC model through letters and comments in local newspapers, as well as in his research papers.

"I am among what I believe is a growing number of Singaporeans who are skeptical of the relevance of the GLC model today," he says. "When they were first formed, the whole idea was to industrialize and create local champions in certain industries."

But Mak questions if the GLC concept has gone too far, pointing to the fact that many of Singapore's public housing estates are being served by an estate management services company owned by a government statutory board and a GLC. He says, "GLCs today are not only involved in strategically important industries. As a result, they make it difficult for private entrepreneurship to flourish."

Indeed, the state link is far from always being a blessing for GLCs. SingTel, for example, faced opposition when it bid for Australia's Optus in 2001 over concerns about its GLC status. DBS Bank, another of the government's strategic holdings, was thwarted in its attempt to buy a stake in Korea Exchange Bank in 2006, also because of the GLC tag.

While the government may be a hindrance in terms of overseas expansion, it isn't much help for companies that run into trouble either. Choo points out that far from being too big or too well-connected to fail, Singapore's history of GLCs is dotted with companies that have gone under. "The key point is the government doesn't believe in subsidizing any business and if you fail they let you go bust," he says.

Critics aside, Singapore is unlikely to relinquish significant ownership of strategically important sectors, such as defense, utilities, aviation, and media, even though it has been scaling down its shareholding – and in a few cases, completely exiting – a number of GLCs over the decades.

The US State Department noted in its 2012 investment climate report on Singapore that the top six listed GLCs accounted for about 17 percent of the Singapore Stock Exchange's total capitalization.

CHOO CHIAU BENG

Choo Chiau Beng has been CEO of Keppel Corporation, one of Singapore's original government-linked companies and a major marine infrastructure builder, since the beginning of 2009. He first joined the company as a trainee in 1971, with Bachelor's and Master's degrees in naval architecture from the University of Newcastle in the UK.

KEPPEL CORPORATION

Keppel, named for British Captain Henry Keppel who in 1848 discovered the sheltered deep-water harbor that would later make Singapore such a strategic trading port, started its modern life 45 years ago, with a small shipyard.

Last year, Keppel posted revenue of S$14bn (US$11.3bn), it has operations in 30 countries, more than 40,000 employees, and a market capitalization of around US$16bn.

Keppel operates as an investment holding and management company, which provides offshore and marine engineering and construction services. It has four business segments: offshore and marine, infrastructure, property, and investments.

"Keppel enjoys a symbiotic relationship with the Singapore government," says CEO Choo Chiau Beng. "When venturing overseas, we benefit from the Singapore brand name, as well as helping to strengthen it"

For those companies, the requirement for transparency is more or less the same as for others in the private sector.

"GLCs are private sector enterprises and many are publicly-listed with their own set of shareholders, apart from Temasek," Choo explains. In other words, they have to abide by the same rules as other private sector-listed companies. This is something his company has dealt with for decades. "Keppel has been listed on the Singapore Exchange since 1980 and we ensure that we comply with all its rules and regulations," Choo says. "We are governed by a board with a majority of independent directors who are professionals, appointed on merit. In fact, I believe, contrary to perception, being a GLC puts us under more scrutiny as our shareholders would expect stricter adherence to best practice."

As investments, GLCs have generally been rewarding. Many, including Keppel, have captured commanding market shares – Keppel has 70 percent of the world jack-up oil rig design-and-build market.

Singapore's GLCs are run by professional managers from the public sphere and are held accountable for financial targets. This runs counter to perceptions that had been driving some criticism. As the IMF report put it, one of the broad criticisms of GLCs was that they do worse than private sector companies because "their managers are mainly civil servants who lack business acumen." But the IMF found the opposite: "GLCs bear quite a close resemblance to private enterprises. The government clearly subscribes to what has been termed the 'managerial' view in the ongoing debate on public versus private ownership, which argues that competition rather than ownership *per se* is the key to efficiency."

Choo himself is an example of the professional management class that prevails at GLCs. Having trained in naval architecture at the University of Newcastle in the UK, he joined Keppel as a ship repair management trainee in 1971, when Keppel Corporation was just five years old. Choo recalls those entrepreneurial early days, selling barges in the Philippines and taking payment for them in pesos bundled in brown paper bags.

Choo points out that Keppel has been promoting Singapore as much as the city-state has been a booster for the company down the years. "Keppel enjoys a symbiotic relationship with the Singapore government," he says. "When venturing overseas, we benefit from the Singapore brand name, as well as helping to strengthen it."

The government-business relationship is symbolized by the fact that Choo had been appointed "non-resident ambassador" to Brazil, where Keppel does significant business with the national oil company, Petrobras. Choo says it is a logical combination: "What is the purpose of an embassy? Economic relations."

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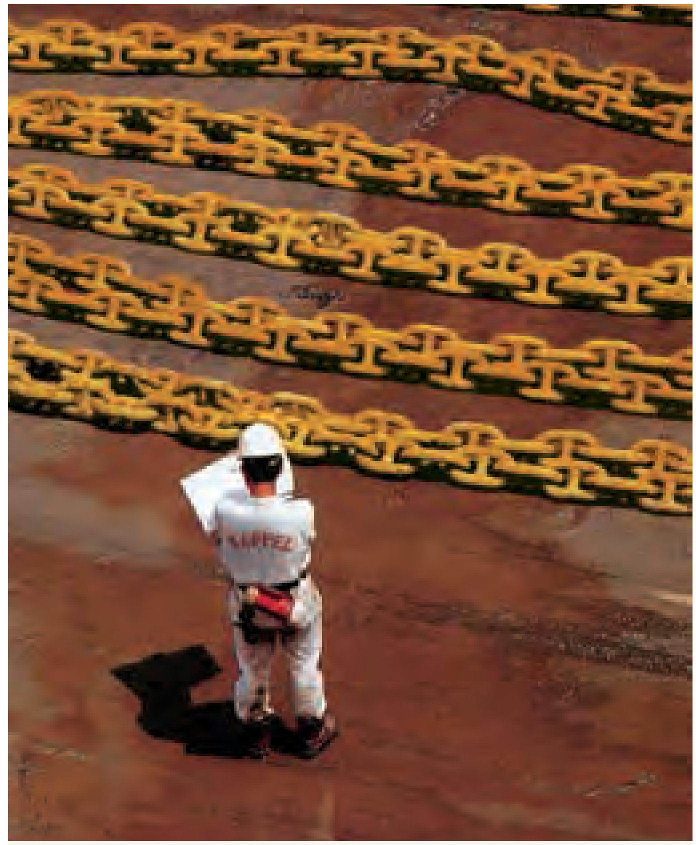
Photographs: Keppel Corporation



THE ABC OF GLCs

Government-linked companies (GLCs) are commercial entities in which the government is the largest shareholder and often has a controlling vote.

Singapore's GLCs came about as part of the government's post-independence plan for industrialization. After its precarious independence in 1965, the government of the resource-poor city-state sought to invest in critical industries in its early days of nation-building.

GLCs in Singapore bear a very close resemblance to private enterprises, differentiating them from state-run enterprises in China and other Asian countries.

Lee Kuan Yew, the country's iconic modern founder and first Prime Minister, said GLCs originated out of necessity, not through any state desire to control business. "We did not have enough entrepreneurs, and those we had lacked the capital or interest," he said. "So government ministers undertook the task of starting new ventures."

Temasek, which means "sea town" in old Javanese and was the name of an early settlement on the site of modern Singapore, was formed in 1974 to hold and manage assets and investments made by the Singapore government. GLCs were defined as companies in which the government held at least a 20 percent stake. Temasek is a commercial entity, not a government agency, and it is tasked with managing the investments in GLCs as well as other holdings.

Temasek's starting portfolio of S$354m (US$280m) included a bird park, a hotel, a shoemaker, a detergent producer, naval yards converted into a ship repair business, a start-up airline, and an iron and steel mill.

While Temasek has divested some of its holdings in GLCs in the ensuing decades, the influence of these entities is still very strong.

Singapore's unique form of state capitalism has produced notable business success stories, such as Singapore Airlines, DBS Bank, and Keppel Corporation, which have been run on a commercial and competitive basis despite the government ties, and have succeeded not just domestically but regionally and globally.