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**Renewing the Sap: Civil Society Rejuvenates the Singapore's Public Sector Banyan Tree**

**Q: You have very clearly stated that Singapore cannot continue to compete with India, China and the new wave of emerging countries simply on the basis of lower costs. How can Singapore continue to command a high premium in the world? In particular, what are the initiatives that you have taken as Minister of Trade and Industry, to establish Singapore as the gateway of choice into Asia?**

**Minister Yeo:** For Singapore, the new wave of globalization presents an acute challenge. In anything and everything we do, we must achieve international standards to be competitive. It is not good enough now to be the best in Southeast Asia; we must go beyond that. Either we compete globally, or we are not in the game. Companies now source globally, increasingly through the Internet, and we have got to find our own specific niches.

For a long time our manufacturing sector was globally competitive, because by definition it had to be. For instance, we produce a third of the world's disk drives, and the only way we are able to produce so many is because we are probably the most efficient disk drive producer in the world. But that is increasingly coming under threat, because of competitors like China, Thailand and Malaysia.

As a consequence, we must move up market. For example, our newer disk drive production lines are highly automated. We have in the last few years also taken the decision to open up our services sector. This will help us to achieve international efficiency in markets that were traditionally protected in Singapore. We are prepared for our own companies to be acquired by global players. We have systematically and deliberately opened up our financial sector. We did so in the middle of the Asian crisis, partly because we were not too badly affected and partly because we saw an advantage in opening up at a time when others were wobbly. It showed strength and confidence and to some extent we have succeeded. Singapore today is seen as an anchor for stability in Asia, in a region which is going through turmoil and change.

That stability and reliability adds value. It enables the Singaporean – whether as a chef, a machinist or a software programmer– to command a premium in his job, beyond the international rate, because he or she operates in the Singaporean system. Maintaining and increasing system efficiency is something we must continue striving for.

A key to our system efficiency is effective interaction between the public and private sectors. In many countries, the business sector knows what it takes to be efficient but the public sector, due to political complications, makes such efficiency more difficult to achieve. Singapore runs probably one of the most rational governments in the world. Some say it operates almost like a business. It is able to maintain a high level of rationality by the support of a people who know that if we don't work, we don't eat, and by a social contract that looks after those who don't do

well despite their best efforts.

One way to pass judgment on a society is to look at how the top ten percent of its population lives. Paris, Tokyo and New York stand out by this criterion: these cities have created a special environment recognized as outstanding: fine jewelry, classical music, and magnificent food... Another way to judge a society is to ask how it looks after its bottom ten percent. And Singapore, as a society, probably looks after its bottom ten percent better than most other cities in the world. That gives us our strong social cohesion which in turn enables the government to create, together with the private sector, a high level of system efficiency.

**Such cooperation can make for a very efficient system. Is it compatible, however with the present global trend toward deregulation and consolidation of business across borders? In Singapore, many of the successful companies are either government-owned or present large government share ownership. Are you reaching the point where this may become a "straightjacket" Do you think that the cooperation between public and private sectors must find a new form?**

**Minister Yeo:** This is a new phase we are entering. We have to change our methods and modalities. The reason why the public sector in Singapore became so strong is historical. Singapore, as a City-state, was created by human will. As a City-state in an era of Nation-states, we were at a severe disadvantage. When we became independent in 1965, we faced incredible challenges: to build up the army, the civil service and the foreign service, to attract investments, to develop industrial estates, housing the people, educating them... In that first stage, we drew many of Singapore's brightest individuals into the public sector. The government was always careful not to become beholden to any particular business interest, and that windfall gains accrued to the public sector and were not passed on to friends or relatives of government officials. As a result, the public sector has accumulated certain surpluses which are now expressed in the public (monetary) reserves and in the strength of government-linked companies: Singapore Telecom, the port, the power company, the Development Bank of Singapore (DBS) and so on...

Without a protected domestic market, we had to run these assets more efficiently than State-owned ventures in socialist countries. They were required to operate like private companies under the discipline of the market. Singapore Airlines, for instance, was told at the beginning that it was not flying the national flag for reasons of national pride: either it survived or it would be closed down. The port of Singapore had no cabotage to depend on, thus it either was competitive or it was out! SingTel had a monopoly over telecoms; we decided a few years ago that the monopoly had to be broken down and exposed to competition, and it is now making the adjustments. You are right; this is a new phase we are entering. If we manage things well, we'll be able to increase the value of these assets and make some of them the nuclei of Singaporean multinational corporations (MNCs). We are quite flexible in our approach and do not require that such companies be majority owned by Singaporeans. They can be acquired by bigger global companies. They can be divested. We are realistic.

**Q: This changing concept of public sector and public ownership was already the subject of your still-remembered speech a decade ago on the need for Singapore to prudently "prune the banyan tree", a metaphor for the large, powerful public sector in Singapore. You were cautious, however, to indicate that Singapore "would always need a strong center to react quickly to a changing competitive environment". Could you elaborate on the respective roles of the State and of the civil society in Singapore in today's global economy?**

**Minister Yeo:** The banyan tree has a huge canopy and long hanging air roots. Beneath it, nothing much can grow because there is little sunlight... We worried about the lack of a civil society in independent Singapore. This has not always been the case historically. Under British colonial rule, the various communities –Chinese, Indian, Malay– had to take care of themselves, create and run their schools, establish their own self-help groups. They had a flourishing existence, as the British did not care about them except when they gave trouble to the colonial government. However, we were not a nation and civil society at that time pulled us in different directions: toward China, toward India, toward Malaysia and Indonesia. When Singapore became an independent country, we had to create the foundation of a State and of nationhood, and that meant certain aspects of our daily life had to be re-directed towards a new centre. The education system in particular had to be nationalized, so that Singaporeans could share a common curriculum, speak a common language, share common values. The State was highly dirigiste and interventionist in the first days and that's how the banyan tree grew.

But in the long-term, if we depend only on the state, we will be weak. To create a sense of Singaporean-ness, citizens must do more things for themselves and be less reliant on the state. Selectively, the state has to withdraw, so that more space between the family and the state can be freed up for civil society to grow and for intermediate organizations to develop. This is what we are trying to do now. We have been moderately successful, particularly in fields such as the arts, the environment, charity and healthcare... In the last 10 years, there has been an explosion of civic groups and cultural organizations. This time round, they are rooted in Singapore, and do not direct us mainly to India, China or Indonesia.

**Q: This notion of civil society is very important. Scholars who study the Chinese society expressed the opinion that Mainland China never developed a civil society as we know it in the West, because civil organizations were always under very strong State control. (See: David L. Wank *Commodifying Communism, business, trust and politics in a Chinese city*, Cambridge University Press, 1999, Margaret M. Pearson, *China's New Business Elite, the Political Consequences of Economic Reform*, University of California Press, 1997.) Do you have the feeling that there is a radical difference in this respect between Asia on one side and Europe and the U.S. on the other? Is civil society something new for Asia?**

**Minister Yeo:** We must be specific here. Chinese culture has had a different pattern of historical evolution from that of the West. There are two seemingly contradictory aspects which define Chinese culture. One is the expectation of strong central rule which arose out of the experience of the Chinese people over the centuries. Central rule meant peace. The collapse of strong government meant civil war and social disorder. Thus Chinese history is a record of strong prosperous dynasties punctuated by prolonged periods of anarchy. It is almost as if the Roman Empire had collapsed then regrouped, collapsed again then regrouped again, more than half a dozen times over the past two thousand years. Thus in the social DNA, there is a strong impulse towards central rule which is deeply embedded in the Chinese mind.

The other aspect is that because Chinese families have had to survive long periods of strife and dispersal, they have developed "cultural portability". Chinese families who move to France, America or Singapore are able to maintain their values and transmit their traditions to subsequent generations, without state support. This is quite unique. It is similar to Jewish culture, but Jewish culture never had the Chinese centralizing instinct I referred to earlier. If one could read cultural codes the way scientists read the human genome, Chinese culture would contain genes which provide for cultural portability and genes which express the Confucianist ideal of a centralized realm where everything finds its proper place.

The history of the Chinese people is bound up with these two impulses – family-centered cultural portability and central rule. Chinese people tend to be partial towards family members

and relatives and to treat those who are further away rather selfishly.

This is why, all over Asia, Chinese companies are unable to break out of the family network. At the same time, despite the desire for central rule, when there is no central rule, there is no instinct to compromise and agree. So, temple groups, clan associations and small businesses, without central authority, they fight. Unlike the Japanese, who are naturally cohesive, Chinese people are naturally divided unless there is imposition of central rule. Hence, Chinese civil society is quite different from Anglo-Saxon, French and German civil societies. Hindu and Muslim civil societies also have their own different patterns.

**Q: Do you see Singapore as a natural melting pot for Western and Eastern values, for Western and Eastern ways of organizing the economy and society?**

**Minister Yeo:** Singapore is an ongoing experiment in plurality and multiculturalism in an era of globalism. It has a young history and there is no assurance that this experiment will continue to work for a long time. Will there always be a Chinese culture? Yes, probably forever. Will there always be an Indian culture? Yes. Will there always be a Singaporean culture? We do not know. At this particular point in time, with de-massification, Singapore as a city-state enjoys some advantages, but should the historical pendulum swing to the other side, larger groups may then regain importance and the basis of existence will have to change for Singapore. We do not feel very secure but that's probably what keeps us strong and on the ball.

**Q: You have forcefully spoken in favor of accepting Internet and the Internet culture while stressing the challenges that accompany them. How do you think Chinese, more generally Asian, values will interface with the Internet? Is there some natural cross-fertilization here, or only contradictions?**

**Minister Yeo:** In some ways, the Internet is a revolution; in other ways, it is nothing new. Human nature has not changed. As for Asian values: I find it a very strange question. City dwellers are different from people who live in the countryside and French people are different from Germans; why would Asians not be different between each other and from other people in the world? What Asian values are we talking about? Chinese Confucian values? Islamic values? Hindu values? Each of these is intelligible. But "Asian values" as a category is not intelligible unless it is more precisely defined!

The interesting question is about the relationship between cultures. An interesting comparison can be made between the Roman Empire and Chinese civilization. I have always been struck by how much the Roman Empire accommodated diversity: there were Greeks, Jews, North Africans, all so different... yet they were bound together by Roman law and Roman citizenship. In fact, the idea of rule by law has been a huge contribution to human civilization. Today, if you look at the plurality of the world, countries are united by the WTO, by the UN, by generally-accepted accounting standards and property rights and, increasingly so, by the Internet. It is the Roman idea extended worldwide. Yet within this idea, within this framework of cooperation, deep differences remain. We are still Jewish, Italian, French... Chinese civilization evolved differently. It has been held together not by abstract law but by deep cultural programming.

To use the metaphor of information technology, what we need for peaceful cooperation in a pluralistic world is a common higher cultural language, like HTML or XML, which enables us to interact across cultures while allowing us to keep our sense of self and separate identity. Attempting to harmonize deep cultural programming must lead to revolt. The growing anti-globalization reaction we are seeing is an example of this.

Most Asian cultures, particularly Hindu and Confucian, will be able to make the necessary

modifications and connect to the global network. In the US - the modern Rome - Indian and Chinese immigrants integrate without too much fuss. Islamic culture may face greater difficulty in doing so. Islamic law forbids interest payments. It worries about insurance which is considered morally hazardous. The practices of Wall Street do not settle well with a strict interpretation of Islam. It is therefore more difficult for the Islamic world to plug into the global financial network. The response of Islam to the challenge of globalization will be a major theme of 21st century world history.

**Q: You talk about culture as a form of programming...**

**Minister Yeo:** Culture is the operating system which binds human beings in a community together. A human being is a complex thinking machine with intricate software indeed. No two human beings are the same. It takes over twenty years to program a human being. You can clone a human being biologically, but you can't clone a human mind. The words we use, the way we cross our legs, the way we look at each other... these are all complex codes that require a long time to acquire. And much of the signalling is not conscious but subconscious!

Australians tried to pole-vault Aborigines into the 20th century. It was a disaster. Now, looking back, it was a form of cultural homicide despite the good intentions. There are many things in human culture that we still do not understand. Adjustments can be made to connect an operating system to the Internet, but the hard disk which contains the deep programming should not be deleted. You'll crash.

**Q: You compared the Roman Empire with today's international rule-based regime. At the global level, there is also a debate between the desire for central organization and the fight for local governance, which has recently led to bouts of anarchy as witnessed during the Seattle or Prague summits. Do you think that we in the process of developing a global system that can accommodate differences in values and perceptions, or is globalization such a strong constraint that it will eventually prevent people from running their own program the way they feel?**

**Minister Yeo:** We live in an age of political correctness and we are required to say that all cultures are equal. But historically, this is an absurd proposition, because cultures evolve continuously and are constantly in competition with each other. There is a Darwinian struggle at work. When a culture evolves in a way that enables its members to embrace the industrial revolution or the Internet, it gains a decisive advantage over others. Cultures that can't accept change are likely to face political difficulties and eventually will decline. There have always been tensions: different cultures have always displayed different levels of adaptability to new technologies at different times in history...The dominance of the West today reflects its cultural dominance. But no advantage is permanent.

In an age of highly integrated manufacturing, nobody can beat the Japanese. When it comes to highly coordinated work and ensuring zero defect; they are the best in the world. But when you throw them into a more chaotic world, which requires them to live with ambiguity and to work with people who are not like them, they face difficulties. Thus, when the technology changes, what was a strength may become a weakness and vice versa. Chinese culture was perfected for an agrarian society and its adaptation to the industrial world has taken many generations.

The process of adjustment is always painful. Parents see their children growing up differently from themselves. Immigrants change the nature of settled neighborhoods. The desire to prevent change and avoid disruption is very natural. Global trade disrupts traditional arrangements which explains the reaction against it. But in the end it is those societies which

evolve and adapt to global climatic change which will succeed. Those who can't will ossify and decline.

**Q: Do you think that the global community can achieve a capacity to deal with ambiguity? Or, to use your HTML metaphor, are we moving towards a world in which people with different operating systems will be able to interconnect smoothly? Or will differences in our operating systems create more and more tensions at the global level?**

**Minister Yeo:** Both will happen. As we become more connected, our different strengths and weaknesses will assert themselves. The result will be greater specialization. Indians are excellent at software because of their free spirit and their use of the English language. The Japanese will remain preeminent for manufacturing and consumer electronics. For entertainment and social experimentation, Hollywood enjoys an incomparable advantage. For aesthetics, design and high culture, the French have a deep tradition: Paris will always have a different ambiance from London or New York. So there will be increasing differentiation within the global system.

Unfortunately, this must also lead to conflict because there will be new winners and losers. Trade is positive sum but relative positions will change. We should therefore expect continuing protests against the WTO. We should not be angry with peaceful protesters but acknowledge that there are problems and find a way to minimize friction and unhappiness... However, we cannot rid ourselves of all friction, because no change can happen otherwise.

Some will globalize protesting all the way; others will welcome and swim with it. To see the future, look at the free cities. Historically, the seeds of change have always been more evident in the trading cities. They move quickly to new areas where there is profit to be made.

Venice and the cities of the Hanseatic League prefigured the future in their time. Singapore, Hong Kong, Shanghai, and now Bangalore: these free cities provide glimpses of what the future in Asia and to some extent the world will look like.

**Q: You defend the trading city-state as a great place in which to manage interconnections in a world system. Can we challenge you with the view we heard many times in Hong Kong that Singapore's weakness is a less favorable link with the immediate hinterland. Has globalization reached a stage in which a city-state like Singapore can operate without any major reference to its immediate surroundings?**

**Minister Yeo:** There will be many cities in the global network of which Hong Kong and Singapore are only two. Think of the human brain and the way neurons interconnect. Or cyberspace with its web clusters all linked together. Or the stars above in clusters, galaxies and nebulae. The same morphology can be discerned in the pattern of cities and their trading networks. Each city represents a concentration of talent and information, connected in multifarious ways to immediate and distant environments. We call such systems "networks" for lack of a better term. The network is not strictly hierarchical, neither is it completely chaotic. There is something almost universal in the way complex forces interact to create this common pattern - the human brain, the Worldwide Web, the stars in the heavens, the way billions of human beings cluster in cities big and small. In Asia, cities are growing like web clusters; it is a scale and speed of urbanization never seen before in human history. Similarly, the global financial system is an expanding network expressing the complex interaction of risks and claims.

**Q: Networks are a combination of complex linkage and simple forms of hierarchy. You just mentioned the financial system. What does networking mean for Singaporean banks?**

**Minister Yeo:** Financial markets are concerned with the assessment and management of risks. Markets are not perfect; there are always arbitrage opportunities. Or perhaps it is more accurate to say that it is arbitrage which tends markets towards perfection. Without global banks, you cannot manage your global risks optimally. But when it comes to actual risk assessment of the underlying activity, this requires human judgement. It cannot be done simply by a computer. The knowledge you need is cultural and local. You look at the person you are lending to and ask yourself, is he likely to trick you? Is he corrupt? Are his books accurate? Cultural values and human relationships matter, and vary between groups of human beings, from city to city, from company to company.

Singaporean bankers have to make sure that their global portfolio is optimized while retaining a competitive advantage in assessing local risks. The latter is a local activity. One would not expect that bankers in New York or London are better able to assess Southeast Asian risks than Singaporean bankers. That requires deep cultural knowledge, local knowledge. And if you understand different cultures, you can arbitrage across cultures.

**Q: You describe the challenge of running these risk-management systems. How important are economies of scale that can derive from hierarchies? Singapore banks, while they certainly aren't inactive, are not really at the forefront of global consolidation that is sweeping the financial industry worldwide. Is it a sustainable strategy to remain in this position?**

**Minister Yeo:** We are not sure, we are keeping an open mind. From your "strategic conversation" with Philippe Paillard for this book you must have heard of the efforts underway to transform DBS into a regional bank, and one day, hopefully, into a global bank in the global wholesale business. A small city-state cannot excel in everything, so we have to find our own niches in each industry. If you talk to the Chinese banks in Singapore, they instinctively realize that their strength is not at the global plane, but at the regional plane. To survive in that niche, they must have good partners and good access to the wholesale market so that their wholesale prices are competitive. I do not believe that everybody has to be a wholesaler in order to be a successful retailer. But we hope that at least one of our banks can be successful in the wholesale business.

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**Q: In Europe, we have solved our currency problem by dismissing currency borders. During the Asian crisis, there was renewed interest in Asia for "currency boards". As we discussed with Joseph Yam in Hong Kong for this book, we had the feeling that some form of currency link-ups could develop in Asia, not on the euro model, but by linking currency boards when enough countries would have accepted to set them up. Are regional approaches to currency and financial stability something that Singapore actively explores, or are these still ideals for a more distant future?**

**Minister Yeo:** From time to time, we hear proposals for an Asian currency. If you study our trade patterns, you will see that we are not confined to Asia but linked in a million ways to the U.S. and to Europe as well. It is therefore not in our interest to be locked into a regional currency when trade with other regions is also very important. Furthermore, within Asia, the Chinese are not likely to accept the Japanese Yen as the Asian currency. One day, the Chinese Renminbi will also become a very important currency in keeping with the size of the Chinese economy. Better for us to diversify. Therefore, when the Euro was created, we were

happy that this gave us an additional opportunity for diversification. We are also in favor of the Yen playing a stronger role in Asia to reflect the relative size of the Japanese economy. But as to whether there will be an Asian currency, I doubt it.

Monetary policies vary from country to country depending on the way the economy is run and on the government's strength. Strong governments create strong currencies. Weak currencies reflect weak governments. This is nothing new: weak governments debase their currency in order to extract a tax from their citizens in an unsuspecting way. In Singapore, because of the openness of our economy, our policy is to keep inflation low and therefore to preserve the value of the Singapore dollar as a medium of exchange. We do not mess around with our currency to give ourselves a competitive advantage or inflate to favour debtors over creditors. During the Asian financial crisis, we did not devalue the Singapore dollar to maintain our international competitiveness. Instead, we persuaded everyone to accept a 15% wage cut. Because the government was trusted, this wage cut received widespread support. This trust is built upon a solemn compact between the government and the people, and requires us to help those disadvantaged by globalization. How do we achieve this? This is the art of politics in Singapore.

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