

REVISITING THE DRAGON: THE STATE OF SINGAPORE'S REGIONALIZATION INTO CHINA¹.

Wilfred HOW

Singapore Management University

Caroline YEOH, PhD

Lee Kong Chian School of Business

Singapore Management University

50 Stamford Road

Singapore 178899

Febby LASGON

Singapore Management University

Abstract

Many years on, with the main thrust of Singapore's internationalization efforts now pointed elsewhere, the current state of Singapore's state-enterprise network in previous main regions of interest, most notably ever-developing China, remains an area of interest for the purpose of evaluating the city-state's determined efforts to encapsulate economic space for its businesses on foreign soil – perhaps with lessons of relevance to the city-state's latest areas of focus, and certainly of relevance to efforts in the long-term. As a study related to our papers on this topic, we revisit the sprawling sub-continent and the operations of Singapore businesses located therein. Our results show that while the strategic advantages created in China now seem definite and relevant, endemic issues yet remain, and resources appear, for the moment, to not quite be in enough supply.

Key Words: Internationalization, Singapore's Non-Government-Linked Companies, China

Introduction

The cryptic city-state Singapore's meteoric economic development, achieved in spite of a lack of natural resources, was, in many ways, made possible by an ability to leverage global resources for economic growth. Its stratagem of expanding its foreign direct investments (FDIs) as a means to stimulate economic development is well documented and recognized (Huff, 1995; Murray and Pereira, 1995). It was evident by the early 1980s that outward direct investment played an inextricable role in engineering and strengthening the city-state's 'external economy'. In a bid to push the island's investment frontiers further, Singapore's economic planners developed an overseas direct investment program that was launched in 1988². This enterprise sought to provide the foundations for Singapore companies to form joint ventures with companies in North America and Western Europe, as that was seen a means to expedite access to new technology, or foreign markets.

Massive losses, however, were to be endured by the early 1990s as many of these investments proved fruitless (Sitathan, 2002). A shift in the internationalization gambit – towards regionalization – re-focused on opportunities within Asia. The justification stemmed from the liberalization of foreign investment controls occurring, at the time, in countries like China, Indonesia and Vietnam, and the promising growth rates these economies were achieving. (Tan, 1995; Okposin, 1999). Outward direct investments experienced a surge as Singapore-based firms, both local and foreign, took their investments to the region to ride on the wave of augmenting market opportunities there; Singapore's direct investment abroad rose more than two-fold within a five-year time frame from S\$7.5 billion in 1990 to S\$25.1 billion in 1995. It grew further from S\$98.2 billion in 2000 to S\$359.3 billion in 2009 (Singapore Department of Statistics, *various years*).

1 The research assistance of Sharmaine NEO is gratefully acknowledged.

2 The main ideas were set out in the policy document, Gearing Up for an Enhanced Role in the Global Economy (SEDB, 1988). The 1990 Global Strategies Conference added new dimensions to these deliberations (SEDB, 1990).

Singapore's continued tenacious efforts in delivering its internationalization blueprint, through numerous state-engineered projects, are designed to encapsulate economic space for Singapore-based companies to embark on a foray into the region and beyond. Managing strategic co-operations and engaging with private or semi-private enterprises are platforms that reflect the city-state's strategic intent to remain economically competitive globally to, as of this date, at least some observed success (Yeoh et al, 2006; How & Yeoh, 2007). In recent years, however, the city-state's aims have expanded, arguably, from regionalization to internationalization, with the region of interest *du jour* being the booming Middle East, utilizing strategies that, as discussed in some of our series of papers on said region, while ostensibly different, bear all too marked similarities to methods used in China, Vietnam, and other areas of regionalization. Thus, for a more holistic assessment of the city-state's regionalization and internationalization methods, it behooves us to once more study the state of Singapore regionalization into such previously explored regions; this paper therefore returns to China for another look at Singapore companies, several years on.

To provide context to this paper, the theoretical considerations are set out in the next section. This is followed by an analysis of empirical data from in-depth interviews conducted with various Singapore companies across a variety of industries and demographics operating in China. The final section considers the implications of these findings for Singapore's continuing operations in China, and for the city-state's overarching methodologies in harnessing synergistic complementarities in the international marketplace.

THEORETICAL CONSIDERATIONS

Established theories (and frameworks) are not without critical literature, which challenges, confirms and extends these theories. Vernon's product life-cycle theory, and Porter's 'diamond' of competitive advantage are widely used to explain international business phenomena; both have been subject to criticism and extensions (Rugman & Verbeke, 1993).

Dunning's eclectic paradigm is widely acknowledged in the research and teaching of international business. The paradigm is an all-encompassing framework, which proffers that firms need to have ownership, location, and internalization advantages (OLI) in order to cross borders and engage in foreign direct investment. In the same vein, the eclectic paradigm has also been challenged (Itaki, 1991; Cantwell & Narula, 2003; Rugman, 2010). Dunning himself acknowledged the limitations of the OLI framework, incorporated refinements to account for different and often competing theories such as transaction costs economics and the resource-based view of the firm, incorporated changes (Dunning 1987, 1998, 2001), and promulgated several extensions over time to encompass issues of globalization, regionalism and international competitiveness (Dunning & Narula, 1996; Dunning & Lundan, 2008).

This paper draws upon Dunning's more recent writings on the relationship between the competitive advantages of international firms, and the contribution of cross-border strategic alliances to economic development; and, *pari passu*, the implications for national governments as they seek to influence the nature and extent of the business-government nexus encapsulated in Dunning's (1995, 1997) alliance capitalism.

The Singapore government has a dominant role as a stakeholder, a facilitator and a partner to domestic enterprises seeking investments abroad. The state embarks on fostering trusted regional networks identical to those within its domestic market, whereby interlocking interests, the intimate sharing of ideas and commonality of values, crystallize a macroscopic system of cooperative competition. This is especially relevant for Singapore, which, by reason of its small size, operates through interlocking directorships in government-linked companies (GLCs); this has facilitated the implementation of strategic initiatives, at a national level, with minimal conflict of interests. Theoretically, the 'vested interests' within the interlinked collaborative system serve to expedite processes, garner exclusive incentives, and negate inept bureaucracy (Yeoh et al, 2004).

The application of these theories to Singapore's regionalization into China has been well-explored in previous literature; Singaporean efforts to support its companies moving into the China market (most notably through the Suzhou Industrial Park) represent collaborative efforts by the Singapore and respective local governments to create location-bound advantages through a propitious combination of Singapore's systemic and operational efficiencies as well as technological competencies of Singaporean companies, government-linked or otherwise, to locations where these attributes are less distinct i.e. supplementing natural location-specific advantages with engineered ones crafted to complement the economic diversification efforts in the host locations.

To paraphrase Dunning's OLI theorem, these 'projects' represented an attempt by both collaborating governments, through government-linked entities and others, to create location-based advantages, while both concurrently sought to extract organization-based advantages for themselves from the same projects.

CASE STUDIES

Company A – Property Development, Government-Linked Company (GLC)

A derivative company of a Singapore statutory board, Company A, as a result of its origins, brings with it a wealth of experience in housing construction and urban planning, specifically in township development. The company has also since added to its portfolio various services associated with property development, including land survey and contract management services. This added range of services allows Company A to, in Singapore and other areas, construct and manage integrated townships, which include schools, commercial buildings, and other required constructions for a self-sufficient township; a concept which the company attempted to introduce to China in 2003 through a large-scale integrated township project in Chengdu to cover some 8,000 homes; with the initial proposal and negotiations, all too familiarly, carried by high-ranking politicians from both countries.

Despite this demonstrable political patronage, however, no particular regulatory exceptions appear to have been in evidence; instead, in an effort to work around restrictions placed on foreign construction firms, as well as regulatory uncertainties caused by (at the time) ongoing changes to better comply with WTO guidelines, Company A chose to enter into the project via a China-listed joint venture company, in which it held a majority stake, just over the 50% threshold. As can be expected, one of the partners in the joint venture was a local firm based in Chengdu, able to provide the usual expertise with the local business environment; less typically, another Singapore GLC was brought into the picture as another partner to the joint venture, ostensibly for greater diversification of risk; an understandable measure, given the relatively small size of the local partner which held only some 5% of the ownership of the joint venture. Despite this seeming unbalance in ownership, little acrimony appears to have arisen – pointing, perhaps, to a heavily results-oriented viewpoint on the part of the local partners. This observation appears to be supported by the surprising lack of conflict over several by-now ubiquitous Singapore business practices; among them Company A's insistence on control over the appointment of personnel to particular key positions in the joint venture company, a process ostensibly controlled by the joint venture partners as a whole.

Technical challenges to the project, interestingly, proved relatively easily overcome. Previously developed townships in Singapore were a simple matter to manage, with the country being the company's home base, and therefore home to the company's technological arm, on which falls the monitoring of operations and provision of various technological solutions for aforementioned townships. (The small size of the city-state, needless to say, also helps in this regard.) This, however, required a level of infrastructure that was judged to be too costly to construct in Chengdu, especially with an eye forward to future township projects in other, decidedly distant sections of China. The solution arrived at was as simple as outsourcing management and systems for the project to a local consultancy group, one with both the necessary technological expertise and a long and proven track record in the China market.

Again, despite some disparity in management styles regarding workers on-site, no major issues arose. Issues encountered in design and construction proved slightly more troublesome, but ultimately nothing insurmountable; differences in design philosophy between Singapore and China (the perceived lack of a need for additional wiring, for instance, or for an indoor garbage disposal unit) were duly acknowledged, the designs modified, and noted for future projects, whereas China's pool of relatively cheap labor made prefabrication of apartment components a less cost-effective process, and a more labor-intensive process was instead adopted. Some degree of disconnect with local market conditions persists, given anecdotes on minor struggles with initial sales pricing on units in the Chengdu development; nothing major enough to be a true problem, however, has yet manifested. At the current time, indeed, Company A appears to be doing quite well for itself indeed.

The most significant challenge for Company A thus far is, indeed, a long-term issue; the fact that, with China's steamroller pace of expansion, and the resulting seemingly unlimited demand for housing and infrastructure, the company faces an ever-growing pool of competitors, both local and international, gaining repute and market share at easily comparable rates to Company A, which, like many Singapore GLCs, appears to suffer from resource limitations when making the jump from Singapore-scaled projects to larger international ones.

Initial successes in Chengdu led to three additional projects in other parts of China – however, the company has not entered into any new township projects for several years now, perhaps signaling the aforementioned limitations. In terms of establishing itself among these rising competitors, at least, Company A appears to yet have few issues; while the Chengdu development, in particular, required a good deal of promotion to attract the target middle-income clientele, strategic partnerships with reputed local corporations, together with the expected government endorsements from Singapore officials, appeared to serve well enough. Given the knowledge-based product Company A's 'integrated townships' represent, however, too much of a delay may prove sufficient lag time for competitors to replicate similar developments, diluting Company A's product differentiation. How much of an issue this will prove to be – as well as if certain continuing disparities in viewpoints and business practices will cause complications in later years – is, for the moment, a matter of complete speculation.

Company B – Utilities and Water Treatment, Government-Linked Company (GLC)

The industry leader for energy and water services in Singapore, Company B is also a global service provider, with operations in countries across the world, including the United Kingdom and the Middle East – no stranger, it would seem, to foreign locales and cultures. Besides its experience as a global utilities provider, Company B leans heavily on technological and technical factors to maintain a competitive edge; its waste water treatment processes, for instance, utilize cutting-edge technologies, with a highly active research & development department in constant partnership with research institutions to maintain said technological advantage. On the technical side, Company B is a specialist in the 'comprehensive water treatment solution' (evocative of the all-too-familiar Singapore one-stop-solution design philosophy), taking on the roles of developer, owner, and operator of the waste water treatment facilities under its ambit – theoretically increasing efficiency while reducing costs associated with transactions and other inter-company interactions. The company effectively transplants the selfsame system used in its Singapore plants to countries across the globe.

The company's 2003 entry into the Nanjing area of China was to be another application of this same strategy, and experienced a confluence of several favorable conditions. The treatment plant's main client was to be a local industrial park engaged in chemical/petrochemical production on an international scale, with the potential for long-term increase in demand; similarly, at the time of entry, the Chinese government had begun to place more emphasis on curbing pollution levels, threatening suspension to local manufacturers unable to meet waste water regulations within a set time frame, while simultaneously offering various incentives, including reduced tax rates and preferential policies, to encourage investment among both foreign and local companies into waste water management. These being generally favorable conditions as opposed to exclusive ones, however, Company B faced significant competition for the bid from various competitors. While the company arguably won the bid on the strength of its brand and technological edge, some elements of political patronage were evident in the process, with support from a prominent local official impressed with the company's Singapore facilities, signaling, again, the rather tangible benefits of the government connection.

Company B's chosen vehicle of entry was to be, again, a joint venture company; similar to Company A, another Singapore GLC was chosen to be a party to the joint venture, and Company B itself held a controlling 55% ownership of the company; a stake which it notably increased to some 75% within half a year. A highly typical methodology for Company B (observable in the company's other foreign operations, and therefore pointing infinitesimally towards a greater pattern of such among Singapore GLCs), the involvement of the client industrial park's corporate arm as one of the two local partner companies represented a rather closer alignment of interests than generally could be expected. The local partners were to, typical of such arrangements, provide familiarity with local operations, market conditions, and regulations, as well as their local corporate relationship networks; the involvement of the industrial park itself as a partner added an information advantage, with knowledge of incumbent companies in the industrial park and the state and timing of their operations.

Even amongst this wide array of happily advantageous conditions, however, a number of long-term challenges surface. One of these challenges, unsurprisingly, is the intense competition from other companies (both local and international) attempting to capitalize on China's seemingly bottomless demand, and in this case also take advantage of favorable regulatory conditions. At the same time, the long lag time between the construction of a plant and said plant's profitability (due to the need to set up said plants ahead of most of the industries they are meant to support) creates a hard limit to the possible rate of expansion a company can undergo; especially so for Company B, which takes on multiple roles with regards to plant construction and operation.

The other major challenge lies, interestingly, in personnel issues; the company reveals issues with retaining talented personnel, due to strong growth and promising career prospects in the region – a concern in and of itself, given the need for talented personnel to oversee integrated operations such as Company B sustains, but also exacerbating the possibility of technological leaks, an issue the company itself expresses concern about. At the current time Company B is arguably doing quite well indeed, with 12 facilities across China providing water services and waste water treatment, and with none either willing or able to emulate the company's integrated development and operation model; given the infrastructural costs involved in replacing such facilities, stability, at least, appears as if it will not be an issue.

Company C: Water Treatment, Non-Government Linked Company

A private Singapore-listed company with over 20 years of experience, Company C is another company in the water management and environmental solutions industry, with a specific focus on water treatment through the use of the company's proprietary technologies in water filtering membranes. Company C is a long-time entrant in China, having first expanded into the country in 1994, prior even to the company's public listing, and is now highly experienced in China and a well-established name in the sub-continent's water treatment industry.

Company C's entry into China may be attributed to almost prescient foresight; at the company's time of entry, the water treatment industry in China was all but nonexistent, allowing the company, even as a small-scale entrant, to establish connections and working relations (the eponymous *guanxi*) as a first mover, helping the company to build a proven track record and reputation in China, both in the construction of plants, and as a technology provider. It is worth noting that in the company's early years, recognizing the role of the aforementioned *guanxi* in business in China, Company C's leadership hired former government officials as senior advisors; this hiring practice in China continues to the current day, with management personnel including many individuals with a background in the local government, and who retain their extensive government contacts. In the same vein, regulatory hurdles were overcome or outright dodged with help from the expertise of these ex-government advisors and managers, and through the establishment of good relations with municipal governments. Company C also appears to have made little use of the kind of government endorsement from Singapore than GLCs, and even some non-GLCs have leveraged on; the company's brand name focus is heavily corporate in nature as opposed to containing political elements, and even in joint ventures Company C tends to choose, interestingly enough, foreign companies as partners, as opposed to the expected local companies, or fellow Singapore companies, as both Companies A and B did. Company C, it appears, has no real intention to lean on the Singapore connection.

As the China market continues its rapid expansion, however, the strain of maintaining an edge over the competition is arguably beginning to show, arising from issues both old and new, endemic and introduced. Company C has had issues with financing their projects in China dating from their very entry, when the industry was new, and when local banks and other financial institutions proved either wary of or simply unwilling to understand the project-based build-own-operate/transfer financing approach taken by the company. While the former is no longer an issue, the latter continues to be a problem, with growing understanding among local financial institutions and additional funding from Singapore-based investors easily offset by the costs of the expansion of operations and of research & development. Arguably, this problem has been exacerbated by the diversion of funds towards diversification efforts into a variety of related and unrelated industries, including manufacturing and used oil recovery – to say nothing of the company's expansion efforts into other areas of the world, most notably the Middle East. Financing issues, in fact, contributed to the delay of a flagship project meant to be completed by 2007 by two years, to 2009; a delay caused partially by the financing problems themselves, and partially by a delay in site reviews by the regional government, apparently due to unfamiliarity and uneasiness with the build-own-operate/transfer business model.

The familiar problem of rising competition, too, plagues Company C, especially with (as mentioned in relation to Company B) government efforts to encourage local and foreign investment into the water treatment industry; although with Company C, the greatest challenge arises from other major world players with comparable or lower operating margins jostling for lucrative government contracts. Finally, even with the company's good reputation and years in the China market, the personnel issues seemingly so endemic to these Singapore companies make themselves known as well; the company's engineers in particular are apparently prone to leaving the company, in one anecdotal case to set up a competing company with the knowledge and experience gained from Company C.

This, too, adds further to the familiar risk of leaks of the proprietary technology which the company does, in fact, rely upon to some extent. For Company C, it seems, the corporate demand for growth may perhaps be causing undue stress at the base of its China operations.

Insights, Issues & Challenges

Our revisiting of Singapore companies in China reveals several observable trends, some heartening, some disturbing. The case studies point towards the generally favorable performance of Singapore companies as a whole in China, and help to identify several of the factors which facilitate this continued favorable performance; the technological and technical edge of Singapore companies, for one, the strength of the reputations and internationally-established brand names of tested Singapore companies; and, in the case of Singapore GLCs, the intangible and not-so-intangible benefits of the Singapore connection, factors which have been previously recognized and leveraged upon, and which, heretofore, have proven difficult to emulate for competing corporations. This seems to point, to a certain extent, to the continuing relevance of certain Singapore-styled methods and business practices, even in the modern China business environment – it is noted, however, that Company C, a non-GLC, has made arguably rather better use of networking and *guanxi* than the GLCs, with their need to uphold certain standards due to the Singapore government connection, have been shown to be willing to. Another caveat exists, though, in that signs are evident across all three case studies of a disconnect in viewpoints between local partners and governments over said Singapore-styled business practices; in the first two cases, this has yet to cause any problems, but Company C has indeed encountered issues with local governments and banks over its company-specific business model. While it would perhaps be wise, then, to consider lessons from Singapore's experience with the Suzhou Industrial Park, this is also, undoubtedly, not a major issue at this time, nor looking to become a major issue any time soon.

A more pressing and worrying trend reveals itself in the common problems going forward faced, again, by all three companies. All three companies identified issues with the retention of personnel, which, from anecdotal evidence, appears to arise from both the existence of greater opportunities as an effect of China's rapid progress, and from some degree of dissatisfaction with their current positions – arguably a sign of the endemic weaknesses in relationship management among Singapore companies identified in our previous papers, but on a rather more micro scale than previously observed; which, in its own way, can be taken as a good sign. Conversant to these personnel issues, then, is the larger, and perhaps main, challenge facing these Singapore companies; with all three companies stating strained resources for future expansion into the region. While certainly larger in scale than Singapore developments, projects in China are certainly not of the staggering scale encountered in, say, the Middle East; and should arguably be more than manageable for such internationally experienced companies.

This then, perhaps, points to the lack of resources (funding, staffing, or otherwise) to be symptomatic of a more macro-level issue, perhaps most evident from Company C, with its diversification efforts combined with its expansion efforts in India and the Middle East – the dilution of resources, devoted to too many expansion initiatives, in too many places, at the same time. While not by itself, perhaps, a critical issue, the possible snowball effect in the long-term is quite dangerous indeed – a technological edge, after all, requires a constant effort in (and commitment of funding to) research & development to maintain, and is especially a concern in China, where technical and technological knowledge is learned, reverse-engineered, or otherwise acquired rather rapidly indeed (a problem, arguably, exacerbated by aforementioned personnel retention issues). Given the as yet bottomless potential of the China market, perhaps a certain reallocation of resources may be on the cards.

CONCLUSION

Our previous research into Singapore's regionalization efforts in China revealed the existence of myriad complications posed to Singapore businesses, revolving largely around the socio-political dimension, as hinted at in the works of Dunning and other scholars, but not fully explored in the context of the influence of these socio-political nuances that radiate from, and on the business derived thereof, within the borders of the host environments. With this paper, we hope to provide a fresh and up-to-date look at the performance of Singapore in China, and extrapolate observations and possible lessons for both companies looking towards China, and for regionalization and internationalization efforts as a whole.

While, from the above findings, there definitely remain uncertainties linked to the socio-political dimension, Singapore businesses in general appear to have made at least some efforts towards ameliorating cultural differences and the attendant complications, putting the lessons of past experience to good use.

Instead, our renewed look at the region reveals a generally positive performance that now faces a the challenge going forward of maintaining said positive performance – a challenge liable to, in reflection of the juggernaut the China market represents, require an ever-expanding pool of resources to meet and overcome resources which, from the empirical evidence, many Singapore companies may not be able to afford to devote, thanks, arguably, to the devotion of said resources to other regions as part of their (and, on a larger scale, the city-state's) regionalization and internationalization efforts. Perhaps, as stated above, some measure of resource reallocation may be in order; a human has but ten fingers, after all, and only so many pies one can stick them in.

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