

IPS Corporate Associates' Breakfast Dialogue: States, markets, technology and post-industrial capitalism

By Valerie Yeo
IPS Research Assistant

PROFESSOR LINDA LIM, Professor Emerita of Corporate Strategy and International Business at the Stephen M. Ross School of Business, University of Michigan, spoke to IPS Corporate Associates on 2 April about the challenges facing the Singapore economy. The breakfast was attended by 50 participants, where IPS Adjunct Senior Research Fellow, Mr Manu Bhaskaran, chaired the discussion.



Prof Lim at the IPS Corporate Associates' Breakfast Dialogue

Prof. Lim spoke of the challenges posed by the larger economic environment in which Singapore operates. Since the 2008 global financial crisis, the 2016 Brexit vote and election of US President Donald Trump, the continued viability of the extant model of shareholder capitalism in advanced post-industrial societies has come into question. The “neoliberal”

world order driven by private capital and market forces is accused of causing financial crises, inequality and slow growth in productivity and wages. This has contributed to populist electoral backlashes and a retreat from globalisation.

In response, there have been strong technocratic arguments and political pressures for states to enhance social policies. This would reduce inequality and deter populist pressures; help citizens transition when their jobs are disrupted by technology or business model changes, and deter protectionism; and encourage private entrepreneurship which is the main driver of innovation and economic growth.

Prof. Lim said Singapore's "state-directed, export-oriented, manufacturing-focused, multinational-led" growth model of the past half-century has run its course. There are limitations on exports due to slower world growth, limitations of manufacturing due to its declining share in value-chains, limitations on state industrial policy due to international political constraints and competition, and limitations of multinationals due to Singapore's high cost structure. In addition, Singapore's small market size requires a trade-off between scale and diversification.

She gave three reasons why Singapore lacks large, domestic private companies that are global players. The first is "crowding out" by multinational companies (MNCs) and government-linked companies (GLCs) as local companies face competition from global brands in the domestic market, and high rentals and labour costs are exacerbated by the diversion of talent into government and corporate bureaucracies. The second is the lack of incentive and motivation for citizens to set up private businesses, as talent prefers highly-paid secure employment in government, GLCs and MNCs. Third, the culture of being *kiasu*, or the "fear of failure", has led to risk aversion and intellectual conservatism, an orientation towards followership rather than leadership, and reluctance to challenge established ways of doing things. Contributing to this, Singapore's education system is geared to the past economic model and needs reinvention to promote innovation and entrepreneurship — the keys to advancement for mature developed economies.

Prof. Lim suggested that Singapore focus on the large regional Asian consumer market (e.g., ageing high-income Northeast Asia and fast-growing, lower-cost Southeast Asia), as part of this market itself and as an intermediary for extra-regional MNCs looking to enter it. This requires deep knowledge of the regional market and the ability to function across disparate cultural and linguistic spaces. Private entrepreneurs are best placed to drive this initiative, as the funding needs of SME are affordable and individual failure will not be disastrous for the national economy. The state can play a role by reducing "crowding out" of SMEs, and helping to finance their ventures.

Question-and-Answer Session

Reinvention of the education system

The audience was curious about changes to the education system that are necessary to promote innovation and entrepreneurship. They asked about possible transition steps, bearing in mind that "we are painting on a painted canvas" and a radical "blowing up" of the current education system is untenable.

One suggestion Prof. Lim made was to remove, downsize or increase the flexibility of the government scholar programme, which contributes to “crowding out” or the diversion of talent from the private sector and entrepreneurship. Offering an 18-year-old student a scholarship for a four-year degree requiring a six-year government service bond upon graduation prevents the individual from responding to market opportunities that will emerge in the meantime. She related an anecdote about an engineering scholar who received job offers upon graduation from renowned technology companies, but had to return to Singapore and work in defence intelligence. The confidentiality of his work meant he could not disclose his research experience, making it impossible for him to transition to the private sector after his six-year bond period. She referred to Malaysia, where the government has removed or relaxed this bond, so many scholarship recipients only need to return to Malaysia to work, either in the public or private sector. This is logical because it is not clear what student preferences or market needs will be after the period of study, and it may turn out that a government job is not the best fit for the individual. There is also no way to accurately predict what skills would be required in the near future, given rapid technological and market changes.

Apart from universities, a question was asked about how we can leverage on polytechnics and the Institute of Technical Education (ITE). Prof. Lim said that most entrepreneurs come from these institutions, with a non-university background. These schools are important for the grooming of future entrepreneurs, particularly for navigating the Southeast Asian regional market catering to a non-university-educated consumer base.

A question was asked about the model of studying locally and going abroad to pursue a specialised degree — whether this was advisable, compared to the preferred option of going overseas straightaway. Prof. Lim said that students would still choose to study in the west because of the Oxbridge, Ivy League mentality and the “demonstration effect” in the civil service, which seems to value such graduates. However, there must be diversity. By sending students to as wide a range of universities as possible, there would not only be intellectual diversity but also network diversity. Prof. Lim added that self-funded Chinese students are already attending provincial universities in Southeast Asia where they develop the networks, local language competency and cultural knowledge that equip them to do business in the region. A mindset change is necessary to embrace an Asian-centred future, to which going to the west has less to contribute.

Role of the government

An audience member asked about the role of the government moving forward. Prof. Lim replied that the government definitely had an economic role when confronting externalities and market failure. The government could also provide shared resources to lower the fixed costs of SMEs’ expansion overseas. The Economic Development Board (EDB) has done a wonderful job in attracting MNCs to invest in Singapore. Now that Singapore is established and internationally well known, the EDB could reconfigure itself to support SMEs’ capability building, which includes venturing overseas. Instead of measuring success by how much investment dollars are brought into Singapore, the net domestic value added from foreign investments like the number of jobs created for Singaporeans, should be calculated. This should include the opportunity costs incurred by incentivizing foreign investment e.g.,

“crowding out” of local businesses through competition for scarce resources, and the comparative return from spending investment incentive funds on other public uses.

Engaging MNCs

Another audience member asked how Singapore could take advantage of the possible restructuring of MNCs, to identify and respond to their needs, since there is already a sunk cost from MNCs, which have already established a presence in Singapore. Prof. Lim explained that MNCs have been restructuring for the past five to ten years because of protectionism and technological advances. Big companies no longer boast of having a global footprint. Instead, they are consolidating operations to concentrate production in large end-user markets. Fortunately, Southeast Asia is projected to be the second fastest-growing large regional market for the next 25 to 30 years, after India. Thus, Singapore could be a good first destination for medium-sized MNCs, who are expanding overseas for the first time, to help them to enter the regional market. Expertise is needed in dealing with “messy markets”, unlike Singapore where regulation and infrastructure are well organised. Economic growth is going to be in such “messy markets” thus it is important to cultivate this area of expertise. There are programmes for secondary school and university students to study in neighbouring countries, but they would opt for western schools instead. Once again, a mindset change is required for people to seize these emerging economic opportunities.

[Valerie Yeo](#) is a Research Assistant (Special Projects) at IPS.

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