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Exporting Expertise: The Singapore Experience in Vietnam

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Exporting Expertise: The Singapore Experience in Vietnam

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ABSTRACT

Infrastructure can be unreliable and administration subject to corruption in Asia's rapidly emerging economies. This context presented Singapore with unique opportunities to export its 'positive reputation' to locations where these attributes are less certain. The strategic initiative is premised on the perception that Singapore's good relations with multinationals, as well as 'guanxi', or connections, with Asian business networks, will give the industrial-township projects a marketing advantage. To complement the extensive literature on Singapore's flagship projects in Indonesia and China, this paper takes a closer look at Singapore's lesser-known project in Vietnam. Evidence from on-site surveys is presented. It finds that progress in this privileged foreign investment zone remains stymied by particular dependencies and challenges.

INTRODUCTION

Singapore's regionalization strategy comprised state-led infrastructure projects, and a range of incentives and regulatory innovations designed to assist private companies and individuals move overseas. The program involved the establishment of industrial townships to create a 'Singapore-styled' business environment for local and Singapore-based multinational companies (MNCs) to expand regionally. The Singapore government, in this instance, takes the initiative to develop regional sites as locations to access resources and markets. This strategic manoeuvre is premised on the perception that the redistribution of economic activities to regional industrial sites will enhance the collective competitiveness of Singapore-based companies that redistribute their resource-dependent operations to these sites, as well as Singapore's own competitiveness as a high-value investment location with strategic linkages to the region. Singapore's regionalization program is intended to set in place a strategic configuration for Singapore to concentrate on higher value-added activities, and yet retain important linkages with production centres in low-cost environments. Concurrently, Singapore lends its competitive strengths, in industrial infrastructural

development and management, to these regional sites to enhance their competitiveness.

Private sector reluctance in regionalizing was the Government's *raison d'être* that Singapore's government linked companies (GLCs) should lead the regionalization drive. The Government's role in the township developments was three-pronged. First, senior politicians and civil servants negotiated the institutional framework for the project, which typically involved garnering special investment conditions in the host location. Second, Singapore government agencies and GLCs were the prime investors in the infrastructure and real estate development, usually via a 'government-selected' consortium. The prominence of government agencies and government-linked companies reflected the scale and long pay-back periods for infrastructure, which may make the investment unattractive to private companies alone. The third role played by the state was in the marketing and promotion of the parks.

VIETNAM-SINGAPORE INDUSTRIAL PARK

VSIP is Singapore's flagship investment in Vietnam. The park follows the physical design of Singapore's first overseas industrial township, Batamindo Industrial Park (BIP). However, the motivation for the VSIP project was more diffused. In the Indonesia scenario, the primary objective had been to synergise the complementarities of neighbouring economies and to promote the restructuring of the Singapore economy [4] [6]. Conversely, the VSIP project was based on the perception that Singapore agencies have the competitive edge in infrastructure development and, like the Suzhou-Wuxi 'experiments' in China, had a pseudo-economic objective to demonstrate the transferability of the BIP-prototype to other Asian environments [7] [9].

Prior to the launch of VSIP in May 1995, a total of 13 international companies with investments worth US\$80 million reportedly indicated their interest in the Park. VSIP had, by November 1998, attracted US\$370 million in investments and 30 investors from 10 different countries investing in a broad swathe of industries, viz, food, electrical and electronics,

pharmaceuticals and healthcare, speciality materials, consumer goods and light industries. Cumulative investment commitments topped US\$400 million from 33 companies in 1999. Investor interest has since tapered off, with immediate prospects for growth focused on the possible expansion of the initial investors. Investment commitments in VSIP are currently valued at over US\$500 million from 64 tenants, 53 of which are in operation. VSIP has yet to post a profit.

EMPIRICAL FINDINGS

Much analysis on the Parks has relied primarily on secondary data from official publications, press reports, etc. To obtain primary data on the differential impact of various pull factors on firms' investment decisions, along with the differential impact of different types of constraints on their operations, we applied the questionnaire developed in Yeoh, et al [8] and surveyed the tenants in three of Singapore's overseas industrial parks. This section presents the detailed findings of our fieldwork, with an evaluation of the applicability of related economic theory.

Questionnaire Survey

The eclectic paradigm, suggested by Dunning [1] was used to explain the ability and willingness of firms to serve markets, and to look into the reasons for their choice of exploiting this advantage through foreign production rather than domestic production, exports or portfolio resource flows through the interaction of Ownership-specific advantages, Internalization-incentive advantages, and Location-specific advantages. Foreign investment will occur only if it is advantageous to combine spatially transferable intermediate products produced in the home country, with at least some immobile factor endowments or other intermediate products in another country [2]. This theory has been extended, in more recent literature, to deliberations on the presence of immobile clusters of complementary value-added activities [5], and the transactional benefits of spatial proximity [3]. Using this approach, it is not difficult to see that numerous firms in VSIP already possessed a significant amount of Ownership-specific and Internalization-incentive advantages. Even so, they must also enjoy Location-specific advantages to reasonably justify a decision to engage in FDI into Vietnam. Vietnam offers these firms the final essential ingredient of Location-specific advantages, spurring these firms to engage in foreign direct investment in the country.

The questionnaire was designed as a comparative study with two other industrial parks to investigate the various factors influencing firms' investment decisions along with the problems faced by their operations. The survey focused on three main areas. Firstly, the basic profile of the respondent: type of ownership, nature of operations, number of employees, sales turnover and its market orientation. Secondly, the factors that

attracted the respondents to invest in the park. Data on various constraints were gathered in the third section.

Questionnaire surveys were conducted in Indonesia, Vietnam, and India, from December 2002 to June 2003. A total of 83 responses were collected from industrial park tenants. Of these, 27 were located in Batamindo Industrial Park (BIP) in Indonesia, 23 were located in VSIP in Vietnam, and the remaining 33 were located in International Technology Park Limited (ITPL) in Bangalore, India.

Apart from analyzing the descriptive statistics and popular rankings on the responses relating to factors and constraints, the logit model was applied to compare the push/pull factors influencing the tenants' decision to locate in the Parks and the constraints faced by the Parks. The logit model, estimated by the maximum likelihood, takes the following form:

$$P_i = \frac{e^{Z_i}}{1 + e^{Z_i}} \quad (1)$$

Where:

P_i = probability of firm being located in the particular park

Z_i is a linear function of the push/pull factors defined as

$$Z_i = \alpha_0 + \sum_{i=1}^{i=6} \alpha_i F_i \quad (2)$$

Where:

F_i (1 to 6, depending on the type of push/pull factor) = 1 if factor i is selected, 0 otherwise

α_0 = constant term

α_i = coefficient of independent (explanatory) variable

A similar logit model was applied to the constraints faced by the parks' tenants:

$$P_i = \frac{e^{Z_i}}{1 + e^{Z_i}} \quad (3)$$

Where:

P_i is the probability of firm being located in the particular park

Z_i is a linear function of the constraints defined as

$$Z_i = \beta_0 + \sum_{i=1}^{i=n} \beta_i C_i \quad (4)$$

Where:

C_i (1 to n, depending on the type of constraint) = 1 if constraint i is selected, 0 otherwise

β_0 = constant term

β_i = coefficient of independent (explanatory) variable

Factors Influencing the Respondents' Decision to Invest in VSIP

Singapore leverages on its infrastructure development expertise and the low-cost labor available in the host environments to market its industrial parks. It supplements these purported advantages with its political commitment to the Parks, as demonstrated by the many bilateral agreements between the GLCs and host governments or politically-linked business conglomerates. Furthermore, there is a host of investment incentives that entice multinationals to locate their lower value-added activities in these self-contained enclaves.

Using the method of popular ranking, the most frequently cited factor for locating in VSIP, as presented in Table 1, was the infrastructure facilities. Singapore appears to have succeeded in exporting its 'expertise' in infrastructure development and creating a Location-advantage which is clearly in demand by companies in the South East Asian region.

Political commitment from the Singapore government is not a concern for VSIP firms, with only 3 respondents citing it as an affirmative pull factor, and as indicated by a negative and significant α_1 ($=-1.602$), a surprising statistic given the country's instability. Vietnam had many military conflicts with nearly all her neighbours, and prior to that, had gained her independence after the Vietnam War with the United States. Despite the *doi moi* policy, the government still retains tight control over the economy, and dictates the nature of FDIs into the country. This new evidence suggests that companies which invest in Vietnam are more concerned with the operational conditions in VSIP such as the reliable Singapore-styled infrastructure facilities than with the Singapore government's commitment to the success of the Park.

TABLE 1: Factors Influencing the Respondents' Decisions to Invest in VSIP (by Popular Rankings and Maximum Likelihood Estimates - Binary Logit 2-tailed tests)

Variables	Frequency	α_i
Political commitment from the S'pore government	3	-1.602**
Political commitment from the host government	7	-0.706
Investment incentives	12	-0.095
Competitive labor costs	11	0.882
Reliable infrastructure facilities	16	-0.309
Availability of skilled/educated labor	6	0.720

Note: * Significant at 1% level

** Significant at 5% level

Source: Questionnaire survey

Major Constraints on the Respondents' Operations in VSIP

Although VSIP had successfully attracted a significant amount of FDI, there exist some factors that act to

undermine the attractiveness of the industrial park. These constraints are categorized into three broad groups, namely, those relating to labor, those relating to organization and technology, and those relating to the economic 'environment', such as government policies and regulations.

Unlike BIP, VSIP tenants are not as concerned about labor costs, as indicated by the negative and significant β_3 ($=-3.658$) in Table 2. Instead, many VSIP tenants surveyed (74%) cited shortage of professionals and managers as a labor constraint, further substantiated by our logistic regression model where β_2 ($=2.462$) is positive and significant. Another frequently cited labor constraints was the shortage of semi-skilled or skilled labor (52%), a clue that VSTTC graduates may not be equipped with the relevant skill-sets sought by tenants.

The Singapore-styled infrastructure, though reliable and efficient, also proved to be costly in BIP and ITPL, as facilities such as the power plant, waste-treatment system and water supply are independently managed. However, the costs of maintaining the infrastructure appears to be well-managed in VSIP, as indicated by the negative and highly significant β_5 ($=-2.466$).

TABLE 2: Major Constraints on the Respondents' Operations in VSIP (by Popular Rankings and Maximum Likelihood Estimates - Binary Logit 2-tailed tests)

Variables	Frequency	β_i
<u>Labor constraints</u>		
Shortage of semi-skilled and skilled labor	12	-0.119
Shortage of professionals and managers	17	2.462*
Rising labor costs	1	-3.658*
Others	4	-0.673
<u>Organizational and Technological constraints</u>		
Difficulty in obtaining capital equipment	6	0.925
Difficulty in introducing new technology and techniques	5	-0.293
Lack of good supporting services	5	-0.874
Difficulty in securing funds for expansion	2	-1.013
High and/or rising overhead costs	5	-2.466*
Others	5	-0.192
<u>Environmental constraints</u>		
Impact of host government regulations	11	-0.485
Competition from overseas industry competitors	11	0.104
Others	7	0.846

Note: * Significant at 1% level

** Significant at 5% level

Source: Questionnaire survey

CONCLUSION

The strategic alliances between Singapore's GLCs and its counterparts in the regional sites, were instrumental in mobilizing the resources to complete these multi-million projects. Nonetheless, as most openly admitted, the enormous tangible (and intangible) resources mobilized through the strategic partnerships, have 'failed' to shield these projects from a gamut of problems.

Heightened competition

Singapore's overseas industrial parks are increasingly facing strong mounting competition from competing parks within their vicinity. VSIP's attractiveness has been eroded by competition from newer, albeit smaller, industrial parks developed by experienced and street-savvy developers from Japan, Korea and Taiwan. These competitor parks market themselves aggressively on price, charging significantly lower rentals for 'no frills' land space. The economics of heightened competition have called into question the premium attached to the 'superior infrastructure' in low-cost industrial-investment enclaves like VSIP. As well, the Park was launched at the same time as Singapore's other flagship projects in China. VSIP struggles to maintain investor interest. The Park has yet to prove its economic feasibility vis-à-vis other regional sites, notably like China and India, and the added attractions of their large domestic markets.

Political 'Patronage'

Reliance on political patronage (and personal ties) rather than transparent contracts has had advantages and disadvantages. In VSIP, the 'special' support from the local authorities has proved to be less significant than initially thought. Improvements on infrastructural projects have translated into a plethora of miscellaneous fees, and added to operating costs. Corruption remains endemic. Anecdotal evidence suggests that, while there is an interest in learning from Singapore, tensions have arisen over Singapore-styled management practices, and these have translated into perception differences, protracted conflicts and project delays. Local sentiments towards the Singapore partners were not unlike those expressed in the Suzhou-Wuxi experience in China, albeit to a different degree. It is not inconceivable that the ownership-management structure of VSIP may, in time, be restructured to reflect a 'better alignment of interests'.

The Singapore government's role in developing, managing and operating the overseas industrial parks has been crucial from the start. However, initial assumptions about the advantages engendered by

state-led enterprise, as successfully proven through its GLC network domestically, were overly optimistic. Differing agendas, sometimes within the same host government, intertwined with the cultural and political complexities of emerging economies and the uncontrolled external environment, serve to diminish the efficiency and commercial viability of the case study park. The limits of cloning Singapore-styled 'industrial-townships', beyond demarcated geographical boundaries, have been alluded to in this paper.

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