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From national development to economic diplomacy? Governing Singapore's sovereign wealth funds

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Abstract This paper examines the changing role and governance of Singapore's two sovereign wealth funds (SWFs) over the past three decades – from their earlier participation in domestic national development to their more active involvement in Singapore's economic diplomacy. Based on a variety of sources and data, I argue that these two SWFs, Temasek Holdings and the Government of Singapore Investment Corporation, are state-sanctioned means to secure the economic future of Singapore; they are not strategic devices developed by the Singapore government to pose geopolitical or economic threats on other states. Over time, their economic functions and strategic orientations have evolved with the city-state's dynamic developmental trajectories in the global economy. In the post-Cold War era of global finance, these state-controlled and professionally managed financial investment vehicles are more visible and active in their global expansion and acquisition trails. There are thus significant challenges to their strategic governance and international

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legitimacy in this new world order. This paper considers some of these challenges in light of recent development in the two SWFs and assesses their organizational and institutional responses to such challenges in today's competitive global economy. This case study of Singapore's SWFs illustrates the critical importance for understanding the rise of SWFs from small states in the evolving global system.

Keywords strategic governance; economic diplomacy; developmental state; sovereign wealth funds; Singapore.

Introducing the contradiction

The city-state of Singapore is an island of 710 km^2 occupied by a population of about 5 million. Its GDP in 2009 was S$257 billion or about US$183 billion (http://app.www.sg/who/default.aspx, accessed on 5 April 2010). It is hard to imagine such a tiny global city, pejoratively called 'a little red dot' by the former Indonesian president B.J. Habibie in August 1998, play host to two of the world's top 10 largest sovereign wealth funds (SWFs) today. The Government of Singapore Investment Corporation (GIC) and Temasek Holdings from Singapore were managing respective portfolios of up to US$330 billion[1] and US$108 billion[2], which ranked them the second and seventh largest SWFs in December 2007 (in bold, see Table 1). In today's globalizing world economy, it is indeed both a contradiction and an enigma to witness the emergence of two SWFs of such mammoth scales from the resource-scare city-state of Singapore, a relatively young country with 45 years of modern statehood. Unlike their counterparts from Abu Dhabi, Norway, Saudi Arabia, China, and Russia, Singapore's SWFs do not benefit from either massive resource endowments in home countries or large home/foreign markets. Instead, they reflect Singapore's relative success in capital accumulation through rapid economic development and prudent fiscal policies enabled within a favourable geopolitical context. This unusual combination of a small state governed by a highly driven developmental apparatus and the tremendous urban-national wealth controlled by these SWFs poses a whole series of critical questions for understanding the international political economy of small states in the global system (see Beeson 2001; Katzenstein 2005; Tétreault 1999; Yeung 2009).

In this paper, I aim to make two interconnected arguments in relation to the strategic governance of Singapore's SWFs. First, I argue that Singapore's SWFs were an integral part of Singapore's national pathway to global city-state formation. As a relatively recent sovereign nation-state (since 1965), Singapore's SWFs were deeply integrated into its national regime of capital accumulation. These two SWFs were originally conceived as important tools for funding national economic development and securing intergenerational equity in Singapore. Their sole purpose was to secure the economic future of Singapore; they were not strategic devices developed to pose geopolitical or economic threats on other states. This argument for the

Table 1 World's 12 largest sovereign wealth funds in 2007 and 2010 (US$ billion)

Country	Fund name	Launch year	December 2007	September 2010
UAE (Abu Dhabi)	Abu Dhabi Investment Authority (ADIA)	1976	875.0	627.0
Norway	Government Pension Fund-Global	1990	322.0	471.2
Saudi Arabia	SAMA Foreign holdings	n/a	—	415.0
China	SAFE Investment Company	1997	—	347.1
China	China Investment Corporation (CIC)	2007	200.0	332.4
Singapore	**Government of Singapore Investment Corporation (GIC)**	**1981**	330.0	247.5
Hong Kong, China	HKMA Investment Portfolio	1993	—	227.6
Kuwait	Kuwait Investment Authority	1953	250.0	202.8
China	National Social Security Fund	2000	—	146.5
Russia	National Welfare Fund (inc. Stabilization Fund	2004	127.5	142.5
Singapore	**Temasek Holdings**	**1974**	108.0	133.0
Libya	Libyan Investment Authority	2006	—	70.0

Source: Wu (2008: table 1, 99) and http://www.swfinstitute.org (accessed on 21 September 2010).

domestic role of Singapore's SWFs in its earlier phase of economic development thus conforms to Shih's recent argument that 'to the extent that political considerations drive the behaviour of SWFs, domestic political concerns may be a stronger political driver than foreign policy concerns' (2009: 328). Nevertheless, Singapore's case shows that the domestic orientation of SWFs can, and indeed do, change over time in relation to the changing international political economy.

This dynamic view of Singapore's SWFs brings me to the second argument that the economic function and strategic orientation of Singapore's SWFs evolve and change with the city-state's dynamic developmental trajectories. Emerging from their relatively conservative and inward-looking origin, these SWFs have become more strategic and outward oriented since the early 1990s and beyond. The rise of global finance and the end of the Cold War by the late 1980s led to a new world/global political-economic

order in which Singapore had to reposition its geopolitical role and economic strategy. The reliance on export-oriented industrialization would no longer bring Singapore to the next 'lap' in global competition. In short, Singapore Inc. had to expand its production and investment abroad in order to develop an external economy that could complement its increasingly saturated domestic economy (Yeung 2000, 2004).

As Singapore has begun to expand its national economy beyond its shore since the early 1990s, its SWFs have taken on dual and sometimes contradictory functions of national developmental objectives (domestic) and globalization imperatives (international). They have become no longer exclusively financial tools of the developmental state to grow its domestic economy and to secure its national wealth. Rather, they have also taken on the geopolitical imperative of engaging in the *economic diplomacy* of the state. On the one hand, these SWFs have become more autonomous financial vehicles for securing greater returns to investment in sectors and places that are now increasingly detached from Singapore. These SWFs are actively investing in good class assets abroad in order to tap into global growth opportunities. One the other hand, as Singapore becomes more globalized in the new millennium, economic diplomacy becomes an important consideration in the governance of these SWFs. Here, I define economic diplomacy as interstate economic relations manifested through firm-specific activities. While these economic activities are conducted through national corporate entities (e.g. investment holding firms), they 'carry' with them certain distinctive elements of political and diplomatic overtures. These economic-diplomatic activities therefore cannot be conceptualized as pure market-based transactions. Instead, they should be viewed as institutionally mediated interactions between different nation-states that go beyond profit maximization and economic efficiency. In short, I seek to assess this changing role of Singapore's SWFs in the context of economic globalization and to evaluate the challenges to their strategic governance.

This paper is organized into four sections. In the next section, I outline the developmental origins of Singapore's SWFs in relation to the state's heavy involvement in post-independence industrialization. Prior to the 1990s, both SWFs were relatively inward-looking financial entities oriented towards domestic concerns in Singapore. The following section explains the expanding role of these SWFs in an era of global finance and Singapore's greater geopolitical confidence in the regional arena. Since the 1990s, these SWFs have become much more outward in their investment considerations and, in doing so, entangled in Singapore's economic diplomacy. The penultimate section details the challenges confronting the strategic governance of these SWFs in today's competitive global economy and assesses the organizational and institutional responses of these SWFs. The concluding section offers some implications for understanding the future of SWFs in the global economy.

The domestic origins of Singapore's SWFs: a question of national development?

The economic survival and relevance of modern Singapore during the 1960s was fundamentally based on its default role as a world city within the geopolitical environment in Southeast Asia. As a city-state without significant natural endowments and friendly hinterlands, globalization in tandem with a strong developmental state was clearly the only viable option for Singapore at the time of its state founding in 1965. The eventual establishment of Temasek Holdings as an investment-holding tool in 1974 and the Government of Singapore Investment Corporation as an asset manager of Singapore's foreign reserve in 1981 was primarily driven by *domestic considerations*. Their institutional role should be understood in conjunction with other government-linked statutory boards (e.g. Economic Development Board and Jurong Town Corporation) and social cooperatives (e.g. National Trade Union Congress and its Singapore Labour Foundation that held controlling stakes in insurance, transport and retail sectors). As noted by Elson: '[f]or most of its existence, TSK's [Temasek Holdings'] operations have been domestically-oriented. It was only at the beginning of the current decade that it began to take equity stakes in foreign-based corporations, and thus take on the international character of other sovereign wealth funds' (2008: 76). To Shih (2009), this domestic role of Singapore SWFs was clearly attributed to the unity in the state regime controlled by the People's Action Party (PAP) and its business nexus of power. The two SWFs were founded to serve national economic interests in order to sustain the political legitimacy of then Prime Minister Lee Kuan Yew and his PAP-led government. They represented the institutional capacity of Singapore's developmental state in which the core executive dominated the political and the public policy arena (see a detailed study in Worthington 2003). Such a hegemonic domination of the public sector and the state has prompted Worthington to note that 'the Singaporean core executive is drawn from the public sector exclusively with the only private sector figures with power being those inducted into a concurrent or alternative public sector position' (2003: 38).

In the first decade of modern Singapore, the state took up a heavy responsibility for the provision of public infrastructure through major state-owned enterprises and for the revitalization of industrial assets formerly managed by the British colonial government (Huff 1994; Low 1998; Rodan 1989; Tsui-Auch 2005; Worthington 2003; Yeung 2005). Many state-controlled statutory boards were established to provide for the city-state its roads, electricity, housing, transport, and communication services. State-owned enterprises spun off from these statutory boards sowed the early seeds for the domination of government-linked companies (GLCs) in the domestic economy today. In fact, public investment in the industrial sector through the Economic Development Board (EDB) started as early as 1963

when seven public enterprises in manufacturing were established.[3] S. Dhanabalan (2001), Chairman of Temasek Holdings, recollected that 'EDB was not only invited to take equity interest in these projects, but many of these projects would not have started if EDB had not been prepared to share in the risk'.

Ironically, most of these enterprises were established to respond to perceived domestic markets in their time. Rodan thus argued that this trend reflected 'the government's thinking that the question of industrial structure should not be left solely to the market – especially given the absence of a domestic industrial bourgeoisie of any consequence' (1989: 77). This direct state ownership and control of the domestic economy in major sectors has certainly differentiated Singapore's developmental state from its counterparts in Japan, South Korea, and, to a certain extent, Taiwan. In these latter developmental states, direct and pervasive state ownership and control of the domestic economy was certainly not a defining attribute in much of the literature (see recent reassessments in Beeson 2009; Hayashi 2010; Stubbs 2009).

Due to their virtual monopoly, the state's commitment to operating its GLCs on a strictly commercial basis, and its sound finance policies in the public sector, these corporate entities were profitable and contributed earnings to the state's coffer. As Temasek Holdings Chairman Dhanabalan (2001) reflected:

> Survival has long been and will always be the guiding principle for all our companies. We have no sizeable domestic market to speak of. Hence, all our businesses have from the start, been compelled to operate along commercial lines and to compete in a global market. They are expected to yield proper economic returns … SIA, for instance, was told at the beginning that it was not flying the national flag for reasons of national pride. While it does play an important role in maintaining Singapore as a global hub, it has, and it knows it has, to survive against global competition.

The relative success of the developmental state in spearheading economic development and the rapid growth of these large state-owned enterprises prompted the establishment of Temasek Holdings on 25 June 1974 to hold and manage the S$345 million (US$134 million) equity invested in 35 companies that ranged from a detergent maker and a bird park to the subsequently much-celebrated Singapore Airlines (SIA), Sembcorp Industries, and Keppel Corporation (*The Straits Times* 25 June 1999, p. 74; *Temasek Review* 2009, p. 4).

After eight years of operation, the EDB was restructured in 1968 to focus on inward investment promotion and its equity investments in public enterprises were taken over by the Ministry of Finance (MoF) (Dhanabalan 2001). Existing loans in these enterprises were transferred to or taken

over by DBS. These equity investments directly owned by the MoF Inc. were later transferred in 1974 to a separate company – Temasek Holdings – that was created to oversee and monitor these companies. During the first few years since its inception, Temasek Holdings served as a holding company to monitor activities of its companies, to collate all the information of various government investments, and to keep the Minister for Finance and the Cabinet informed about the performance of these companies. Its present chairman, S. Dhanabalan, who was a former Cabinet minister, recalled that 'there was no supervisory function [for Temasek Holdings]. Each company had its own management who were accountable to its own board ... The Government's main interest was to make sure the right people were in charge and after that the management was to chart its own course. That approach carried on in Temasek' (*The Straits Times* 25 June 1999, pp. 74–5).

By 1979, Temasek Holdings had adopted a new and more active approach to provide focus and direction to its companies, to foster closer co-operation among the companies, to seek out new investments, and to consider mergers with profitable companies. The 'visible hand' of the state became more apparent in steering Temasek Holdings-controlled companies towards national development objectives. By 1983, the state had directly invested in 58 diverse companies with a total paid-up capital of S$2.9 billion. These companies in turn wholly owned or partially owned some 490 firms in Singapore (Huff 1995: 1428). Most of these large state-owned enterprises have grown significantly since then to become leading corporate conglomerates in the Singapore economy. These former state-owned enterprises were then known as GLCs because the state still retained significant influence over their management control primarily through four state-owned holding companies – Temasek Holdings, Sheng-Li Holdings (restructured into Singapore Technologies in 1989), MinCom Holdings and MND Holdings (merged into Temasek Holdings in 1998). Today, only Temasek Holdings continues to operate as the state-owned holding company that manages the vast state assets in GLCs.

During the 1980s and up to the early 1990s, Temasek Holdings began to shed its stake in nonstrategic and viable companies through public listing and other forms of divestment. Goh Chok Tong, the then Minister of Trade and Industry (and Prime Minister from November 1990 to August 2004), announced in 1979 that 'once ... companies succeed, we should in fact divest ourselves of their shares' (Sikorski 1989: 76). His view was subsequently realized when the privatization plan was announced by Tony Tan, the then Finance Minister, in Parliament on 8 March 1985. The main purpose of divestment was to promote marketization and to allow the private sector to play a greater role in the Singapore economy. Through privatization and corporatization since the mid 1980s, the assets of many former large state-owned enterprises were transferred to Temasek Holdings and in turn listed on the stock exchange of Singapore.

The domestic political role of such an initiative towards privatization and corporatization was critical. First, the initiative could be seen partly as a response to the 1984 election during which the PAP had lost two elected seats in the Parliament to the opposition party for the first time in its history. Sikorski therefore argued perceptively that '[i]f the December 1984 election can be seen as a precipitant for the privatization policy announced in 1985, the government may have reasoned that the population would inevitably demand more politics at the expense of economic rationality' (1989: 89). Corporatizing and privatizing most state-owned enterprises could be seen as a political gesture to signal some form of retreat of the state in controlling the domestic economy. It would serve as a valve to release some pressure from the private sector that had been clamouring for greater involvement in and share of the domestic economy.

Second, the initiative meant that more ordinary Singaporeans would have greater stakes in the Singapore economy through their acquisition of shares of these former state-owned enterprises from the local stock exchange, often at a discount, as in the case of SingTel's public offering in 1993. This political strategy of increasing the stakeholding of Singaporeans in national firms proved to work well in the next two decades because it created a scenario of mutual dependence that favoured the ruling PAP. While Singaporeans could benefit from the rising value of their stakes in most of these public listed GLCs (e.g. all-time high just before the Asian economic crisis starting in August 1997), the state had vested interest to ensure the continual growth and profitability of these GLCs so that their financial contributions to the state (through Temasek Holdings as the controlling shareholder) and ordinary Singaporean shareholders could be sustained. In short, as long as Temasek Holdings-controlled GLCs prosper and grow under the PAP government, the ruling party would be assured of its political legitimacy and popular votes.

In addition, this process of corporatization has led to the separation of regulatory functions and business activity in these former statutory boards.[4] Singapore Telecom (SingTel) emerged from the Telecommunication Authority of Singapore (TAS) and was incorporated and public listed in 1993. The TAS was subsequently merged with the National Computer Board on 1 December 1999 to form the Infocomm Development Authority of Singapore, a statutory board serving as the regulator of information technology and telephony in Singapore. The same separation of business and regulation also occurred to the Port Singapore Authority (PSA) when its business activity was incorporated as PSA Corporation in October 1997 and its regulatory function was transferred to the Maritime Authority of Singapore (established in February 1996).

As noted by Worthington (2003: 200), considerable restructuring and rationalization took place among the GLCs during the 1990s and this reorganization was further accelerated and given a policy and operational framework by the Ministry of Trade and Industry (MTI)'s (1998) report on Singapore's competitiveness. Table 2 lists companies that were divested by

Table 2 Summary of divestments and holdings by Temasek Holdings in Singapore, 1999 and 2010 (in S$ billion)

		Share by TH (%)			Market capitalization or shareholder equity	
Companies	Date of divestments	Before divestment	End 1999	March 2010	End 1999	March 2010
Cerebos Pacific	November 1985	45.0	0.0	0.0	—	—
Natsteel	September 1986	19.7	8.2	0.0	—	—
United Industrial Corporation	September 1986	10.9	0.0	0.0	—	—
SNP Corporation (listed first	January 1987	100.0	63.0	0.0	—	—
on SESDAQ)	Nov 1988–Dec 1993	63.0	49.0			
Neptune Orient Lines	May 1987–June 1993	62.0	32.6	66.0	18	5.2
Singapore Airlines	December 1985	77.0	63.0	54.0	21	18.1
	June 1987	63.0	56.3			
Chemical Industries (FE)	July 1987	22.9	0.0	0.0	—	—
Acma Electrical Industries	January–March 1988	12.2	0.0	0.0	—	—
Hitachi Electronic Devices	August 1988	15.0	0.0	0.0	—	—
Yaohan Singapore Pte Ltd	November 1988	15.0	0.0	0.0	—	—
Philips Petroleum Singapore Chemicals	December 1988	25.0	0.0	0.0	—	—
Keppel Corporation	Jan 1989–June 1993	58.5	31.7	21.0	30	14.6
Denka (S) Pte Ltd	March 1989	20.0	0.0	0.0	—	—
The Polyolefin Company	April 1989	25.0	0.0	0.0	—	—
Ethylene Glycols (S) Pte Ltd	April 1989	50.0	0.0	0.0	—	—
Petrochemical Corporation of Singapore	April 1989	20.0	0.0	0.0	—	—

(Continued on next page)

Table 2 Summary of divestments and holdings by Temasek Holdings in Singapore, 1999 and 2010 (in S$ billion) *(Continued)*

		Share by TH (%)			Market capitalization or shareholder equity	
Companies	Date of divestments	Before divestment	End 1999	March 2010	End 1999	March 2010
Singapore Telecom	November 1993	100.0	89.2	54.0	38	50.5
	July 1996–March 1998	89.2	78.2			
SembCorp Industries	—	—	57.9	49.0	29	7.4
DBS Groups Holdings	—	—	15.5	28.0	28	32.6
PSA Corporation	—	—	100.0	100.0	—	8.0
Singapore Technologies Engg	—	—	100.0	50.0	—	9.6
Singapore Technologies Telemedia	—	—	—	100.0	—	2.1
Media Corporation of Singapore	—	—	100.0	100.0	—	0.53
Singapore MRT	—	—	100.0	54.0	—	3.1
Singapore Power	—	—	100.0	100.0	—	6.8
CapitaLand Ltd	—	—	—	39.0	—	16.9
Mapletree Investments	—	—	—	100.0	—	5.1
Fraser and Neave Ltd*	—	—	—	15.0	—	6.7
Stats ChipPac Ltd	—	—	—	84.0	—	2.3
Singapore Airport Terminal Services Ltd	—	—	—	44.0	—	2.9

*Sold to Japan's Kirin Holdings Company for S$1.34 billion in July 2010, about 49% increase in value for a stake bought for about S$900 million in December 2006 (http://www.asiaone.com, accessed on 21 September 2010).
Source: *The Straits Times* (25 June 1999, p. 74; 29 April 2000, p. 62); *Temasek Review* (2010, pp. 80–85).

Temasek Holdings between 1985 and 1999 and in 2010. It should be noted that six GLCs in Table 2 had a combined market capitalization of S$164 billion by the end of 1999. Some of these GLCs are world-class competitors in their respective industries today: Singapore Telecom (telecommunications), Keppel Corporation and SembCorp Industries (shipyard and marine industries), CapitaLand (property development), DBS Group Holdings (banking), Singapore Airlines (airlines), Neptune Orient Lines (shipping), and Singapore Technologies Engineering (high-tech manufacturing). This process of corporatization and privatization during the 1980s and the early 1990s marked a significant turning point in the primary role of Temasek Holdings in controlling state assets embedded in domestic economic development. The large amount of equity released from the sale of these stakes created a substantial pool of financial capital to fund the next phase of Singapore's economic development – globalizing beyond its shore – since the early 1990s. The role of Temasek Holdings in Singapore's economic diplomacy also became more visible from then onward (see next section).

Founded in 1981, the Government of Singapore Investment Corporation (GIC)'s mandate was to invest, on behalf of the Singapore government, budgetary and non-budgetary surplus and 'excess' foreign reserves held by the central bank (Monetary Authority of Singapore). Elson (2008: table 4) calculated that between 1980 and 2005, official reserves held by the central bank were maintained at a fairly steady and yet high ratio of around 85%. The GIC invests in the form of equities, fixed income, natural resource, treasury and currencies, real estate, private equity, and infrastructure. Put in short, the GIC was in charge of safeguarding the 'extra' wealth of the nation by delivering 'sustainable investment returns to the Government over the long term' (GIC 2009: 6). From a portfolio of 'a few billion dollars' at inception (http://www.gic.com.sg, accessed on 1 April 2010), the GIC's portfolio has grown to over US$300 billion today. To understand this incredible growth in the GIC's assets under management over a period of two and a half decades, we need to examine the Singapore government's budget operations. Table 3 shows that budget surplus occurred almost in all years between 1980 and 2005. Elson (2008: 77–78) estimated that between 1981 and 2006, the fiscal surplus of government budget was equal to S$464 billion. After deducting the total stock of government debt of S$206 billion at the end of 2006, the total 'investable surplus' would be S$258 billion. About half of this S$206 billion debt was held by the Central Provident Fund due to its mandatory investment of Singaporean pension savings in government bonds. With an estimated 9% average rate of return to the GIC's assets and half of these returns reinvested, he noted that the GIC-managed portfolio should approximate US$350 billion by end 2006.

Another important reason for the massive growth in the value of the GIC's portfolio can be traced to the fortuitous timing of the GIC's establishment in 1981. The period of 1980–2005, known as the 'great moderation' to

Table 3 A summary of Singapore government's budget operations, 1980–2005 (in S$ billion)

Budget	1980	1985	1990	1995	2000	2005
Revenue	6.1	10.8	19.0	40.0	52.2	39.0
Expenditure	6.0	10.3	12.5	24.2	34.2	25.6
Overall surplus	0.1	0.5	6.5	15.8	18.0	13.4
Net borrowing	2.2	5.0	7.4	16.4	16.5	14.0
Use of cash balances	−2.3	−5.5	−13.9	−32.3	−34.6	−27.4
Memo item: government debt	14.7	32.2	51.6	86.6	134.4	200.0

Source: Elson (2008: table 2, 77).

such economists as James Stock and Ben Bernanke, was an era of extraordinary growth in the global economy. Reflecting on the GIC's fortune during this period, Dr Tony Tan, formerly GICs Deputy Chairman and Deputy Prime Minister of Singapore noted that:

> from the investment point of view, asset prices steadily rose because interest rates came down, and on the whole stock markets throughout the world enjoyed an unprecedented rise. So GIC was very fortunate in being established in 1981, almost at the start of this great moderation period. And we've benefited by being able to take advantage of this rise in asset prices. Basically everything rose in price, whether it was public equities or bonds. And like every other organisation which had invested prudently, we enjoyed an unprecedented period which I would regard as extraordinarily high gains (*The Straits Times* 31 December 2009, p. A32).

In organizational terms, nevertheless, there are clearly significant differences between the GIC and Temasek Holdings in their nature and investment orientations. To Elson whereas, Temasek Holdings 'has operated in much the same way as a private equity fund, GIC has operated more like an asset management company or private university-based endowment fund in the United States' (2008: 88). As noted in Table 4, one of the major differences lies in their different market orientations. While Temasek Holdings is primarily domestic until the new millennium, the GIC is mandated to invest in foreign assets only, particularly the G3 group of the US, Japan, and the EU. In recent years, the GIC has turned its attention to high-growth economies in Asia in order to ride on the wave of high potential investment returns from these Asian economies.

Apart from securing good rates of return on top of the average G3 inflation rate – the GIC's benchmark for global inflation rate, its portfolio investment also serves another important function of supporting Singapore's role as a global financial centre. The GIC's Group President recently noted

Table 4 A comparison of Temasek Holdings and Government of Singapore Investment Corporation (GIC)

Dimensions	Temasek Holdings	GIC
Ownership and reporting structure	Both are owned by the Singapore government and are accountable to the Ministry of Finance. Both are operationally autonomous.	
Nature of fund	Investment holding company. Temasek owns the assets it manages.	Fund management. GIC does not own the funds that it manages.
Size of fund	More than US$134 billion	More than US$300 billion
Investment aims	Capital appreciation	Wealth enhancement: (1) to preserve international purchasing power of funds, and (2) to enhance value of funds
Market orientation	Domestic (Singapore) and foreign	Foreign only
Portfolio allocation	100% equities – either directly held, via subsidiaries, or in Astrea Equity Fund	50% – equities; 30% – bonds; 20% – others: private equity/hedge fund/real estate/commodity investments
Current geographical focus	33%: Singapore; 41%: rest of Asia; 23%: OECD economies (excluding Korea); 3%: others	40%–45%: US; 20%–25%: Europe 8%–10%: Japan; remaining 32%–20%: not specified; but likely to be Asia, Latin America and Eastern Europe.
Top three sector focus (not listed in particular order)	Financial services, telecommunications and media, transportation and logistics	Not specified but based on portfolio, likely to be real estate, infrastructure and financial services.
Investment timeframe	Any: the bottomline is to reap profits	Medium- (at least 2 years) to-long term (5–10 years)
Key performance indicators on rate on returns (benchmark of performance)	(1) Shareholder returns, and (2) industry indices such as the STI Index and MSCI World Equity Index.	(1) Real rate of return higher than G3 inflation, and (2) industry indices: For equities, MSCI World Equity Index; and for bonds, enhanced Lehman Brothers World Bond Index.

Source: Wu (2008: table 2, 104).

that this benchmark for global inflation rate could be expanded to include high-growth Asian economies such as China, in which the GIC has substantial investments (S. G. Lim 2010). The GIC's mission is to preserve the purchasing power of national reserves and thus to ensure the stability of the

Singapore dollar and related financial institutions. Its establishment in 1981 coincided with Singapore's transition from a fixed exchange rate system to a managed floating rate regime still in place today (see Jin 1996). On the basis of their constitutional analysis of the GIC, Clark and Monk concluded that 'being insurer of last resort, the GIC has the financial assets to not only underwrite state autonomy and long-term welfare but also to underwrite the stability of the nation-state's financial system and its banking institutions' (2010a: 14).

Together with the official foreign reserves held by the central bank and the foreign assets owned by Temasek Holdings, the GIC plays a very substantial role in securing Singapore government's foreign assets position. Based on IMF data and other official statistics, Elson (2008: table 3; 77) estimated that the total foreign assets held by the Singapore government grew from US$168.8 billion in 1995 to US$554.4 billion or 420% of GDP in 2006, only surpassed by China (over US$2 trillion), Japan, and the UAE. In 1995, some US$68.8 billion of these assets were held as the official foreign reserves by the central bank – the Monetary Authority of Singapore (MAS). The GIC's holding was estimated to be US$100 billion. In 2006, the GIC's share increased over three and a half fold to US$350 billion. The contribution of Temasek Holdings in 2006 was US$68.1 billion and the rest of the US$136.3 billion foreign assets were held by the MAS.

The rise of global finance and economic diplomacy: the changing role of Singapore's SWFs in the new world order

By the late 1980s, the state had become much stronger politically and economically after three decades of almost uninterrupted growth. The only exception was in 1985, when Singapore experienced its first recession since independence in 1959 (see Huff 1994; C. Y. Lim *et al*. 1988; MTI 1986). As the global economy was becoming more open and competitive in the post-Cold War era and yet posed many growth opportunities, the state began to realize that heavy reliance on foreign investment was no longer useful to attaining its long-term strategic goals of sustainable growth and economic development. In other words, Singapore's domestic economy had reached its own limits to growth. It was necessary to respond to this new global competition by developing its indigenous economic capabilities that could tap into growth potential in other countries. One of such growth strategies was to invest in the booming regional market and Temasek Holdings-linked enterprises were to play a key strategic role in spearheading this regionalization of the Singapore economy. The then Senior Minister Lee Kuan Yew announced in January 1993 that the state was taking new initiatives to generate a bigger pool of local entrepreneurs and to building up the 'external wing' of the Singapore economy (see Pereira, 2003, 2007; Phelps 2007; Régnier 1993; Yeung 2000, 2006). This national strategic thrust was subsequently known as Singapore's 'Regionalisation 2000'.

Economic diplomacy became an important mission for such SWF investment vehicles as Temasek Holdings (direct investment) and the GIC (portfolio investment). Temasek Holdings-controlled GLCs were the primary instrument through which the state inaugurated the regionalization drive and extended its economic diplomacy to host country nation-states. These GLCs also enjoyed enormous financial support from and cosy relationships with the public sector in general and their parent companies (i.e. Temasek Holdings) and local banking institutions (see Hamilton-Hart 2000, 2002). In 1991, for example, the public sector accounted for some 70.7% of the directorships in all GLCs, and this figure rose to 74% in 1998 (Worthington 2003: 190, 204). This high level of public sector involvement in directing GLCs was clearly significant in ensuring their strong participation in the state's new economic diplomacy initiatives. Together with statutory boards, GLCs served as partners to private sector companies in overseas ventures by selling their expertise to the private sector, forming joint ventures and consortia, and leading in large infrastructural projects (MoF 1993: 42–3). This form of state-sanctioned participation in the regionalization drive involved equity stakes by Temasek Holdings (via its GLCs) or the GIC in the ventures. The state became therefore a 'quasi-entrepreneur', bankrolling the regionalization drive of its national firms. Some of these Temasek Holdings-invested industrial parks abroad are documented in Table 5.

In the new millennium, Temasek Holdings has become more strategic in its investment focus. Its strategic plan is now committed to investment in new strategic or risky ventures (e.g. life sciences and water resources), in companies that would bring foreign skills and technology and access to foreign markets, and in nurturing global or regional leaders from its stable of companies or other non-Temasek Singapore firms (Dhanabalan 2001). In 1998–1999, Temasek Holdings underwent significant change in its strategic orientation and became more proactive in governing its GLCs in order to nurture world-class companies through effective stewardship and commercially driven strategic investments. The appointment of Ho Ching, wife of the then Deputy Prime Minister Lee Hsien Loong, to the Executive Directorship of Temasek Holdings in May 2002 further strengthened its rise as a prominent and aggressive SWF in its own right. Coming from one of Temasek Holdings' stable of companies, Singapore Technologies Group, Ho Ching had almost 15 years of prior experience working for the ST group from 1987 to 2001, including in her role as its President and CEO. Under her leadership, Temasek Holdings has not only carefully steered its associated/owned GLCs towards world-class firms, but also actively searched for good investment opportunities abroad in order to fulfil its mission of becoming an Asia investment house headquartered in Singapore.

This strategic change in corporate governance included (1) closer monitoring of GLCs' diversification plans to ensure that they capitalize on what they know best, (2) specifying performance benchmarks (e.g. introduction of economic value added as a profit benchmark) to ensure GLCs focus on

Table 5 Temasek Holdings-invested industrial parks abroad, 2006

Industrial park	Location	Characteristics
Indonesia		
Batamindo	Batam, 20 km from Singapore	The park, which commenced operation in 1991, spans over 320 hectares, houses 82 companies and is staffed by 70,000 workers. Japanese firms are numerous.
Bintan	Bintan Island, 50 km from Singapore	Most investors are from Singapore and focus mainly on the electronics and resource-intensive light industries.
Vietnam		
VSIP	Binh Duong, 17 km from Ho Chi Minh City	Investment commitments valued at over US$500 million; tenants from various Asian countries, in a wide range of sectors.
China		
CS-SIP	Suzhou	The park, which commenced operation in 1994, has received cumulated investment of US$16.9 billion (US$3.3 billion in 2003) from 1012 companies and is staffed by 70,000 workers.
WSIP	Wuxi, 130 km from Shanghai	The first ISO 9002-certified integrated industrial park in China.
India		
ITPL	18 km from Bangalore	Around 100 confirmed tenants, mostly including foreign high-tech firms, with 8500 employees.

Source: Goldstein and Pananond (2008: table 4, 422).

the correct targets, (3) limiting the terms of the chairmen and directors to ensure fresh thinking prevails at the top, and (4) keeping separate the appointments of the chairmen and the CEOs to ensure that their boards retain an objective view of proposals brought before them by the senior management. This more hands-on approach to governing its GLCs since the late 1990s has led Temasek Holdings to avoid taking up substantial equity stakes in private firms with large existing shareholders whose views on business strategy and corporate governance may not be congruent with its own thinking. Heaney, Li, and Valencia noted that 'the tendency [of Temasek Holdings] to avoid investing in companies with greater levels of director blockholders results in investing in companies that are fairly widely held.

Temasek appears to favour maintaining a controlling interest in the companies it invests in rather than sharing control with other groups such as founding families' (2009: 10).

Meanwhile, its divestment policy continues unabated in areas outside its strategic plan because Temasek Holdings wants to concentrate its scarce management resources on those new growth areas. This divestment policy represents a continuation of the privatization and corporatization initiative since the mid-1980s. Still, there are difficult market and business mitigating factors that may impede such strategic refocusing in investment by Temasek Holdings. As noted by its Chairman Dhanabalan (2001), '[a]s the stakes in existing businesses are large, and there are other minority shareholders involved in the companies which we have privatised but where we still have substantial shareholdings, our divestment plan must take into account both market and liquidity factors. We cannot just turn around and dump the shares in the market without regard for minority shareholders'.

During the past two decades, Temasek Holdings indeed has played a significant role in the development of Singapore's corporate sector and its 'external wing'. By the late 1990s, the public sector and GLCs accounted for about 60% of Singapore's GDP (MoF 1993: 39; see also Singh and Ang 1998; Worthington 2003: 25). As at 31 May 1999, the market capitalization of first-tier public listed GLCs controlled by Temasek Holdings alone was S$88 billion or 25% of total market capitalization of the stock exchange of Singapore. The share of Temasek Holdings in these GLCs amounted to S$47 billion or 13% of total market capitalization (*The Straits Times* 25 June 1999, p. 74). By 2006, the stake of Temasek Holdings in leading Singapore firms remained high (Table 2). Many of these largest transnational corporations (TNCs) from Singapore have substantial interests abroad throughout the world and are regularly listed on UNCTAD (United Nations Conference on Trade and Development)'s list of Top 100 TNCs from developing economies (http:// www.unctad.org/WIR, accessed on 5 April 2010).

By 31 March 2007, Temasek Holdings had accounted for over 33% of the Singapore Exchange (SGX) capitalization. Its 2007 revenue was S$75 billion (US$49 billion) and net profit was S$13 billion (US$8.5 billion) on an asset base of S$197 billion (US$129 billion) (*Temasek Review* 2007). Its portfolio value grew from S$354 million (US$134 million) in 1974 at inception and S$90 billion in March 2004 to peak at S$185 billion in March 2008 and recovered to S$186 billion in March 2010, with a net profit of S$18 billion in FY2008 and S$5 billion in FY2010 (*Temasek Review* 2010, p. 6). Some S$96 billion or 51.6% of its FY2010 underlying portfolio value is accounted for by *new* investments made after 31 March 2002 (its CEO, Ho Ching, joined its Board in January 2002 and became its Executive Director in May 2002).

With these substantial financial endowments, Temasek Holdings became more active in its global investment since the new millennium. Between 2002 and 2004, Temasek had spent S$3.3 billion on acquisitions in

35 countries. In the 24 months to March 2006, Temasek invested through its subsidiaries another US$11 billion abroad (Goldstein and Pananond 2008: 423). Between 2004 and 2009, Temasek Holdings made a total of S$90 billion of new investments and divested S$56 billion of assets (*Temasek Review* 2009, p. 8; 2010, p. 16, 38). In FY2010, it made another S$10 billion of new investment, the vast majority of which was outside Singapore. By 31 March 2010, 68% of its investment portfolio was outside Singapore, with 46% in Asia (excluding Singapore and Japan) and 20% in OECD economies (excluding South Korea, Mexico and Chile).

This fairly *globalized* distribution of its investment portfolio is in stark contrast to its virtually exclusive focus on 35 Singapore-based companies at its inception in 1974. It marks the significant transformation of Temasek Holdings from a domestically oriented government holding company to an Asia-based investment firm that taps strategically on global growth opportunities in key industries. As of 31 March 2010, its portfolio value was distributed in favour of financial services (37%), telecommunications, media and technology (24%), and transportation and industrials (18%). In short, Temasek Holdings has entered into a new phase of dynamic growth in the 2000s. It has become more an active investment holding company that eyes on emerging growth opportunities outside Singapore and less a government-directed holding entity whose existence is dependent on the state's domestic agenda of economic development. It takes on the bold challenges of globalization and the concomitant rise of global finance and considers foreign venturing as one of its key investment agendas in the new millennium.

To fund these massive acquisitions and to tap into the global financial markets since the mid-2000s, Temasek Holdings has recently become more aggressive in sourcing of funds beyond its own internal reserves and holdings. Between October 2009 and March 2010, Temasek Holdings successfully raised over US$6 billion through seven issues in its global medium-term note programme that targets for up to US$10 billion in bond issuing (*The Straits Times* 9 February 2010, p. B16; *Temasek Review* 2010, p. 9).[5] This strong market take-up rate of its bonds, rated AAA by both Moody's and Standard & Poor's, indicates both the strong quality of Temasek Holdings' underlying assets and the market confidence in its corporate governance and its implicit state guarantee. Through these recent bond issues, Temasek Holdings has taken advantage of the low interest rate regime to raise long-term funding at a relatively low cost of just over 3.2% coupon rate and to take opportunities of recent market dislocations in the late 2008 and early 2009.

Taken together, both Temasek Holdings and the GIC have made enormous contributions to the operating budget of the Singapore government. Under the Singapore Constitution, the government is limited by law to allocate no more than 50% of the annual earnings by Temasek Holdings and the GIC to its budgetary operations. Clark and Monk (2010a) offer a

detailed discussion of Singapore's constitutional limits on the current government's ability to draw upon its national reserves. It is interesting to note though that subsequent constitutional amendments in October 2008 allowed the government to tap more on the net investment returns (NIR) from its national reserves. In his January 2009 Budget, the Finance Minister requested the President's approval for the use of the NIR to fund the two extraordinary measures within the Resilience Package to the tune of S$4.9 billion. This extraordinary spending was deemed necessary on grounds that the circumstances were exceptional and the extraordinary measures were temporary and would not be built into a longer-term government programme. As the Singapore economy rebound sharply in 2010, the main measure, the Jobs Credit scheme, was withdrawn on 30 June 2010 after payments of over S$4.3 billion to more than 100,000 employers employing about 1.4 million local workers (http://www.iras.gov.sg/irashome/jobscredit.aspx, accessed on 12 September 2010).

Elson (2008: 86) further estimated the contributions of these SWFs to the Singapore government's budget between 2003 and 2006. Temasek Holdings' net profits increased from S$7.4 billion in 2003 to S$9.1 billion in 2006 (and S$18 billion in 2008). The interests and dividends accrued from GIC's assets abroad also grew from S$6.1 billion in 2003 to S$8.5 billion in 2006. Both SWFs contributed to some 34% of government revenue and around 4% of GDP each in 2006, making them an extremely important financial instrument for funding national development. Through their active participation in global financial markets via acquisitions and public listing, both SWFs have developed a sustainable stream of income flows to augment Singapore's developmental needs.

The challenges of strategic governance in Singapore's SWFs

From relatively modest investment entities since their inception, Temasek Holdings and the GIC have now become major investors in the global economy, managing strategically a large portfolio of financial assets in order to secure good investment returns. Their rates of return over the entire period from inception to March 2010 remain impressive, at 17% for Temasek Holdings (*Temasek Review* 2010, p. 8) and 5.7% in US$ terms for the GIC (GIC 2009: 10). Having taken state directives mostly for domestic national concerns in their early days, these two SWFs have been much more exposed to market principles or market-based logic of portfolio management today. While economic diplomacy remains an important facet in the governance of these Singapore-based SWFs, there is a case for arguing for their depoliticization and the reconsideration of their alleged geopolitical threats perceived by sometimes-myopic host states (see also Yeung 2010). Some critics of SWFs (e.g. Larry Summers) have argued that the investment objectives of SWFs are almost always intertwined with state objectives. To them, if these SWFs wake up from their dormancy to become active or even

strategic investors, this mixing of financial with political imperatives can be both threatening and potentially destabilizing.

The recent awakening of China Investment Corporation (CIC) is often posed in the media as a case in hand, even though most of the allegations are exaggerated and not grounded in solid analysis. For example, CIC is basically used by the Chinese government to build or cement *mutual* relationships with foreign firms. CIC's stakes in these foreign firms are typically large, but non-controlling, and can really be 'threatening' and 'destabilizing' only if these firms and, to some extent, their home governments desire such an outcome. Indeed, one might even argue that China's SWFs are a reflection of its 'soft power' strategy to international relations and that is not too different from Singapore's economic diplomacy approach to its own SWFs.[6]

In the context of Singapore's SWFs, however, this 'double bottomline' mentality of maximizing profits and taking care of national interests should not necessarily be construed as the automatic basis for expecting bad behaviour or investment practice from them. To global powers such as the US, Singapore's geopolitical positionality is a benign and inconsequential one. Most of its allies perceive Singapore's national interest as one of sustaining economic development through high value-added industrialization and prudent financial investment abroad. In this sense, the 'double bottomlines' of Singapore's SWFs are quite well aligned. Singapore's friendly relationships with both the US and EU states have also assured that the portfolio investment by the GIC and the direct investment by Temasek Holdings are not viewed negatively by these states as unwanted or undesirable geopolitical advancement. The political trust placed on the Singapore government by these powerful states is substantial and deep-rooted enough (since Singapore's founding in 1965) to alleviate any fear of corporate takeovers by Singapore's SWFs that will harm their national interests, as sometimes alleged in the media.

Curiously, such geopolitical considerations are often perceived by Singapore's neighboring states in Southeast Asia, e.g. Indonesia and Thailand, that are historically suspicious of any significant foreign ownership of major domestic assets (Goldstein and Pananond 2008; Wu 2008). The peculiar patron–client business environment in these Southeast Asian economies has often complicated any foreign acquisition of domestic assets, whether by private equity funds or by foreign SWFs (see Brown 1994, 2006; Hamilton-Hart 2002; Jomo 2001; Tipton 2009; Yoshihara 1988). In this sense, the difficult experiences of some of Singapore's SWF acquisitions in Southeast Asia are not particularly unique; they reflect more the distinctive nature of host countries than the SWF origin of the investors.

Moreover, Singapore's SWFs often take a careful and considerate approach to corporate governance. The GIC, for instance, deliberately takes a low profile in its foreign forays, preferring to invest in small stakes of typically below 0.5% and avoid direct intervention in management.[7] This non-interventionist approach to corporate governance, however, has been

subject to some criticisms by a growing chorus of observers who point to the poor incentives for good corporate governance due to the relatively passive role of SWFs as major shareholders. While there is some truth to this criticism in general, the reality of SWFs remains rather mixed and thus careful consideration is required in assessing the contributions to corporate governance by any specific SWF. Some SWFs from the Middle East, for example, are interested in active board directorship in relation to their corporate acquisitions. This demand is viewed negatively by the financial markets as a form of 'excessive' intervention in the corporate governance of well-established business entities.

On the other hand, the relatively passive role of the GIC in governing its foreign assets is deemed by some as a problem rather than a virtue, making it rather hard to draw the fine distinction between capitalizing on financial gains from the dynamic growth of well-managed firms and pushing these firms along corporate directions not well understood by their large or largest shareholders (e.g. SWFs). In the case of the GIC, its typical ownership of less than 0.5% does render it just one of the many shareholders, never mind if its small stake enables it to be the single largest shareholder. This combination of small stakes and big expectations from other interested parties is indeed a major dilemma faced by the GIC. Its relatively small size (less than 1000 professionals) and financial orientation are inherent limits to the direct participation in the corporate governance of its foreign assets.

Contrary to the GIC, Temasek Holdings is more active in ensuring the good corporate governance of its listed subsidiaries (see Table 2). Through these well-managed GLCs (e.g. SingTel, CapitaLand, Keppel Corp, SembCorp Industries, DBS, and so on), Temasek Holdings can extend its long arms of corporate governance to newly acquired foreign entities (e.g. SingTel's Optus in Australia and DBS's acquired banks in Indonesia and Hong Kong). This indirect mode of steering corporate governance does not imply passivity in the sense of the majority shareholder not doing its fiduciary job. Rather, Temasek Holdings typically passes on this role to the top executives and managers of its subsidiaries who have vast industry and business experience in governing the newly acquired foreign entities.[8]

To mitigate potential geopolitical risks, SWFs tend to place a strong emphasis on its commercial approach to business and investment decisions and launch targeted public relations campaigns to reduce misconceptions and rumours about their investment practices. Both SWFs from Singapore have adopted voluntary investment principles, including greater transparency, prescribed in the Santiago Principles (Generally Accepted Principles and Practices) developed by the International Working Group (IWG) of the Sovereign Wealth Funds, which was first established at a meeting of countries with SWFs in Washington, DC, in 2008. Temasek Holdings continues to assert strongly that its approach to asset management and investment holdings is fully predicated on a commercial basis with no direct involvement from the Singapore government:

> Directed by our Board and management, Temasek owns and manages its assets on a commercial basis. Investment, divestment, business and commercial decisions are the responsibility of our Board and management.
>
> Neither the President of Singapore nor the Singapore government is involved in our investment, divestment or other business decisions (*Temasek Review* 2010, p. 42).

By May 2010, Temasek Holdings had a Board and senior management comprising members from a mix of background in government (e.g. a former Cabinet minister and the Chief of Defense Force), government-linked companies (e.g. ST Engineering and CapitaLand), and private sector (e.g. investment banking and petrochemicals). However, these government-linked members accounted for slightly less than half of the Board and senior management. It is therefore reasonable to accept its claim of non-state direct involvement. Still, given the significant role of its Chairman (a former Cabinet minister) and CEO (wife of current Prime Minister), it is hard not to expect its investment approach to tally with the state's broader economic strategies (e.g. its support of the state's regionalization programme during the early 1990s).

In a recent episode of the unexpected resignation of Charles Goodyear, who served as a CEO-designate for only five months after his appointment in February 2009, the issue of Temasek Holdings' transparency became a public concern. Several Members of Parliament sought further explanations and clarification from the Finance Minister for Goodyear's premature departure. Despite public pressures, the Ministry of Finance reframed from commenting on the case, even though the Finance Minister was questioned during heated parliamentary sessions. In its public statement, the Ministry of Finance argued that it does not believe that the government or the parliament should become engaged in Temasek's investment strategies or internal governance, as it 'would politicise Temasek's operations, and prevent it from managing its portfolio professionally and sustaining good, long-term performance' (*The Straits Times* 5 September 2009, p. A32). This episode and the ministerial response seem to indicate the emergence of a maturing form of corporate governance in Temasek Holdings. Given the much greater extent of professionalization in its internal governance today, the role of Temasek Holdings in national development may well be driven more by profit-taking motives and financial considerations and less by a sense of national duty in support of the state's ongoing economic policies. Its 'rebranding' as an Asia investment company headquartered in Singapore since the early 2000s further reinforces this discursive strategy of delinking its investment activity from its ultimate state ownership.

While Temasek Holdings is much more professionally managed and commercially driven today, the GIC's governance is much harder to ascertain

partly due to the lack of information in the public domain about its investments and decision-making process. In May 2008, its Chairman, Minister Mentor Lee Kuan Yew, defended the GIC's (lack of) transparency on the basis of the need for the GIC to be insulated from domestic political pressures on its allocation of investment funds and to protect the integrity of its global investment strategy and portfolio from its competitors (see also Elson 2008: 91; Wu 2008: 120). Its 2009 report further argued that:

> An Investment Mandate from the Government to GIC sets out the terms of appointment, investment objectives, investment horizon, risk parameters and investment guidelines for managing the portfolio. The Government, which is represented by the Ministry of Finance in its dealings with GIC, neither directs nor interferes in the company's investment decisions. It holds the GIC Board accountable for the overall portfolio performance (GIC 2009: 25).

Despite the above clarification, it is almost impossible to disassociate the GIC Board with the Singapore government. In April 2010, the GIC board had five members of the current Cabinet among its 15 directors, including its Chairman (Minister Mentor Lee Kuan Yew) and one of its two Deputy Chairmen (Prime Minister Lee Hsien Loong). Two directors were former Cabinet ministers (former Deputy Prime Minister Tony Tan and former Finance Minister Richard Hu). Three other directors who held senior management positions in the GIC were former top civil servants. Its Group President, Lim Siong Guan, was the former Head of Civil Service and two presidents came from the central bank (MAS). Three directors were CEOs or former chairman of Temasek Holdings-controlled companies (DBS, Singapore Airlines, and SingTel). With 13 out of 15 members directly linked to the Singapore government (including four preceding and the present finance ministers), it is hard to believe the full autonomy of the GIC from the Singapore government, particularly its nominal 'parent' in the Ministry of Finance.

In short, the overwhelming presence of top government leaders and officials in the GIC Board, which 'is ultimately responsible for asset allocation and for the performance of the portfolio under management' (GIC 2009: 26), creates a much stronger international image of the GIC as a government-directed SWF than the case of Temasek Holdings. The appointment the former deputy Prime Minister as Deputy Chairman and Executive Director (resigned on 23 June 2011 in order to pave way for his Presidential election), who chairs the Group Executive Committee, further confirms this impression of direct state involvement in the GIC's policies and practices. Still, the GIC Board is advised by a group of world financial leaders. As of 31 March 2009, its management team was staffed by a large number of over 1000 professionals in the financial industry, about 54% of which were foreign nationals from more than 20 countries (GIC 2009: 44).

This almost inseparability of the GIC Board from the Singapore government can be useful in two ways. First, the strong presence of top state leaders reinforces the conservative approach to portfolio management by the GIC. According to its former Deputy Chairman and current elected President of Singapore, Dr Tony Tan 'in fulfilling that [national] mandate for GIC, we are very conscious of risk because what we have been told to do is to earn a reasonable return but not to maximise the returns which means higher risks. Therefore, the GIC is a very conservative investor and has always been … We spend a great deal of attention looking at the downside because our belief is that if you can look after the downside, the upside will look after itself' (*The Straits Times* 31 December 2009, p. A32). Here, the unique insights provided by top state leaders can be particularly effective because of their 'insider' positionality in the global political economy. For example, former Minister Mentor Lee Kuan Yew, also former Chairman of the GIC Board, is often sought after by both the US and China in mediating their torturous Sino-American relations. Such privileged insights into major geopolitical tensions can help the GIC in making the right investment decisions.

Second, the state–GIC connection can be effective in terms of making major and yet difficult decisions. For example, the GIC took a major decision in mid-2007 to liquidate substantially its equity holdings and keep the proceeds in cash and short-term bonds. According to its former Deputy Chairman, Dr Tony Tan 'this was the only time that we had done this [substantial liquidation]' because the GIC deemed asset prices in the global economy too high for the kind of risk premiums demanded (*The Straits Times* 31 December 2009, p. A32; 30 January 2010: A24). The fact that the GIC Board was effectively made up by the top leaders of Singapore had enabled such a major decision to be swiftly made and implemented. As a portfolio de-risking tool, this liquidation process took place between mid-2007 and the first half of 2008, shielding the GIC from the major downturns of the global economy in late 2008 and 2009. By the third quarter of 2009, the GIC had essentially restored its portfolio balance between equities and bonds.

Conclusion

This paper has examined the changing nature and orientation of the two SWFs from Singapore over the past three decades. During the earlier phase of Singapore's industrialization (1965–1989), the initial mandates of these two SWFs were clearly more oriented towards developing and securing the domestic economy. They were also very modest in their initial financial resources and were not in a particularly strong position to be a major player in the global financial system. By the early 1990s, however, both SWFs had accumulated sufficient financial muscles and political legitimacy that they became incorporated into the state's 'regionalization' project that aimed to

develop an external wing to the industrialized city-state. Throughout the new millennium, these SWFs have emerged to be active investors in the regional and global economy. Their role in Singapore's economic diplomacy becomes more visible and the global political and investment communities are more concerned with the potential issues arising from such SWFs acquiring major financial and/or national assets. Navigating these geopolitical and financial concerns in the international community has been a difficult learning path for these SWFs.

Looking forward, the future of these SWFs from Singapore will be inextricably tied to the strategic interests of the Singapore government and the growth prospects of the global economy. Already major players in the global financial markets, these SWFs will unlikely retreat into the backstage of the global economic arena. A much more likely scenario is to expect these SWFs to be more active and instrumental in safeguarding the economic future of Singapore. Given the enormous political goodwill and economic diplomacy already embodied in these two government-backed investment vehicles, it is doubtful that they will be as ruthless as some private equity funds and investment vehicles. Instead, these state-owned SWFs will likely continue to aim for good investment returns in tandem with Singapore's national interest as a responsible member in the global system of nation-states.

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Notes

1 Interestingly, the GIC's website indicates only a very modest claim of managing funds in excess of US$100 billion as of March 2010 (http://www.gic.com.sg/about/overview, accessed on 29 March 2010).
2 By March 2010, Temasek Holdings' total portfolio was valued at S$186 billion or about US$140 billion (*Temasek Review* 2010, p. 6).
3 In May 2010, six of these firms were no longer state owned. Jurong Shipyard remains a wholly owned subsidiary of Sembcorp Industries, a Temasek Holdings-controlled public company.
4 I would like to thank an anonymous referee for reminding me of this important point.
5 Temasek Holdings' last placement was in September 2005 of a 10-year bond for US$1.75 billion with a fixed rate of 4.5% (Elson 2008: 86).

6 Thanks to Dan Haberly for this point, and see a more detailed and grounded analysis in Wu and Seah (2008), Shih (2009), and Clark and Monk (2010b).
7 Notable exceptions are the GIC's 9% stake in UBS, bought in December 2007, and 3.5% stake in Citigroup, acquired in January 2008. In both cases, even though the GIC had emerged as the single largest shareholder, it did not ask for or, when offered, take up a management role in these iconic global financial institutions.
8 See Worthington (2003: 202–213) for a detailed analysis of these senior executives as of 1998.

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