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### Navigating economic headwinds

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# Navigating economic headwinds

31 Aug 2022

*Temasek's CEO Dilhan Pillay Sandrasegara believes Southeast Asia will be a bright spot amidst global headwinds. Being a networked organisation could make all the difference*

In the sixth edition of its [e-Conomy Southeast Asia \(SEA\) Report](#) published in November 2021, Google, Temasek and Bain & Company projected the region's digital economy to grow to US\$360 billion by 2025, revised from an earlier estimate of US\$300 billion. By 2030, that number is expected to reach US\$1 trillion, propelled by "a fast-growing base of digital consumers and merchants, acceleration in e-commerce and food delivery".

"The numbers have always overshoot our predictions," says **Dilhan Pillay Sandrasegara**, Chief Executive Officer of Temasek Holdings. "If we continue to move at this momentum, Southeast Asia would be a bright spot for investors."

"The [main obstacle] is monetisation. One of the problems we have is that the financial infrastructure in Southeast Asia to support these businesses is weaker than the opportunities that we have, and the potential we can get from it. For example, how can stock exchanges support venture capital funded start-ups in the next phase of their journey?"

At a broader level, Pillay notes that "the thing holding back Southeast Asia is that we're not one big common economic market".

"If [things such as] connectivity and supply chains were harmonised, there would be a lot more value coming into the market. External investors looking into Southeast Asia would see a 3-trillion-dollar-plus market equivalent to India but with 650 million people instead of 1.4 billion people in India."

## THE BIG PICTURE

Pillay made those observations at a fireside chat during the recent SMU Asia Summit 2022 that was moderated by SMU Chairman Ho Kwon Ping. Southeast Asia has benefitted tremendously from the largely conflict-free period between 1990 to 2020 "where countries all over the world were uplifted because of a result of globalisation", Temasek's CEO points out.

Describing the last three decades as a historical aberration ("If you look at the 20th century, when have you seen a 30-year period of largely peace and prosperity?"), he warns that the geopolitical situation involving the U.S., China, and Russia will result in economic challenges.

"It's a more expensive transactional world, but it also lets countries put forth nationalistic policies to prevent the outflow of technology and other capabilities that they have which might not be available globally."

He adds: “Bifurcation or decoupling is part of geopolitical tensions, but the question is what extent of decoupling. Is it decoupling of technology where you get two standards in the world? A Chinese standard and a Western standard? Or a decoupling of the financial system, especially when you think about digital currencies?”

“Or is it decoupling of globalisation? It doesn’t mean deglobalisation, but we might be looking at future regional trading blocks that are connected.”

Rising nationalism, which became prominent during the pandemic, is one of the issues Pillay says Temasek had identified in its long-term big-picture outlook. Other issues include the social consequences of workforce displacement brought about by Industry 4.0, and the importance of cybersecurity.

But the most critical issue is climate change. Pillay elaborates:

*“The reason climate change management is important, beyond the ecological impact on humanity and so on, is the fact that it will affect the cost of capital of companies that will not be able to migrate, adapt, or transition. Banks are going to put a premium on credit spreads of such companies. Insurance companies are going to increase insurance premia especially when they’re concerned not just about stranded assets but stranded business models.”*

*“Ultimately, the asset owners or asset managers like Temasek will be looking to see what it means for its asset pricing models. In other words, what’s the cost of capital versus the return on risk?”*

## NETWORK FOR SUCCESS

For Temasek, which started life as a holding company for companies established by the government to contribute to the industrialisation of Singapore, it is about “continu[ing] to do well, [so that] as part of the Net Investment Returns framework of Singapore, the government is able to rely on Temasek’s returns to fund its programmes for Singapore and do well for the people of Singapore”, Pillay explains.

48 years after its creation, Temasek now has a portfolio of over S\$400 billion with 12 offices in eight countries. Pillay describes Temasek as “primarily a growth equity investor” while its subsidiaries serve different markets: Heliconia Capital provides growth equity for SMEs; Seatown Holdings is a multi-strategy investment manager; Fullerton Fund Management is an asset manager; Clifford Capital is a provider of project and infrastructure financing etc.

“If you create all these satellites, you can attract talent, especially those who are entrepreneurial and don’t want to be part of a mature organisation or what they perceive as a quasi-bureaucratic organisation,” muses Pillay. “Like Vertex Ventures, Temasek also invests in venture capital. Temasek also invests in growth equity like Pavilion Capital, Seatown and Heliconia [and] we’re prepared to be in competition with our own platforms. Ultimately the best entity should win, and that means one of our platforms is best able to address an opportunity, and therefore we haven’t lost out.”

Another benefit, perhaps a more important one, is the idea of a networked organisation.

“A wise person told me: Knowledge is good, ‘know how’ is better, ‘know who’ is best,” says Pillay, who previously chaired the Finance and Remuneration Committee at SMU. “Before my committee meeting, I would invite my predecessor who was on the committee for dinner, and I would go through the entire agenda with him because he was knowledgeable as a former president of a university. That way I would appear knowledgeable at the meeting the next day. So, ‘know-who’ is best.”

“I believe every successful organisation has to be a networked organisation. The reason why Temasek created all these investment entities is so that we can be a networked organisation and be able to leverage the intellectual capacities within the people we partner with.”

“If we can make sure that our generation creates a better networked organisation than my predecessor’s generation did for us, so we can create more value for the next generation, I think we would have done ok.”

*Dilhan Pillay Sandrasegara was the Guest-of-Honour and featured speaker at the SMU Asia Summit 2022 Summit Dinner Fireside Chat on 11 August 2022. SMU Chairman Ho Kwon Ping was the moderator.*