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ByInvitation

Growing global champions with roots in Singapore

The digital economy has thrown up opportunities for unicorns such as Grab and Sea to emerge. But it takes more than a stable of successful global companies to sustain inclusive economic growth.

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For The Straits Times

It is, for many, a matter of national pride to have home-grown companies attain a position of global dominance in their respective industries. Besides the United States, China and Japan, smaller economies have also succeeded in growing global champions such as Samsung (South Korea), Ikea (Sweden) and Nestle (Switzerland).

However, success has proved elusive for promising Singapore companies over the years. During the early to mid- 2000s, home-grown technology firm Creative Technology went toe-to-toe with Apple for supremacy in the global portable media player market, but was ultimately outmuscled by the American giant.

Water treatment and environment solutions firm Hyflux won infrastructure projects in South-east Asia, China and the Middle East, but ran into financial difficulties and filed for creditor protection in 2018.

Of late, the digital economy has thrown up opportunities for "unicorns" to emerge. Singapore-based Grab has grown from a ride-hailing app to a regional behemoth with interests spanning food delivery to digital payments. Sea, the parent company of e-commerce player Shopee and games developer Garena, has seen its stock price surge since its US listing in 2017, becoming South-east Asia's most valuable public company.

One may ask: Does this represent a turning point for Singapore's long-held ambitions to grow global companies? What new opportunities have emerged, and how can Singapore capture value from the success of its firms?

THE QUEST FOR 'LOCAL TIMBER'

Multinational corporations (MNCs) have been the driving force behind Singapore's economic development since the 1960s, providing jobs, technology, organisation and market access.

While MNCs remain a vital part of Singapore's enterprise ecosystem, the desire to grow large local enterprises has gained impetus through the years. A perennial concern is that footloose MNCs may relocate their operations to major markets and production centres elsewhere. Many have called for Singapore to "grow our own timber", by nurturing local champions alongside foreign heavyweights.

A succession of national economic planning committees has affirmed this intent. The 2010 Economic Strategies Committee set a target of doubling the number of "globally competitive companies" – local firms with revenues exceeding $100 million – from around 500 in 2009 to 1,000 by 2020.

In its 2017 report, the Committee on the Future Economy articulated plans to help high-growth enterprises scale up and internationalise through targeted support, including access to networks, mentors, technology and financing.

Historically, Temasek-linked companies that grew out of former state enterprises have found it easier to venture overseas, being able to leverage their track record, expertise and financial strength to make overseas acquisitions and establish themselves abroad. These include DBS Bank, Singtel and CapitaLand, which have a significant international presence, particularly in Asia.

Smaller players could turn to Spring and International Enterprise Singapore – now merged to form Enterprise Singapore – for support. Over the years, a panoply of grants has been offered for capability building, innovation and internationalisation, along with an array of loan and equity financing schemes.

Yet some in the business and academic community have called for more to be done for small and medium-sized enterprises (SMEs). Among the litany of grouses: onerous grant application processes; an unlevel playing field vis-a-vis MNCs, which enjoy larger tax benefits and the pick of talent; and foreign competitors that are backed to the hilt by their respective governments.

What does it take to succeed, and what opportunities are on the horizon?

Before going global, many companies first establish themselves domestically, sinking roots in a conducive business substrate. Singapore generally scores well on business-friendly laws and regulations, good infrastructure and trade connectivity. Considerable investment has been poured into research and development, with an emphasis on bringing technology to market.

Beyond grants and tax incentives, various ideas have been floated to plug perceived gaps in enterprise support.

These include a dedicated SME bank to increase access to finance, as well as an export-import bank or export credit agency to lower the cost of cross-border finance. Some have also suggested a larger role for government procurement to generate "lead demand" for local companies, so as to help them establish a track record.

Also important is a supply of "patient capital" to nurture promising firms, particularly those with a long gestation period before generating positive cash flow. Under the Co-Investment Programme (CIP) set up in 2010, the Government co-invests, alongside Temasek Holdings and private equity funds, in promising Singapore-based firms. These span diverse sectors including healthcare (Eagle Eye Centre), engineering solutions (Hope Technik), gaming hardware (Razer) and sanitary ware (Rigel).

CIP-supported firms have found Temasek's involvement useful not just for capital, but also to leverage the Temasek brand and network. Private equity fund managers add value to investee firms' management teams through mentoring by experienced business leaders.

Recent developments in financing, digitalisation and sustainable development hold considerable promise for local enterprises looking to conquer regional and global markets.

First, the world is awash with capital in search of returns. Venture and private equity funds are on the prowl for suitable investments, with South-east Asia a happy hunting ground. Firms with promising technology and business models can tap a range of financing options to spread their wings abroad.

Temasek's newly established investment platform, 65 Equity Partners, will complement the existing Co-Investment Fund by offering private financing for larger local firms – valued between US$1 billion and US$5 billion (S$1.35 billion and S$6.7 billion) – with regional or global aspirations.

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Meanwhile, special purpose acquisition companies or Spacs are gaining prominence as an alternative to traditional initial public offerings for firms that are considering going public.

Besides capital, Singapore companies need people to spearhead overseas expansion, whether Singaporeans who are prepared to live and work abroad, or foreigners with in-depth knowledge of their home markets.

While local enterprises continue to face stiff competition for manpower from MNCs and the public sector, some have found ways to attract and develop the talent they need.

Companies may tap the SkillsFuture Leadership Development Initiative to send local employees on overseas assignments. They may also recruit foreign students graduating from local tertiary educational institutions to support their expansion in South-east Asia and beyond.

Second, a surge in digital services, including e-commerce and e-payment, has made it easier for companies to tap regional and global markets for sales from the get-go.

A report by Google, Temasek and Bain released in November 2020 found that as many as 40 million people in six South-east Asian countries went online for the first time last year, raising the number of Internet users to 400 million or nearly 70 per cent of the population in those countries.

Under the Infocomm Media Development Authority's SMEs Go Digital programme, SMEs can board e-commerce platforms to sell overseas. Companies with their own platforms, user base and data may also be able to scale rapidly across geographies and service offerings, as Grab and Sea have demonstrated.

Building on Singapore's network of free trade agreements, the Government has negotiated digital economy agreements with Chile, New Zealand and Australia. Other agreements are in the pipeline, paving the way for companies to grow their digital trade and e-commerce footprint.

Finally, the global momentum towards clean energy and environmental sustainability will present local companies with opportunities to take the lead in this space. There are already various national initiatives to promote green finance and help enterprises build sustainability capabilities. This is an area that holds much promise for the future, and is well worth the investment.

HOW CAN SINGAPORE CAPTURE VALUE?

National pride aside, growing Singaporean multinationals is not an end in itself. It is worth noting that despite its impressive stable of global conglomerates, South Korea has a lower median income than Singapore. Evidently, it takes much more than highly productive national champions to achieve high incomes and inclusive economic growth for citizens.

Even if local enterprises succeed in becoming global champions, there is no guarantee that the value they create will accrue to Singapore. Some will be acquired by foreign investors or multinationals. Regardless of ownership, companies may decide to locate their production and operations in countries with lower costs and larger markets.

In the information and communications technology sector, for instance, programmers in Vietnam and Indonesia can deliver quality services at a fraction of the cost of their Singapore counterparts. Research and development, too, may migrate to countries with an abundant supply of research scientists and engineers.

Ultimately, the same factors that make Singapore attractive to foreign investment will also anchor home-grown companies here. Of vital importance is the enterprise ecosystem that spans start-ups, SMEs and large enterprises, both local and foreign.

The concentration of capital and talent in Singapore creates economies of agglomeration, investing Singapore with a competitive advantage that is "sticky" or resilient despite our higher cost.

Innovation networks play a particularly important role, with successful entrepreneurs, in turn, becoming angel investors and mentors. These networks will take time to build up in Singapore, and success is by no means guaranteed.

It is necessary for our local champions to derive value from Singapore, whether through networks, trust or reputation for excellence.

By establishing their headquarters in Singapore and performing high-value activities here, they can create good jobs and contribute to the enterprise ecosystem.

Although Razer and Sea are listed in Hong Kong and New York, respectively, they are ramping up their presence in Singapore: Razer opened its $100 million South-east Asia headquarters in Singapore last month, with plans to boost staff strength here from 600 to around 1,000 by 2023, while Sea is leasing new office space here as it pursues business growth.

Home-grown global companies will naturally perform many activities abroad, but Singapore will gain only if these businesses remain rooted here, deriving value from their home base and, in turn, contributing value to the economy and people.

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