

THE SINGAPORE ENTREPRENEURIAL STATE IN CHINA
A SOCIOLOGICAL STUDY OF THE SUZHOU INDUSTRIAL PARK (1992-1999)

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ABSTRACT

This study examines the Singapore government's Suzhou Industrial Park project between 1992 and 1999. It argues that the Singapore governments' strategies can be explained as those of a 'transnational entrepreneurial state' participating in the global game of industrial production. As an interventionist government, it sought to realize financial profits in China to supplement economic growth in Singapore. The project involved two strategies designed to enhance the project's competitive advantages. Firstly, it introduced the competitive strategy to supply high quality secondary factors of production—such as industrial infrastructure and bureaucratic administration—to industrial transnational corporations seeking to locate in China. Secondly, it utilized the collaborative strategy to encourage complementary collaboration with the China government and several industrial transnational corporations. During the Construction Phase (1992-1994), both strategies were successfully implemented, enhancing the competitiveness of the Suzhou Industrial Park. During the Take-Off Phase (1994-1996), many industrial transnational corporations had responded positively to these competitive advantages and chose to locate their operations at the Suzhou Industrial Park. During the Adjustment Phase (1997-1998), the Suzhou Industrial Park lost competitiveness because of external factors such as the impact of the Asian Financial Crisis and also because of intense competition from other industrial estates in China. In the Disengagement Phase (1999), the Singapore transnational entrepreneurial state chose to withdraw from the project for economic and political reasons. This study concludes that the Singapore government differed from the archetypal interventionist state because of endogenous and exogenous factors. It became a transnational entrepreneurial state because by its resources and motivations, and its own assessment of its economic and political conditions. This study also found that the outcome of its strategies were not just dependent on how they were implemented but also on the actions of other agents, including collaborators and competitors, and the influence of the external environment.

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CHAPTER ONE

STATE STRATEGIES IN THE GLOBAL ECONOMY

1.1 RESEARCH PROBLEM

INTRODUCTION

This study explores a central issue within the sociology of development: the role of the state as an agent of economic growth. More specifically, this study is interested in the effectiveness of state intervention to stimulate economic growth (Henderson and Appelbaum 1992: 3). Such intervention can be understood as development strategies, which can be defined as sets of government policies that shape a country's relationship to the global economy and that affect the domestic allocation of resources among industries and major social groups (Gereffi 1990: 23). The experiences of the 'Developmental States' of Asia have demonstrated that intervention—especially state fostering of indigenous enterprises—has made particular local industries highly competitive in a global context, and subsequently brought about rapid industrialization and subsequently economic growth (Woo-Cumings 1999: 2). However, state intervention can take many other forms. For example, a government could encourage local enterprises to invest overseas through offering attractive subsidies, hoping that profits earned abroad might supplement the domestic economy (Kojima 1978). Other states have intervened in their economies to create competitive conditions that would attract foreign direct investment as their main strategy for growth¹ (Lall 1996: 49). Yet, regardless of the forms, the objectives of all development strategies are necessarily geared towards achieving competitiveness in the global economy. This usually takes the form of a state's defensive measures against rapid economic globalization or offensive measures to take advantage of new opportunities, or a combination of both (Gereffi 1990, and Henderson and Appelbaum 1992).

However, although state interventionist development strategies are globally oriented, most of the actual interventions are local. Against this

backdrop, the Singapore government's development strategy from the beginning of the 1990s differs from the model significantly. Its 'regionalization' programme was designed to intervene in the regional Asia-Pacific rather than local economy to generate profits that would supplement its own domestic economy (see Wong and Ng 1997). In other words, the Singapore government's development strategy for encouraging or maintaining economic growth for Singapore was geographically situated within other countries, such as China, India, Malaysia, Indonesia, and Thailand. What were the conditions and motivations for the Singapore government to opt for this particular strategy? How was this strategy ultimately executed, and what were the outcomes of the regionalization programme? From a theoretical perspective, what does the case of the Singapore government's regionalization programme contribute to the existing sociological models of state intervention?

In order to address these questions, this study proposes that the concept of the 'transnational entrepreneurial state' can be utilized to explain the actions, interactions and transactions of the Singapore government in the regional economy. This is because its profit-seeking motivations resembled the strategies of one type of interventionist state: the 'entrepreneurial state.' (Eisinger 1988, and Yu 1997) In addition, as implied, the Singapore government was transnational rather than local in orientation. This study will focus on the China-Singapore Suzhou Industrial Park (CS-SIP) project between 1992 and 1999. Although the strategies involved several different thrusts, the Suzhou project provided an exemplary case because it was the largest, most expensive and most politically significant sub-programme within the Singapore government's regionalization programme². Indeed, many leaders of the Singapore government described the Suzhou Industrial Park as the country's 'flagship' project.

THE SUZHOU INDUSTRIAL PARK: A BRIEF SKETCH

The China-Singapore Suzhou Industrial Park—henceforth referred to as the Suzhou Industrial Park—project was one of several industrial parks

within the Singapore government's wider 'regionalization' programme. This programme was designed to generate financial surpluses, creating an external income that would supplement Singapore's economy. Within the 'regionalization' programme was the 'regional industrial parks' project, which involved the building and management of Singapore-developed industrial estates in the Asia Pacific region. These estates would have advantages over others in the region because of their high quality industrial infrastructure and bureaucratic administration. The Singapore government initially projected that it could earn an income from the profits earned through 'selling' or 'leasing' industrial units to industrial transnational corporations that sought to expand manufacturing operations in the Asia Pacific region. In all these projects, the Singapore government would initially broker an agreement with the local government, before assigning a Singapore government-linked company or state-owned enterprise to complete the project. However, the Suzhou Industrial Park project was significantly different from the others because it was originally planned as the largest, most expensive and most politically significant project. Furthermore, unlike the other seven Singaporean regional industrial parks in the Asia-Pacific region, the Singapore government's role in the Suzhou Industrial Park did not just involve brokering the deal, it included direct control over infrastructure development and bureaucratic administration. Furthermore, for this project, it initiated top-level government-to-government collaboration between the Singapore and China governments, and also a transfer of several Singapore social and political institutions to the local area.

In China, the Suzhou Industrial Park project was listed as one of over 400 Special Economic Development Zones. It was located to the east of Suzhou city, which is 90 kilometres west of Shanghai in Jiangsu Province. However, between 1992 and 1999, this Park—along with the other Singapore-developed estate in Wuxi (see Chapter Four)—also differed from others in China because it was not developed, managed and marketed by any Chinese agency or organization. Instead, it was run by the China-Singapore Suzhou Industrial Park Development (CSSD) Private Limited, a foreign-Sino joint-

venture company, where the Singapore government was effectively the majority shareholder³. Competing against other such zones in China for foreign investment, the Singapore government's intention was to construct competitive advantages for the Suzhou Industrial Park project. These were the provision of high quality industrial infrastructure and a 'Singaporean operating system'⁴ for the Park's administration in China. At the same time, the Singapore government intentionally sought to encourage the China government and industrial transnational corporations to collaborate in the project by co-investing various forms of capital. For example, the China government contributed political capital by demonstrating its support for this project, while industrial transnational corporations invested social capital by providing positive referrals to other potential investors. To initially encourage such collaboration, the Singapore government had to convince its partners that the project would be mutually beneficial. The China government could benefit from economic and urban development, employment creation, technology transfer and foreign currency earnings. Transnational corporations could benefit from the low land and labour costs, but still enjoy high quality infrastructure and administration (see Table 1.1).

TABLE 1.1: THE SYSTEM OF COLLABORATION AT THE SUZHOU INDUSTRIAL PARK

	Singapore Government	China Government	Transnational Corporations
Input	<ul style="list-style-type: none"> • Invests financial capital and expertise 	<ul style="list-style-type: none"> • Invests political support 	<ul style="list-style-type: none"> • Invests positive referrals
Returns	<ul style="list-style-type: none"> • External Income • Strategic International Relations 	<ul style="list-style-type: none"> • Urban development • Employment • Technology transfer 	<ul style="list-style-type: none"> • Low cost production • Entry to the China market (limited) • Profits

In 1992, the China and Singapore government signed a joint agreement to promote the project. After two years of planning, in the 'masterplan' unveiled in 1994, the Suzhou Industrial Park was designed to cover 70 square kilometres by 2014, and would have cost an estimated US\$30 million to

develop (*Singapore Straits Times* 15 Sep 1994). The Park projected over US\$20 billion in fixed capital investments, creating over 360,000 jobs for Suzhou. The venture began with a five-year project to develop the first eight square kilometres known as 'Phase One.' Between 1994 and 1997, the Suzhou Industrial Park was one of the most effective locations in China for attracting foreign investments (*Singapore Straits Times* 3 May 1997). Tenancy of the completed industrial land parcels was high and the fixed investment commitments were close to their forecasted targets; investment growth at the Park averaged slightly over 20 percent for the period (see Table 1.2).

TABLE 1.2: NUMBER OF COMPANIES AND FIXED INVESTMENTS COMMITMENTS IN THE SUZHOU INDUSTRIAL PARK (1994-1999).

Year	Number of Companies	Fixed Investment Commitments (cumulative)(1)	Investment Growth rate (%)	Source
1994	14	US\$0.87 billion	-	ST 15 Sep 1994
1995	56	US\$1.88 billion	50	BT 6 Dec 1995
1996	69	US\$2 billion	6	ST 5 May 1996
1997	82	US\$3 billion	30	ST 3 May 1997
1998	92	US\$4.3 billion	32	ST 8 Jul 1998
1999	132	US\$6.4 billion	30	IHT 1 Oct 99
2000	155	US\$7 billion	8	Xinhua 12 May 2000

Note: (1) Includes further/additional investments by existing tenants.

Despite these positive growth figures, by the end of 1997, the Singapore government admitted that the Suzhou Industrial Park was 'not doing well.' It cited reasons such as the impact of the Asian Financial Crisis and 'unfair' competition from a rival industrial estate (the Suzhou New District) as the main reasons (*Singapore Straits Times* 29 Dec 1997). In June 1999, because the project was losing money and not expected to achieve its future targets of profitability⁵, the Singapore government announced that it was going to disengage formally from the project by selling its majority ownership of the CSSD to a consortium representing the China government (*Singapore Straits Times* 29 June 1999). As the most ambitious of the Singapore government's regional industrial parks projects, it had originally hoped that the Suzhou

Industrial Park's competitive edge—its high quality industrial infrastructure and bureaucratic administration—would allow it to generate profits that would in turn supplement Singapore's economy. However, despite its initial success, the Suzhou project could not sustain its competitive edge for a variety of reasons.

This study intends to analyze this project from within the perspective of interventionist state theories. Although the project could be approached from a variety of alternative viewpoints—for example, the project could be situated within the China government's ongoing economic reforms or the global expansion of industrial transnational corporations—this study takes as its starting point the Singapore government's evolution into a 'transnational entrepreneurial state' with its regionalization programme. This marks the first time a particular national government has transcended its national boundaries as a profit-seeking investor to take advantage of emerging opportunities in the 'global game of industrial production.'

1.2 GLOBAL GAME OF INDUSTRIAL PRODUCTION

The global game of industrial production could be defined as the processes emanating from the demand and supply of factors of (industrial) production by various social agents or players⁶. The game is heavily influenced by the 'global manufacturing system' whereby industrial transnational corporations intentionally disperse production across the world for a variety of reasons (Gereffi 1992: 86). Demand is generated when certain players—particularly industrial producers—source and utilize factors of industrial production. Other players, usually those that have access to these factors of production, participate in the game as suppliers. Thus as suppliers, states (or governments) could theoretically offer access to the factors of production they control as a strategy to encourage industrial transnational corporations to locate. The framework further distinguishes between primary and secondary factors of production; the former usually refers to land, labour, raw materials, and capital. However, equally important are secondary factors. This includes any element in the industrial production process, including semi-finished

(intermediate) products and services—such as fiscal incentives, financial inducements, tariffs, availability of infrastructure, and political stability—that supplement the industrial production processes (Dobson 1997: 7). In the global game of industrial production, the demand for factors of production are mostly generated by industrial transnational corporations whose motivation to generate profits for their shareholders is not geographically constrained; rather their search for profitability extends beyond national boundaries (Howells and Wood 1993: 13).

Suppliers can be any player that controls access to factors of industrial production. Some suppliers may be governments or states, as they control access to certain factors of production; alternatively, groups such as local labour unions and enterprises that have access to raw materials may also participate in the game by negotiating directly with industrial transnational corporations. These players have their own motivations for supplying these factors. Some states (or governments) might hope to achieve ‘developmental effects’—defined as forming local economic linkages, generating employment, earning foreign currency, and technology or managerial transfer (Sklair 1994: 168-9)—from the operational location of industrial transnational corporations for their societies⁷. Others look to such location as a means to extract wealth for themselves⁸. One important dynamic is the ‘price’ of these factors of production, which is not arbitrary but is socially constructed. This price is generally determined by the level of demand from certain players and its supply from others. Thus, the price may change in response to changing demand and/or supply. As in all economic transactions, there is imperfect availability of information, and there could also be externalities that might distort the demand and/or supply of any of the factors (Henderson 1989: 37). However, another issue is the ‘quality’ of the factors, described as the relative effectiveness and efficiency of these factors. This is because poor factors of production only lead to poor products. As suggested earlier, every location has different factor endowments (Henderson 1989: 9). Certain areas may have

better human resource endowments, whereas other areas may be conducive for the extraction of key raw materials (Hayter 1997: 42).

The global game of industrial production emerges from players acting, interacting and transacting with each other, with their relationships usually influenced by the price of the factors. While this game has existed for several decades, since the 1980s under situations of rapid economic globalization, these dynamics are intensified. Rapid economic globalization refers to the intensification of transnational processes, particularly the movement of capital across borders (see Dunning 1998, Dicken 1998, and Held *et al.* 1999). While explaining why there is rapid economic globalization is beyond the scope of this study, the most important aspect about it was that intensification empirically took place during the 1980s (Oman 2000: 4). As the next section will show, this intensification of transnational economic activity was not just the result of increased transnationalization of industrial producers, but also because greater numbers of players—particularly national governments—that have chosen to participate in the game on the supply side.

THE DEMAND SIDE

In the global game of industrial production, demand for factors of production is mostly generated by industrial transnational corporations, especially expansionist corporations. This section briefly outlines the motivations, resources and strategies of ideal-typical industrial transnational corporations. It might be over-simplistic and probably even a truism to state that industrial transnational corporations are motivated by capitalism. In its broadest sense, capitalism refers to the creation of financial surpluses, usually through profits from investments. However, for industrial transnational corporations, the ‘type’ of capitalism is ‘global,’ where their sphere of operations transcends national boundaries⁹. All capitalist enterprises strive to expand as a strategy to increase profits. For industrial transnational corporations, expansion would involve extending their manufacturing or services activities over various locations. However, expansion is also strategic in the sense that it might involve entering into mergers and acquisitions as a

means of strengthening competitiveness in a particular market (Michalet 1996: 14). Put in another way:

‘The global firm and conglomerate is a design for survival under the competitive conditions of the new era. Its ability to scan the globe for investment possibilities makes possible a rational assignment of resources and ruthless pursuit of the exact combination of local policies, labour conditions, transport considerations, and so forth for any commodity or part.’ (Ross and Trachte 1990: 66)

However, even though nearly all industrial transnational corporations are driven by capitalistic motivations, their resultant strategies tend to vary widely. Part of the reason for this variation can be explained by the resources these industrial transnational corporations control. At one end of the spectrum, there are ‘massive’ industrial transnational corporations; all the largest ten corporations—as defined by *Fortune* magazine in its Global 500 index—have annual turnovers of over US\$100 billion for the year 1999¹⁰. At the other end, there are smaller industrial enterprises that strategically have a just a few production units distributed across several regions. The difference in resources would influence how each industrial transnational corporation proceeds with its business strategy. For example, large transnational corporations might have greater negotiating and bargaining power over suppliers of factors of production. Also, ‘giants’ might be better able to divide and distribute their operations horizontally and vertically in different locations across the world to take advantage of the most cost-effective and efficient factors. On the other hand, smaller transnational corporations might be more inclined to enter into joint-ventures and licensing deals in order to carve out their own niche in the global game of industrial production. This shows that although industrial transnational corporations have a uniform profit-seeking motive, their actual strategies can vary.

Acquiring the most efficient factors of production thus becomes an extremely important process to capitalist industrial transnational corporations. Poor factors of production only lead to poor products (Henderson 1989: 9, and Hayter 1997: 42-7). At one level, industrial transnational corporations focus on

economic factor costs such as the cost of labour, materials, and land rents. Yet, equally important to them are political and social costs, which are those that arise from the availability (or the lack) of political and social stability of the location. These uncertainties or risks ultimately translate into real economic costs, as they might incur financial losses or weaken profitability. Thus, industrial transnational corporations will usually choose locations that have the lowest overall transaction costs (Dobson 1997: 9). At the same time, the location of industrial transnational corporations is not necessarily permanent. As the global economy is dynamic and constantly in flux, industrial transnational corporations might also switch and re-switch their resources and operations to maintain or enhance their profits (Dicken 1998: 177).

To summarize, expansionist industrial transnational corporations' locational strategies are directly related to how they acquire and utilize factors of production. From a sociological perspective, this implies that industrial transnational corporations necessarily have to interact and transact with other agents or players such as governments, local labour and other groups within the global game of industrial production.

THE SUPPLY SIDE

When industrial transnational corporations source for factors of production, this generates a 'demand' which other players to hope to 'supply.' The suppliers fall into two broad categories: those that supply directly and others that supply indirectly. For example, in the case of the global game of industrial production, direct suppliers includes the local workforce, which might negotiate for itself the 'price' at which it will exchange its labour with the industrial transnational corporations, or local enterprises that might control raw materials. Indirect suppliers might include national governments that might negotiate with industrial transnational corporations on behalf of local labour or local enterprises. In all these cases, players are motivated to supply—directly or indirectly—factors of production to industrial transnational corporations for their own benefit. In other words, they participate in the game to 'win.' Some might seek direct financial profit from the exchange, whereas

others might seek other benefits. Certain governments or states are interested in industrial production (or more generally, industrialization), as a means of restructuring the economy, creating employment, earning foreign currency, and improving technology (see Stallings 1990). However, governments differ in how this industrialization could be achieved in their societies. In this light, this study is particularly interested in development strategies that involve the location of industrial transnational corporations within their borders¹¹.

In the global game of industrial production, the reality is that there are many players on both the demand and the supply sides. It is not unexpected to see inter-group (for example, between industrial transnational corporations and governments) and intra-group (between different industrial transnational corporations) competition, collaboration or even exclusion. It is common for players in the demand side to bargain and negotiate with several suppliers in order to get the best value or price for the desired factors (Howells and Wood 1993: 44). Suppliers might negotiate with competing players from the demand side for the best terms and conditions for itself. Also there might be competition between industrial transnational corporations to maximize profits through dominating market share, while suppliers might compete among each other to 'sell' their factors of production, as evidenced by governments that manipulate strategic industrial policies towards this end (see Chang 1998). After the 1980s, suppliers of factors of production were also perpetrators and victims of rapid economic globalization. For example, the '20th century gold rush' was as much caused by governments that were opening up their once protectionist national borders to transnational capital, as much as it was caused by expansionist industrial transnational corporations¹² (Tongzon 1998: 3). In this sense, more governments have turned to participation in the global game of industrial production as part of their economic development strategy. This aspect will be discussed in greater detail in chapter two.

Thus, the global game of industrial production arises from the actions, interactions and transactions of agents or players over the demand and supply of factors of production. As this study will demonstrate, some players—

including the China government—participated in the game hoping to stimulate local economic growth, while others—such as the Singapore transnational entrepreneurial state—hoped to benefit financially through encouraging the location of industrial transnational corporations.

1.3 THE TRANSNATIONAL ENTREPRENEURIAL STATE

This study argues that the Singapore government, based on its strategies for the Suzhou Industrial Park project between 1992 and 1999, could be understood as a ‘transnational entrepreneurial state’. From a sociological perspective, the state is conceptualized as an organization incorporating specific groups in society which includes the government—referring to individuals that control political power—as well as the arms of the state, including the ministries, bureaucracies, state agencies and armed forces¹³. This implies that some individuals within the state, such as government ministers, may be elected (although not always the case). Other individuals are, in a strict sense, employees of the state. Thus, the state should not be understood as being a homogenous group, particularly in terms of its motivations. Not only could there be different and competing interests between various individuals within the state, even within the government there may be differences. Furthermore, various individuals in the arms of the state may have their own set of self-interests, which may possibly conflict with other groups. Therefore, the Singapore government should not be understood as being synonymous with the transnational entrepreneurial state. Instead, it is just one group within the state, albeit a dominant and powerful one, for specific reasons that will be discussed in the next chapter.

This study makes two key assumptions. The first is that all states will be motivated to achieve or maintain positive national economic growth. The reasons behind this motivation could range from the economic nationalism of the state to the personal gain by governmental leaders (see Woo-Cumings 1999). In this sense, all states therefore have plans and visions of what the optimal economic performance ought to be, and how to achieve it. Such plans could be broadly described as ‘development strategies,’ which refer to how

governments seek to achieve national economic goals or targets (Gereffi 1990, Henderson 1998, Kieley 1998 and Casey 1998). For some governments, the goal may be the maintenance of existing positive economic conditions; others may be 'dissatisfied' with current conditions and may attempt to improve them¹⁴. As will be discussed in the next section, how states actually achieve this is less obvious and subject to variation because of their different resources, motivations and strategies. The second assumption is that—in the present era—states necessarily consider that positive economic performance of the national economy is directly related to the country's relative economic competitiveness in the global economy. Therefore the transnational entrepreneurial state is a specific state-form that executes a particular economic strategy that is influenced by its entrepreneurial motivations and resources.

STATE ENTREPRENEURSHIP

The Singapore government has actively participated in the global game of industrial production since 1965 when the country became politically independent (see Chapter Four). Between 1965 and 1990, the government had successfully manipulated or managed the Singapore economy to take advantage of a particular niche in the global game of industrial production as an archetypal 'supply' side player to industrial producers. Singapore's niche was initially its low-cost location for the manufacturing operations of industrial transnational corporations (Mirza 1986, Lim *et al.* 1988, and Peebles and Wilson 1996). This provided the platform for consistent economic growth over fifteen years. However, by the late 1980s, this niche was being seriously eroded by the changes in the global game of industrial production. A key change was the entrance of new players who sought to supply the same factors of production at lower costs to industrial transnational corporations (see Krause 1987). At the beginning of the 1990s, in response to the changing environment, the Singapore government intentionally evolved into a transnational entrepreneurial state in an attempt to improve the nation's economic performance.

Entrepreneurship refers to the ability (and effectiveness) of agents to discover and exploit hitherto unnoticed opportunities (Kirzner 1973: 33)¹⁵. The definition of 'opportunities' covers both being able to identify new fields to exploit as well as new means to exploit old fields. The main motivation for entrepreneurs is to create wealth and profit (Schumpeter 1962 [1939]: 83). Effective entrepreneurs should demonstrate their alertness in reading, understanding and then devising strategies to take advantage of market data (Yu 1997: 50). Another aspect of entrepreneurship is the relatively higher degree of risk involved. Compared with regular business ventures, entrepreneurial ventures carry higher risk but simultaneously offer higher returns if successful. In this sense, entrepreneurs are the few who go where eagles dare to tread. Yet, once the path is broken and proven successful, others will catch onto the idea and then copy successful techniques or processes. This ultimately spurs entrepreneurs to constantly strive to maintain their innovative edge (see Zafirovski 1999, and Glancey and McQuaid 2000).

In the literature on entrepreneurship, the focus has usually been on private enterprises or individual entrepreneurs rather than on state entrepreneurship (see Yu 1997). However, there have been several cases where state agencies and governments have been described as demonstrating 'entrepreneurial' characteristics. For example, various states within the USA have shown entrepreneurial motivations because of the need to raise revenues through entrepreneurial activities due to a lack of federal or national funding in certain spheres and declining local revenues¹⁶ (see Eisinger 1988). Also, the strategies of several state-linked agencies in certain cities in the USA have also been found to be entrepreneurial in character (see Logan and Molotch 1987). As will be discussed in the next chapter, the three so-called developmental states of Asia have displayed entrepreneurial characteristics, such as demonstrating entrepreneurial vision to identify 'winners' and devise strategies to enhance national economic competitiveness (Yu 1997, and Chang 1999). However, these developmental states of Asia could not be described as being truly entrepreneurial as their main motivations were 'developmental.' The

difference is that developmental states are motivated to achieve developmental effects such as employment creation, technology transfer and enterprise efficiency as opposed entrepreneurial states that are predominantly motivated by profit seeking or wealth creation. Such an entrepreneurial state might re-invest these profits in developmental projects, but this is not a necessary condition¹⁷. With this distinction, there have been several specific governments that have shifted from developmental to entrepreneurial motivations; for instance, it was quite clear that the Japanese government after 1970 was selectively subsidizing certain domestic conglomerates to invest abroad for the sole purposes of generating national surpluses (see Kojima 1978). Other governments have different sets of strategies, because of variations in their available resources and the different conditions of the internal and external environment, as will be discussed in the next chapter.

While endogenous factors—such as the motivations, resources and strategies of entrepreneurs—are important in predicting the outcome of their activities, exogenous factors are equally salient. Two such important exogenous factors are the existence of competition (competitors) and the dynamic market. An entrepreneur's effectiveness depends on being ahead of its competitors in all three spheres (opportunity identification, devising of plans, and investing of resources). A key objective of entrepreneurship is its aim of capturing and dominating a particular market niche. If competitors can replicate the product or service offered by the protagonist, it would mean that its niche or competitive edge has been lost, in turn leading to a loss in demand. Therefore, an effective entrepreneurial agent should have a unique product (or service) that competitors cannot duplicate. Secondly, the nature of the market is another important factor. The market—in this sense the demand for any product or service—is never static; instead it is highly dynamic and constantly in a state of flux because of many factors, including the level of technology, global economic conditions, and even personal tastes of consumers (see Zafirovski 1999, and Glancey and McQuaid 2000). For the entrepreneur to

maintain its competitive edge, it has to constantly be able to identify opportunities and devise new strategies to keep ahead.

To summarize, both endogenous and exogenous factors influence the outcome of any entrepreneurial venture. Thus, effective entrepreneurial states—like private individual entrepreneurs—should demonstrate the ability to (1) identify new economic opportunities, (2) devise efficient strategies, (3) effectively invest its inherent resources, and (4) constantly monitor the market to stay ahead of the competition in order to maintain its niche. Thus, from within this entrepreneurial perspective, the Singapore government—if it were an effective entrepreneurial agent—would need to identify a profitable niche, and devise strategies to take advantage of it. However, the nature of entrepreneurial activity is a dynamic process. Effective entrepreneurship does not just entail devising and executing strategies to capture this niche once; instead, it involves the constant maintenance of this competitive niche. Any erosion of this niche—for example, the supply of similar products or services by competitors, or major changes in the demand—would negatively affect the profitability of the venture. Thus, successful entrepreneurial actors have to ensure that they maintain their competitive edge over time.

1.4 RESEARCH QUESTION

This study argues that the Singapore government could be understood as a transnational entrepreneurial state, which identified that its niche at the beginning of the 1990s was the supply of secondary factors of production, such as high quality industrial infrastructure and administration, in the Asia Pacific region, which already had competitive low cost primary factors¹⁸. In order to capture this niche, the Singapore government sought to introduce competitive advantages at its various regional industrial parks, as well as to encourage the collaboration of key players, such as the local governments and industrial transnational corporations. However, the Suzhou Industrial Park stood out from all the other regional industrial parks, as it was by far the largest, most expensive, and politically significant to the Singapore government. The Suzhou project also involved top-level government-to-government

collaboration, as well as a formalized transfer of institutions, known as the 'software transfer.' Furthermore, unlike the other estates, the Singapore government itself became actively involved in the planning, negotiations and management of the Suzhou project. Under these conditions, the Suzhou Industrial Park project was therefore an exemplary case that could explain the actions, interactions and transactions of the Singapore transnational entrepreneurial state.

This study will show that in the Suzhou project, the Singapore transnational entrepreneurial state's main actions were its competitive and collaborative strategies. The former aimed to give the Suzhou Industrial Park competitive advantages over its competitors. To the Singapore transnational entrepreneurial state, it believed that the Suzhou Industrial Park's edge was its provision of high-quality industrial infrastructure and bureaucratic administration (the 'Singaporean operating system'). Despite China's highly competitive primary factors of production, its relatively poor quality of its secondary factors of production incurred risks or uncertainty costs for potential investors. If the Singapore transnational entrepreneurial state's competitive strategies could supply these secondary factors at the Suzhou Industrial Park, it would give the project a competitive edge over rival estates, and would encourage industrial transnational corporations to locate in the Park. Thus, if successful, the competitive strategies would generate a profitable income for the Singapore transnational entrepreneurial state in China. For the collaborative strategies, the Singapore transnational entrepreneurial state hoped to further enhance the competitiveness of the Suzhou project by encouraging key players—such as the China government and industrial transnational corporations—to co-invest essential resources and inputs, such as political and social capital. To encourage this collaboration, the Singapore government's strategies were designed to increase 'embeddedness'¹⁹ with these players. As will be elaborated in the next chapter, embeddedness can be achieved through various mechanisms. Economic mechanisms were used to create economic and financial incentives to demonstrate complementarity and

mutual benefit with the resources, motivations and strategies of the other players. Political mechanisms were used to govern the project, and social mechanisms were used to develop the other players' confidence in the project. Therefore, if successful, the collaborative strategies should establish complementarity, effectively govern the collaboration and enhance the collaborators' level of trust and confidence in the project. Having established the project's competitiveness, an entrepreneurial agent would have to monitor the actions of competitors to protect its own niche. It ought to continue to maintain embeddedness with its collaborators throughout the project. In addition, it would to monitor the external environment for changes to the market.

This study therefore intends to analyze and explain the Singapore government's strategies by utilizing the concepts of the 'transnational entrepreneurial state' and the 'global game of industrial production.' The focus of the study centers on explaining why and how the Singapore government evolved into a transnational entrepreneurial state, and then how it proceeded to participate in the global game of industrial production through its actions, interactions and transactions with other key agents. As suggested in the previous sections, also important are variables such as the motivations, resources and strategies of other players, as well as the structure of the global game of industrial production. Furthermore, the study accepts that the global game of industrial production is not static but in a state of constant flux. The game might also affect the resources, motivations and strategies of other players including the collaborators and competitors.

Thus, this study aims to explain why and how the Singapore government, as a transnational entrepreneurial state, participated in the global game of industrial production through its Suzhou Industrial Park project. More specifically, the study focuses on explaining how the transnational entrepreneurial state acted, interacted and transacted with other key players in the game, including the China government, industrial transnational corporations and local authorities, in the course of the project between 1992,

which was the year the Suzhou Industrial Park project officially began, and 1999, the year the Singapore government officially announced its disengagement from the project. The study will be organized chronologically, beginning by identifying the resources, motivations and pre-existing conditions that led the Singapore government to consciously become a transnational entrepreneurial state at the beginning of the 1990s. The study will proceed by describing how the Singapore government, as a transnational entrepreneurial state, utilized its strategies to construct competitive advantages for the project between 1992²⁰ and 1994, in what this study will call the project's 'Construction Phase.' Here, the focus of the study will be on how the Singapore government utilized the competitive and collaborative strategies in a period where there was 'China fever,' a commonly used description of the huge influx of foreign direct investment into the China's many special economic zones²¹. The study will follow with an analysis of the second period between 1994 and 1996, 'the Take-Off Phase,' where it examines the reasons behind the early competitive advantages of the project by analysing the responses of its collaborators and clients. For the third period between 1997 and 1998, 'the Adjustment Phase,' the study analyzes how the Singapore government utilized its strategies to cope with the Suzhou Industrial Park's diminishing competitiveness, caused by strong competition from other industrial estates in China and changes in the external environment with particular reference to the impact of the Asian Financial Crisis. The study proceeds to explain the Singapore government's actions during the fourth period, the 'Disengagement Phase,' beginning in 1999. It describes how and why the Singapore government utilized its strategies when it had to withdraw from the Suzhou project.

STRUCTURE OF THE STUDY

The structure of this study is as follows: the next chapter theoretically situates the Singapore transnational entrepreneurial state's competitive and collaborative strategies within the literature on state interventionist development strategies. Chapter Three is devoted to developing a research

methodology to gather the necessary data to study the Suzhou Industrial Park project. Chapter Four examines the Singapore and China governments' role in the global game of industrial production before 1990. The focus of this chapter is to explain why the Singapore government opted for transnational entrepreneurial development strategies in the late 1980s, and how this converged with the development strategies of the China government. Chapter five examines how the competitive and collaborative strategies were utilized during the 'construction phase' between 1990 and 1994. Chapter six analyzes how the strategies were utilized during the 'take-off' phase between 1994 and 1996 to further enhance the project's uniqueness and deepen the collaborative relationships. Chapter seven examines how the strategies were utilized during the 'adjustment' phase (1997-1999) to deal with changes to the external environment, particularly the impact of the Asian financial crisis and the increased competition from other industrial estates in China. Chapter eight explains how the Singapore transnational entrepreneurial state utilized the strategies during the 'disengagement' phase (in 1999) when it had to withdraw from the project. Chapter nine reflects upon the intended and unintended consequences of the Singapore transnational entrepreneurial state's strategies through analyzing the state's relationships with 'Singaporean' enterprises in the project. This chapter also compares the Suzhou project with the other regional industrial parks projects. Chapter ten concludes by drawing together the main findings from the research, developing the concept of the transnational entrepreneurial state within the global game of industrial production, and contributing to the theories on the role of states as agents of economic growth, not just in the national but global economy.

NOTES

¹ On the other hand, there were cases of state intervention that negatively affected the economy, leading to economic stagnation or decline, state corruption, rent seeking and foreign exploitation (Evans 1995: 57-9).

² This study argues that the Suzhou Industrial Park project is an exemplary rather than critical case, as will be fully discussed in Chapter Three. However, it can briefly be stated that an

exemplary case represents one situation that is outstanding in several regards, even though it shares several similarities and origins with other situations. Critical cases are often regarded as essentially unique, and stand alone for other situations (see Yin 1994).

³ The Wuxi-Singapore Industrial Park was jointly developed by a Singapore government linked corporations (Sembawang Corporation) and the local Wuxi Municipal Development Authority. As of 1999, these were the only two of the Special Economic Development Zones that had any foreign ownership or control.

⁴ As the later chapters will show, the Singapore transnational entrepreneurial state has intentionally utilized terms from information technology in the Suzhou Industrial Park project. Here 'operating system' (OS) alludes to various computer operating systems such as IBM, Macintosh, and Linux. Other prominent IT terms that have been used by the Singapore transnational entrepreneurial state are the 'hardware' and 'software' transfer (see Chapter Five).

⁵ See *Singapore Straits Times* 'Suzhou park loss could hit (S)\$151m,' 15 Sep 1999.

⁶ The concept of the 'game' derives from Stopford and Strange, who argued that the competition for world market shares by states and firms constitutes a *game*, and consequently '...the structural changes in international political economy and the global economy [by the end of the 1980s] has altered the nature of the *game* by affecting the actions and responses among firms and states.' (1991: 4, emphasis mine)

⁷ Conversely, there could be serious negative effects from the location of industrial transnational corporations, including exploitation of workers, environmental degradation and the formation of a 'dependent' relationship with the host enterprise (as argued from the neo-colonial perspective) (see Kiely 1998).

⁸ Such governments have been described as 'predatory states' (see Evans 1995: 12, and 43-7).

⁹ Gereffi writes: 'In transnational production systems that characterize global capitalism, economic activity is not only *international* in scope; it is *global* in organization, where internationalisation refers simply to the geographical spread of economic activities across national boundaries, globalization implies a degree of functional integration between internationally dispersed activities.' (1994: 215, emphases in original)

¹⁰ For example, the 'largest' company for 1999 was General Motors, with revenues of US\$176,558 million, and the tenth largest company was Itochu, which had revenues of US\$109,069 million (*Fortune* 17 April 2000).

¹¹ In Chapter Two, this study situates these 'TNC-oriented' development strategies within the broader range of FDI-led strategies in greater detail.

¹² This mood of 'economic liberalism' did not just spring from local governments, but was also influenced by the interests of various powerful and resource-rich global players, including the United States government (and Treasury), the World Trade Organization, the World Bank, large transnational corporations and financial corporations. See Wade (1998 and 2000) and Sklair (2001) for somewhat different accounts of those behind this 'neo-liberal' economic ideology.

¹³ See Johnson (1982), Henderson and Appelbaum (1992), and Evans (1995) for the logic of disaggregating the state.

¹⁴ As implicit in the discussion, all states *attempt* to manage their economies; whether their management is actually effective is less certain and much more variable, as will be explained later in the chapter.

¹⁵ Also see Kirzner (1979), Yu (1997), Zafirovski (1999), and Glancey and McQuaid (2000) for details of the many definitions of the concept of entrepreneurship. However, the definition adopted for this study is particularly focused on explaining entrepreneurship from a sociological perspective.

¹⁶ Recently, certain local provincial governments in China have also demonstrated 'entrepreneurial characteristics' for the same purposes (see Duckett 1998).

¹⁷ When governmental leaders extract these profits for their personal use, Evans has described them as a predatory state (1995: 12).

¹⁸ As the later chapters will argue, the Singapore transnational entrepreneurial state did not choose to encourage the outward investment of domestic enterprises (in the manner of the Japanese government after 1970) because of the internal structure of Singapore's economy.

¹⁹ The concept of embeddedness is derived from Evans' concept of 'embedded autonomy,' (1995) which was used to explain the developmental state model. See Chapter Two of this study for a detailed discussion and operationalization of this concept.

²⁰ Although the year 1992 was chosen as a starting point, the research will extend back to 1990, which was the time that the Singapore government announced its 'Regionalization' strategy and began its fact-finding missions to situate a major industrial park in the region. The Memorandum Of Understanding to develop the park in Suzhou was signed in 1993, and the Park was officially opened on 15 Sep 1994.

²¹ For example, see 'China Fever,' *The Economist*, 1 March 1997.

CHAPTER TWO

COLLABORATION AND COMPETITIVENESS

This study argues that the Singapore government's regionalization programme can be understood as a transnational entrepreneurial state participating in the global game of industrial production. Theoretically, these strategies can be situated within the literature on state intervention in the economy and development strategies (henceforth known as interventionist development strategies). As suggested in the previous chapter, the Singapore government's regionalization programme shared similarities to the interventionist development strategies model as it was geared towards achieving global competitiveness through active state intervention. However, they differed from the existing model as these strategies were transnationally rather than locally oriented in addition to being primarily motivated by profit generation. This study therefore argues that the Singapore transnational entrepreneurial state adopted two central strategies of the interventionist development strategies model, the collaborative and competitive strategies, but applied them in different ways particularly for the Suzhou Industrial Park project.

The Singapore transnational entrepreneurial state's collaborative strategy utilized embedding strategies to encourage and deepen the collaboration with targeted players, while the competitive strategy was designed to enhance the project's competitive edge within the Chinese economy. The latter involved supplying high quality secondary factors of production—which included industrial infrastructure and bureaucratic administration—that would give the Suzhou Industrial Park competitive advantages vis-à-vis other industrial regions competing for the location of industrial transnational corporations. This chapter therefore focuses on an in-depth discussion of the collaborative and competitive strategies, drawn from the existing theories of interventionist development strategies.

2.1 ***COLLABORATION: LESSONS FROM THE DEVELOPMENTAL STATE***

Within the theories of interventionist development strategies, the state's utilization of the collaborative strategy was aimed at encouraging the collaboration of certain key players in national economic projects. This form of collaboration is best exemplified in the case of the 'developmental state' (see for example Johnson 1999, and Woo-Cumings 1999). The developmental state model emerged as an alternative explanation to the rapid East Asian Growth after the Second World War, explaining the rapid industrial transformation and economic growth of Japan between 1950 and 1970, South Korea between 1960 and 1980 and Taiwan since 1970. Previously, these countries growth was explained by either the 'neo-liberal' or 'culturalist' theories¹. However, the developmental state model argued that rapid economic growth was neither due to 'free market' principles nor the cultural work ethic of the population; instead the state's purposive intervention in its economy was a critical factor. More specifically, the state's interventionist strategies involved enhancing the economy's competitiveness through collaboration with private enterprises. The following section will outline why these historically specific governments chose this option.

INTERVENTIONIST STATES

Developmental states can be understood as one of several 'types' of 'plan-rational' states that actively seek to 'intervene' in their national economies (Henderson and Appelbaum 1992: 18-9). In the recent past, such state intervention is designed to pursue 'industrialization' as a developmental strategy:

'Industrialization is a process by which not only the manufacturing sector comes to account for a large share of GDP and employment, but also the industrial structure is transformed to include the production of goods and services requiring higher technological capabilities, more sophisticated worker skills and greater managerial competence.' (Chudnovsky 1996: 269)

In other words, governments usually view industrialization as a strategic means to increase economic activity in the country. Enterprises would be

stimulated—through inter-enterprise competition—to maximize their use of technologies. However, because of the pervasiveness of global enterprises in the 20th century—with their ‘organisational capabilities’ based on a core technology—their institutionalisation of research and development effectively erected entry barriers around their proprietary technology family². This effectively meant that in the modern era, the world was divided between the industrially-developed and the undeveloped societies, on the basis of the societies either having industrially efficient or industrially deficient enterprises respectively. However, it was argued that a process of ‘late industrialization’ could re-address this situation (see Gerschenkron 1962). Gerschenkron’s ‘late industrialization’ theory was a process that predicted that the more backward the society (measured in terms of productivity level), the better placed it was—under certain circumstances—to learn from developed industrial countries and potentially ‘leapfrog’ up the technological ladder (Amsden 1992: 56). Although the ‘late industrialization’ theory has not been empirically proven, it has seen many states—particularly ‘plan-rational’ states—take it upon themselves to create the environment conducive enough to attempt such a ‘leapfrogging’ through intervention in the economy.

Before this section discusses how the developmental state could intervene in the economy, it is worth explaining why such governments would be motivated to prioritize development. An important factor was the pro-developmental motivations of a specific group within the state. This group—the ‘developmental elite’—was made up of government leaders and senior state bureaucrats³. They prioritized economic growth above all other social and political agendas (Johnson 1982). As they held key positions within the state, they harnessed their collective economic, political and social resources in society to dominate the various arms of the state—including the ministries, bureaucracies and state agencies—into executing various strategies that would promote economic development (Woo-Cumings 1999: 3). The developmental elite’s motivation could be explained by several factors: firstly members of this elite had a political ideology of ‘economic nationalism,’ which stressed

that national survival depended heavily on economic growth (Woo-Cumings 1999: 4). Secondly, the elite was motivated to prioritize growth because its own political legitimacy and survival within the country depended on ‘delivering the fruits of development’ to the voting population (Castells 1992: 34-5). It has also been proposed that exogenous forces also were pressuring these governments to achieve rapid economic growth (Weiss 1998: 23). For instance, there was some evidence that the United States government wished to see Japan, South Korea and Taiwan become ‘prosperous’ so that these countries could serve as a bulwark against communism (more specifically the People’s Republic of China and North Korea governments) as well as consumer markets for American products⁴. This saw the U.S. government not only militarily protect these states, but also support them financially (Pempel 1999a: 153-4).

Although most states and governments subscribe to economic growth as a priority, actually realizing this has proven more difficult. One factor that contributed to the success of the developmental states of Asia was their control of key economic and political resources in their respective countries. Economically, the three developmental states of Asia had the financial support of the United States government⁵. Politically, the developmental state had control over various arms of the state, such as ministries, bureaucracies and agencies to execute the developmental plan. This included state agencies such as the Ministry of International Trade and Industry (MITI) in Japan, the Economic Planning Board (EPB) in South Korea, and the Industrial Planning Bureau (IPB) in Taiwan⁶. These agencies were important because senior bureaucrats—‘techno-bureaucratic elite’—contributed the necessary expertise in the fields of economics, industrial development and law, assisting in the economic and industrial transformation or restructuring (Evans 1995: 12). This term was first utilized to describe Latin American state bureaucrats who utilized their resources to increase their own personal wealth (see Duvall and Freeman 1983). The key difference was that the Asian techno-bureaucratic elite shared the pro-developmental motivations with the governmental elites,

and collaborated on the developmental project. There were two explanations for the bureaucrats' loyalty to the state programme: the first is purely rationalistic, where state bureaucrats were very well financially rewarded for demonstrating loyalty (Evans 1995: 32). The second is more 'cultural' in the sense that (Asian) bureaucrats had a moral and traditional obligation to remain loyal to the state regimes (see Johnson 1982).

With these resources and pro-developmental motivations, the developmental state had the capacity to intervene in its national economy. The objective of intervention was to correct the existing market failure—which was causing the industrial inefficiency of enterprises in society—and to improve the economy's global competitiveness. Identification of the failures and devising solutions to improve competitiveness are therefore important tasks for the state. This implies that effective developmental states need to have entrepreneurial vision, which can be defined as the ability to correctly identify the national economy's relative weaknesses and devise solutions to promote competitiveness (see Yu 1997, and Chang 1999). For example, in the 1950s the Japanese developmental state chose to concentrate resources on electronics and light manufacturing (Johnson 1982, and Okimoto 1989). The South Korean developmental state initially focused on steel production, and later shifted its attention towards manufacturing (Amsden 1989, Evans 1995, and Kim 1997). The Taiwanese developmental state geared its development strategy towards manufacturing (Wade 1990, Fields 1995, and McBeath 1998). Thus, the developmental states had to identify niches within the global economy, after which the state would have to devise strategies to exploit these niches⁷.

States cannot achieve economic growth by themselves; enterprises—regardless of whether they are state-owned, private or semi-private—necessarily have to be the engine of growth⁸. It is through the efficiency and positive economic performance of these enterprises that the economy would expand and develop, in turn bringing about 'developmental effects' such as employment, income distribution and wealth creation. However, private

enterprises—more so than state-owned or government-linked enterprises—might not necessarily be motivated towards these ends:

‘The private sector may not initiate industrialization because it is shortsighted or operations with imperfect information. Or it may simply be undercapitalised and hence unable to take short-term losses due to the underdevelopment and inefficiency of capital markets. Or future profits may not compensate for current losses (in the absence of incremental productivity and quality improvements), or investing in manufacturing may be less profitable than, say, speculating in land or importing foreign products, in which cases subsidies to manufacturing are justified if such activity has spillovers, externalities or complementarities.’ (Amsden 1992: 59)

As implied, for these enterprises to be productive and efficient enough to bring about national economic growth, states have to know when, how and how much to intervene, usually with financial subsidies. Thus, at a theoretical level, the socialist state would attempt to correct ‘market failures’ by gaining total control over key enterprises in the country, itself determining factor prices, production output levels and prices. At the other extreme, (ideal-typical) laissez faire states are assumed not to intervene in the economy, effectively allowing the ‘market’ to determine the most optimal levels of production and prices. In between these two theoretical extremes is a range of state-types. The Welfare State would manage the economy through intervention only to maintain optimal market forces, to regulate ‘fair competition’ between enterprises, and to ensure that essential ‘public goods’ are still supplied (see Block 1994). Then there are interventionist plan-rational states that attempt to restructure the market by assisting enterprises in one form or another (Henderson and Appelbaum 1992: 12). The Facilitative State is a plan-rational state type that offers subsidies and financial assistance to certain enterprises that might not be market efficient. This form of state intervention involves getting the prices ‘wrong,’ essentially skewing the market to re-favour private enterprises especially when they have to compete against other (often foreign) enterprises (Amsden 1992: 60). With these financial injections, these enterprises could acquire the necessary ‘technology’ to industrialize efficiently, and in turn spur economic activity in the country⁹. However, the Facilitative

State often lacks the ability to discipline supported enterprises, where discipline refers to the state's ability to enforce performance targets, leading to a situation of 'rent seeking' (Amsden 1989: 32). Thus, it is argued that Developmental States not only gave out subsidies to enterprises but through a process known as 'complementary collaboration,' these subsidies became closely tied to performance criteria (Evans 1995: 13).

COMPLEMENTARY COLLABORATION

Collaboration is defined as an activity where two or more separate actors work together in pursuit of a particular goal, entering into a web of economic, legal, political and social interactions, transactions and relationships¹⁰ (see Child and Faulkner 1998). Collaboration would cover a broad range of possibilities, including joint ventures where details of the collaboration are formalized by legal agreements, strategic alliances with informal sharing of resources between collaborators, and verbal agreements to collaborate¹¹. Collaboration is different from competition where parties work against each other in pursuit of their goals. Actors choose to collaborate when they do not have resources to achieve goals on their own, when they want to share risks, or when the returns may be higher than if they proceeded on their own. The developmental state opted for collaboration with private (and semi-private) enterprises. One reason was because the developmental state, unlike the ideal-typical socialist state, lacked the economic or political resources to 'nationalize' or transfer ownership of enterprises to the state. However, developmental states may have also intentionally chosen collaboration over nationalization because they believed that enterprises would be more economically efficient and productive if managed by the private sector (Johnson 1982: 32). If the state and companies pooled their resources and abilities under a system of 'complementary collaboration,' both sides could benefit:

'Complementarity is the conventional way of conceptualizing mutually supportive relations between public and private actors. It suggests a clear division of labour, based on the contrasting properties of public and private institutions. (...) Putting two kinds

of inputs together results in greater output than either public or private sectors could deliver on their own.' (Evans 1996: 1120)

It is important to note that the motivations of both sides were different. The state was interested in achieving national economic growth while enterprises in the private sector were primarily concerned about profitability and efficiency. Yet, it was possible that these interests could be complementary and mutually beneficial. For instance, a firm's profitability could lead to economic growth in the country. However, the developmental elite realized that it could not take for granted that companies would automatically agree to collaborate, as some enterprises might not be interested in participating in national economic projects because of reasons including the projects were not financially promising, these projects were not its 'core competence,' and there were prior poor relationships between specific enterprises and the state (see Chiu, Ho and Lui 1997). To encourage the enterprises to collaborate, the developmental state utilized 'embedding' strategies (Evans 1995: 50). Furthermore, if the collaboration was already underway, embedding could further enhance the collaborative relationship. This would translate into greater lubrication of transactions and interactions between partners.

In the case of the developmental states of Asia, complementary collaboration with private (and semi-private) enterprises was the adopted engine of growth. The economies of these states were stagnant or in decline because these enterprises were unable to function at optimal or efficient levels. For example, in the 1950s, private Japanese enterprises were economically weak due to the effects of World War Two (Johnson 1982, Okimoto 1989 and Tsuru 1993). Similarly in the 1960s, the South Korean enterprises emerged from the scars of a civil war and a predatory government (Amsden 1989, and Kim 1997). In Taiwan, the economy consisted of many small family based enterprises whose efficiency was negatively affected by the fierce local competition and technological backwardness as well as geopolitical threats from a hostile People's Republic of China government¹². All three countries faced a situation of high labour surplus, weak economic growth and poor

industrial structure where most enterprises—private (or semi-private)—were technologically backward, capital-scarce and often producing below optimal levels. Furthermore, in all three countries, there was fierce inter-enterprise competition to seek rents from the state (Fields 1995). Under these conditions, the developmental state—as a purposive and interventionist plan rational state—chose collaboration as a strategy by subsidizing selected private and semi-private enterprises. The aim was to make them more efficient and competitive within the global economy, with the hope that this would in turn bring about national economic growth. The following section discusses how collaboration was achieved in the case of the developmental states of Asia, particularly through the utilization of embedding mechanisms that had a dual function of encouraging closeness as well as enforcing discipline¹³.

2.2 EMBEDDING MECHANISMS

In the developmental state model, embeddedness allowed a government to effectively control and guide companies in the private or semi-private sector towards participating in national economic projects without having to ‘own’ or nationalize them:

‘Embeddedness implies a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of [economic] transformation.’
(Evans 1995: 59)

Thus, effective embedding infers that collaborative partners are very close. Closeness has economic, political and social functions. Economically, closeness reduces transaction costs between partners, allowing for transactions and information flows to be faster and more accurate. Politically, closeness allows for greater governance and monitoring. Socially, closeness also implies familiarity, trust and confidence among partners. Conversely, autonomy is defined as one party’s degree of insulation from another¹⁴. Autonomy or insulation allows parties to ignore the actions, interactions and transactions of others. In order to achieve national economic growth, it was argued that on the one hand, the developmental state had to increase the embeddedness between

itself and targeted private enterprises, while it had to maintain autonomy from interest groups that were seeking to capture the government¹⁵ (Evans 1995: 14).

From a theoretical perspective, increasing embeddedness and reducing autonomy was important in encouraging collaboration or enhancing on-going collaboration. Thus, the more embedded the plan-rational state was to collaborating enterprises, the greater was its ability to direct and discipline the other's actions. More specifically, interventionist states would seek to direct collaborating enterprises into profitable niches within the global economy. Also, an effective interventionist state would be able to discipline or exact performance standards from collaborating enterprises. The highest degree embeddedness between state and enterprises was the socialist state, since the former owned and controlled the latter. However, effective developmental states could achieve a high degree of embeddedness without owning enterprises. This was achieved through the use of specific economic, political and social mechanisms, as will be discussed in the following section. These three mechanisms parallel the concepts of 'markets, hierarchy and networks,' or 'price, authority and trust¹⁶.'

ECONOMIC MECHANISMS

Economic, market or price mechanisms are financial incentives to encourage other actors to respond positively. The basic assumption is that actors and groups react to market or price signals, and collaborate because it is economically rational. In the case of the Asian developmental states, the most commonly used economic mechanisms for embedding included financial subsidies, injections and loans to encourage selected or targeted companies to collaborate (Woo-Cumings 1999). Other economic mechanisms included the state's protection of 'infant' companies against foreign competitors. In Japan, South Korea and Taiwan, at the onset of the collaboration, as companies were technologically backward, they chose to accept the incentives offered by the state since they would economically benefit (see Fields 1995, Kim 1997, Rodrik 1995 and Evans 1995). There were also instances where the

developmental state offered large subsidies to enterprises willing to enter so-called 'uncompetitive' sectors because they were nationally important. Most of these companies either could not afford the economies of scale or viewed them as extremely risky ventures. In South Korea, this was exactly how the developmental state encouraged state-owned companies to go against 'traditional economic logic' and enter the steel sector (see Amsden 1989, and Rodrik 1995 and Kim 1997). In Taiwan, the state's later economic incentives—including the establishment of science parks, offering of large financial subsidies and tax relief—encouraged many small and medium sized enterprises to engage in Research and Development activities (see Rodrik 1995 and Wang 1997). Private firms had not engaged in R&D because it was extremely capital and knowledge intensive which was too costly; furthermore, these firms could not match the capabilities of larger transnational corporations in the late 1970s, and thus always lagged behind. Yet, as these were nationally important activities, the state was willing to provide the capital. Since the capital was available, several enterprises eventually did collaborate in the project, which in turn paved the way for Taiwan to later become highly competitive in the semiconductor sector in the global economy in the 1980s (see Fields 1995, and Evans 1995).

Effective developmental states utilized economic mechanisms on targeted players—such as enterprises in the private and semi-private sector—to demonstrate that collaboration would be economically or financially complementary and mutually beneficial. However, by agreeing to collaborate, these targeted enterprises came under the discipline of the state, and had to accept the directives and performance standards set by the state (Amsden 1989: 146). Private enterprises that valued their corporate autonomy more than economic benefits would decline to collaborate. As a further resort, the developmental state often utilized other mechanisms to embed itself more effectively onto the private sector. To achieve this, non-economic measures were also simultaneously utilized. Therefore, the economic mechanisms were purposively utilized to achieve complementarity and mutual benefit.

POLITICAL MECHANISMS

The political, hierarchy or authority mechanism is the use of legal and political power to affect inter-group relationships. This refers to both the creation of formal and legal institutions, as well as the use of political threats and coercive power. Institutions are, in the broadest form, ‘...the rules of the game, some formal others informal’ (North 1990: 1). The main role of institutions is governance or control. Formal institutions between two actors may take the form of contractual and legal agreements. These agreements detail obligations, resource inputs and the distribution of the returns in a form of a set of legally binding contracts (see Williamson 1986: 101-130). Informal institutions include simple verbal agreements such as the ‘gentleman’s handshake.’ As such, both formal and informal institutions might result in systemic patterns of shared expectations being formed for the purposes of governance. In the developmental states of Asia, the governments utilized political mechanisms such as the constitutional and legislative instruments to govern or control the private sector. For example, in South Korea and Taiwan, it was mandatory by law for all registered businesses to join an official business or commercial association. Through these associations, the state could govern and control businesses by using the threat of heavy fines or withdrawal of the business license to enforce compliance (see McBeath 1998, Fields 1995 and Kim 1997). Furthermore, after the collaborative project had begun, developmental states utilized political mechanisms to govern or monitor their targeted enterprises. Thus, political mechanisms were said to perform a disciplinary function in ensuring that partners carried through their obligations (Amsden 1989: 149). Psychologically, the existence of political mechanisms—regardless of whether they are actually utilized—could act a form of assurance to collaborators, in that they have recourse to compensation or punishment should there be a breach in the collaborative contract (Williamson 1996: 32). However, political mechanisms often created friction between partners, often leading to distrust and hostility especially from the weaker partner¹⁷. In such coerced collaborations—where there was a political or economic imbalance between collaborators—the weaker partner often only

collaborated because it was either forced to or had no other economic choice. If the circumstances improved for the weaker partner, it could contemplate withdrawal.

SOCIAL MECHANISMS

Social mechanisms consist of four elements: familiarity, reciprocity, credibility and trust between parties¹⁸. When these four elements are present between collaborators, they potentially lower transaction costs and increase confidence. A lack of confidence in one's partner could incur high costs that arise from having to learn the rules (or institutions), finding the way around, looking for background information and monitoring (Williamson 1986: 114-5). These are translated into real costs when time, effort or money are incurred. Familiarity—developed through repeated and regular dealings with a close and trusted partner or through the availability of accurate information—could reduce these transaction and monitoring costs as well as diminish uncertainty (Schneider and Maxfield 1997: 13). Reciprocity refers to partners keeping obligations. Levels of reciprocity are considered high if both parties fulfil performance promises¹⁹. Credibility refers to the basis that one partner would act upon the other's reputation (Schneider and Maxfield 1997: 10). With the existence of credibility and reciprocity, trust between actors would emerge²⁰. In the developmental state model, trust is operationalized to refer to a calculated and contingent phenomenon where actors on each side expect those on the other not to betray them (Schneider and Maxfield 1997: 13). In collaborative relationships, trust could be used by one party to encourage the other to jointly undertake a high risk venture; with high levels of trust, there would be less anxiety and greater confidence on the part of the invited party in committing to the venture. Trust by no means guarantees the success of the venture. It could however speed up the invited party's decision-making process, encourage it to commit greater amounts of resources to the venture, and other similar confidence-demonstrating actions. At the same time, trust could lead parties to become over-complacent and lower their guard regarding basic business decision-making processes. To recapitulate, when social

mechanisms—developing familiarity, reciprocity, credibility and trust—are effectively utilized, intergroup relationship between partners improve, in turn leading to an increase in the levels of confidence in each other. With such confidence, the likelihood of parties to engage in collaboration is increased. In cases of on-going collaboration, confidence has the function of further lubricating the relationships, leading to a reduction of transaction costs and an increase in efficiency. In the case of the Japanese developmental state, familiarity, reciprocity and trust between individuals in the government and the private sector were important factors that enhanced collaboration in the deliberation councils on Japanese industrial policy (see Johnson 1982, and Okimoto 1989). Social mechanisms do not always need to be based on personal contacts. Players may also place their trust indirectly in systems such as laws and offices (see Luhmann 1979), or social institutions such as in kinship networks or cultural practices such as *guanxi*²¹ (see Hamilton 1997). In this sense, prior social ties as in the case of Japan were not always required as social embedding could be cultivated and developed by either or both partners. Social mechanisms are therefore utilized to develop confidence and trust in collaborative relationships. In a similar manner, the developmental state could also use the economic and political mechanisms to maintain autonomy from groups attempting to ‘capture’ the state. Economically, the Taiwanese developmental state negotiated a ‘fair’ wage for local labour in order to maintain industrial harmony (see Wade 1990). Although not explicitly detailed in the studies, it could be argued that social mechanisms such as trust were developed between the state and labour when the benefits of economic growth and development were re-distributed to the population. With emerging trust in the developmental state, the population legitimized the government’s rule and policies.

To summarize, developmental states attempted to encourage targeted private and semi-private enterprises to collaborate in nationally important economic projects. To achieve this, the state utilized economic, political and social mechanisms to reduce the degree of autonomy and increase the degree

of embeddedness between itself and the targeted enterprises. Economic mechanisms were utilized to convince potential partners that collaboration would be beneficial. Political mechanisms were mainly used to govern or monitor the collaboration, and social mechanisms were utilized to build confidence and trust in the project. In this sense, the motivations, resources and strategies of the private or semi-private enterprises were as important as the effectiveness of the state's embedding mechanisms in understanding whether collaboration would proceed.

THE EXTERNAL ENVIRONMENT

One factor that could affect collaboration between players is the external environment. The external environment—the economic, political and social conditions of the game—plays an important role in shaping the various players' motivations, resources and strategies. Firstly, the resources, motivations and strategies of players in the game are shaped by the environment. Secondly, changes in the external environment could affect the resources, motivations and strategies of players involved in the game. Any changes to the resources, motivations and strategies of players could in turn affect the collaborative relationship, both positively and negatively.

In the cases of the developmental states, the external environment was an important factor that affected the collaborative relationship between the state and enterprises. For example, the role of the United States' foreign policy during the post World War Two period was crucial in the emergence of the developmental states of Asia. As the United States wanted to ensure that Japan, South Korea and Taiwan did not fall into the communist-Soviet sphere of influence, it allowed these frontier capitalist economies to export to the United States and even turned a blind eye to their highly protectionist import policies (Kim 1997, and Pempel 1999a). Thus, the theory argued that the external environment was critical in shaping and influencing the resources, motivations and strategies of the developmentalist government, which in turn affected the other players as well. Changes in the external environment were also shown to affect collaboration, as seen in the case of the South Korean

developmental state. The government chose to end its collaboration with domestic companies in the footwear and textiles industry in the mid-1970s as a result of changes in the global economy. The state viewed that on the one hand, it would be nationally uncompetitive to continue subsidizing the low value-added footwear industry because South Korea could no longer compete with regions such as India, Pakistan, Indonesia and the Philippines. On the other hand, the developmental state identified a niche in the global market for electronic products. Thus, the government chose to collaborate with firms in the electronics and other high-technology sectors, effectively reallocating a large portion of its financial subsidies away from footwear producers towards electronics producers²² (see McNamara 1998). However, in the 1980s, large Korean electronics conglomerates withdrew from collaboration with the state, mainly because these companies had grown so large—mainly through earnings gained from exporting to the global economy—that they no longer required the financial support of the state. Thus, the South Korean government was described as having devolved from a ‘comprehensive’ to a ‘limited’ developmental state after 1980²³ (Kim 1997: 11-12). Thus, the collaboration is not only based on the internal dynamics between collaborating partners. Equally important is the influence of the external environment. When the external environment changes, it might cause one party to change its interests or motivations. Furthermore, changes in the external environment might also lead to a change in the parties’ resources. A change in the motivations and resources might then lead to them altering their strategy.

To recapitulate, this study argues that the Singapore transnational entrepreneurial state utilized embedding mechanisms—resembling those utilized by the archetypal developmental states—with various players such as industrial transnational corporations (including Singaporean industrial enterprises), and the China government, with the intention of improving the competitiveness of the Suzhou Industrial Park project. The effectiveness of the Singapore transnational entrepreneurial state’s embedding strategies do not just depend on its utilization of economic, political and social mechanisms but

also on the motivations, resources and strategies of the other collaborators, as well as the influence of the external environment.

2.3 COMPETITIVENESS: LESSONS FROM TNC-LED DEVELOPMENT

Theories of interventionist development strategies explain how and why a particular government formulates and executes strategies to encourage or maintain the country's economic competitiveness (see Stallings 1990, Gereffi 1994, and Chang 1998). As suggested earlier, there are many different forms of interventionist states, each with their own strategies. This study is interested in Foreign Direct Investment (FDI) oriented interventionist strategies, and more specifically transnational corporation-led development.

TNC-LED DEVELOPMENT: STATE MOTIVATIONS

As discussed in the opening chapter, players in the global game of industrial production can be divided into two groups: those that generate a demand for factors of production, and others that attempt to supply these factors. Certain governments may be motivated to participate in the game for developmental reasons. In the majority of the cases, the objective for these governments is to achieve industrialization. However, in the contemporary era, developing countries face different obstacles to those faced by the first wave of industrial nations. Instead, developing countries usually attempt to achieve 'late' industrialization²⁴, where 'shortcuts' to industrialization need to be taken, ostensibly by the state (see Amsden 1989 and 1992). Some of the shortcuts include 'import substitution' industrialization (ISI), 'export-oriented' industrialization (EOI), and FDI-oriented industrialization²⁵. Furthermore, each form of industrialization can have many variations and sub-forms, as the following section will discuss.

Some governments intentionally choose to participate in the global game of industrial production in order to attract Foreign Direct Investment (FDI). FDI is distinct from foreign 'portfolio investment.' FDI entails control of an overseas project whereas portfolio investment does not. Portfolio investments are also characterized by their short-term nature, whereas FDI is

usually long-term (see Stallings 1990, Wade 1998, and Okposin 1999). FDI can be realized by governments in various forms, including joint-ventures, mergers and acquisitions, original equipment manufacturing (OEM), and the physical location of industrial transnational corporations within the country (Lall 1996). Any of these forms can potentially stimulate local developmental effects such as employment creation, technology and managerial transfer, and capital injections²⁶ (see Stallings 1990 and Lall 1996). The government's choice of strategies and the type of FDI encouraged depends on its resources and motivations as well as the economic and political conditions at the time. Governments may turn to FDI in situations where the domestic economy lacked efficient indigenous enterprises or the availability of capital in society in order to stimulate industrialization. However, there could be situations where there might be inefficient but politically powerful domestic enterprises; in such cases, the state could not afford to marginalize these enterprises. Therefore, the government might instead broker joint-ventures with foreign enterprises as a strategy to gain access to capital. Also, certain governments might broker deals for local enterprises to undertake OEM in exchange for capital injections (see Sklair 1993). With injections of capital, the local enterprise might become more efficient and seek to expand, which in turn may lead to 'developmental effects' in the local economy. Another variant of FDI-oriented industrialization is transnational corporation (TNC)-led industrialization. In this case, the state relies on transnational corporations rather than local industrial enterprises as the 'engines of growth' in their economies. When a TNC establishes new or greenfield operations in the country, it could stimulate developmental effects, such as creating employment opportunities, investing capital, technology and expertise, and foreign currency earnings through taxation (see UNCTAD 1993). In the recent past, governments that have chosen TNC-led development usually find that their domestic enterprises were not globally competitive because they were technologically deficient, or operationally inefficient (see Chang 1998). There might also be a situation where there was a total absence of any private local industrial enterprises²⁷. In such cases, the foreign enterprise could be the

source of economic activity. Having discussed why certain governments might have turned to TNC-led industrialization, the following section discusses how these governments have encouraged such location.

COMPETITIVE ADVANTAGE

Transnational corporations generally base their decisions to locate operations on their business strategy, costs, and risks (Hayter 1997, and Legewie 1999). This combination ultimately would lead these enterprises to locate at the most competitive sites for each particular operation. Understanding this principle, governments could therefore use ‘comparative and competitive advantages’ as incentives to attract investments²⁸. Comparative advantage refers to inherent or ‘natural’ attributes of a group or location, whereas competitive advantage refers to created or manipulated attributes (Hayter 1997). Comparative advantages often refer to primary factors of production—such as land, raw materials, and even the population, which may be utilized as labour—and also to secondary factors of production, including government policies, infrastructure, communications, and administration. Competitive advantage, at least for this study, refers to strategically manipulated ‘comparative advantages.’ In this sense, if the land has been prepared, raw materials already extracted and labour enhanced through national training programmes, these factors would be considered competitive rather than comparative advantages. Singapore’s comparative advantages as a location for industrial operations include its geographic proximity to major Asian markets such as Southeast Asia, Japan and China, and its natural deep harbour. On the other hand, its competitive advantages, such as labour, materials and land rent costs, have been shaped by many factors and agents. Yet, what is most important for this study is the notion that the competitive advantages of any location must be viewed in relation to attributes of other locations. It follows that the quality and costs of any advantages are ‘determined’ not by itself, but vis-à-vis advantages in other regions (Hayter 1997: 32). Furthermore, these advantages are not unitary but remain relatively dynamic, as advantages can be manipulated, enhanced or

have value added by governments (that have the resources) through a variety of means.

When various governments offer their comparative and competitive advantages to industrial transnational corporations, this inevitably leads to inter-governmental competition for foreign capital²⁹. However, it could also be argued that there could be intra-governmental competition for investments, where sub-national, regional and local governments and authorities might compete against one another to ensure that the investments specifically come to their regions. As sub-national governments could also manage or alter their own 'competitive advantage,' a slightly different set of dynamics might apply to intra-governmental competition because of the resources, motivations and strategies of the players. For instance, one widely accepted practice is the offering of financial grants to targeted industrial transnational corporations as a direct incentive to encourage them to locate within the country, as opposed to locating in another country (see Chang 1998). The local government would argue that such grants would be economically 'worthwhile,' as the location of the industrial transnational corporation might spur local economic activity.

However, why should prospective industrial transnational corporations trust the promises—such as gaining access to primary or secondary factors of production—of any government? To transnational corporations, the reputation of certain 'developing third world nations' has been problematic. Many governments made promises on policies such as tax concessions, cost agreements, arrangements and so on, only for the government to start re-negotiations once the investors had committed (Evans 1995: 35). This therefore becomes an issue of state credibility (Schneider and Maxfield 1997: 14). It is unlikely that industrial transnational corporations would invest operations in areas where the credibility of the government is suspect. Examples of poor state credibility include unpredictable changes in laws and policies, unstable government, insecurity of property rights, unreliable judiciary, and the existence of corruption among officials (World Bank 1997: 35). On the other hand, governments with credibility are viewed as low risk

locations for long term investments. Governments can improve credibility through the use of certain ‘embedding mechanisms.’ While economic mechanisms—such as the offering of economic or financial incentives—could be utilized, political and social mechanisms appear more effective in improving credibility. The promises of effective governance and institutional controls³⁰, and the use of familiarity and reciprocity to gain the trust of industrial transnational corporations are thus important (see Schneider and Maxfield 1997). It is important that industrial transnational corporations—because of their profit-seeking nature—would be willing to accept a certain degree of uncertainty and risk. This allows states and governments that have not previously had positive relations with industrial transnational corporations before to demonstrate what capacities they have. The case of the Singapore government was one example of this (see Chapter Four). However, although it is possible to improve credibility, it is equally possible to lose state credibility.

In the global game of industrial production, competitiveness is a critical concept to players in the demand and supply sides. For players in the demand side (transnational corporations), competitiveness is central to their profitability. For players in the supply side, competitiveness is equally crucial to achieving its economic or developmental goals. As there are many governments hoping to attract industrial transnational corporations with a combination of primary and secondary factors of production (as well as other incentives), competition is often very strong. Also, as argued in this section, state credibility is another key issue, and itself can be a competitive advantage. This has proven to be important under conditions of rapid economic globalization, especially after the 1980s.

2.4 GLOBALIZATION AND COMPETITIVENESS

As implied in the discussion, demand-side players such as industrial transnational corporations—not supply-side players such as governments, labour and other local groups—are the prime movers of the global game of industrial production. In other words, the global game of industrial production is initiated and controlled by those that have the resources (capital) to invest.

Since the 1980s, there have been massive flows of capital across national borders (Oman 2000: 1). On the one hand, states and governments were largely responsible, creating more conducive environments for the transnational flow of capital:

‘Where the economic policy orientation in the ‘developing and emerging economies (including Central and Eastern Europe) and the moves in the OECD countries to deregulate markets and liberalize policies—with the privatization of state-owned enterprises in both groups of countries—have drawn national and sub-national governments’ attention, worldwide, to the indispensable role of real private investment as an engine of growth and a source of jobs and competitive strength.’ (Oman 2000: 16)

However, on the other hand, dynamic and successful industrial transnational corporations have made the ‘global shift’ of capital to the most profitable sites (see Dicken 1998). These enterprises have also resorted to lobbying governments (often through other governments) to liberalize trade and industrial policies, ultimately reducing fiscal and legal barriers for the flow of capital (see Wade 2000). The result was a wave of ‘liberalization’, which referred to the relaxation of state legislation that once restricted both incoming and out-going transnational transactions.

‘63 developing countries have liberalized their trade policy regimes since the beginning of the Uruguay Round and some 30 developing and Central and Eastern European countries liberalized their foreign direct investment regimes in 1991 alone.’ (UNCTAD 1992: 7)

It has been argued that the liberalization agenda was forwarded by certain interested parties—such as the so-called ‘transnational capitalist class’—to ‘open up’ markets and states to greater cross-border transactions (see Sklair 1998 and 2001). With the liberalization agenda, the conditions were ripe for ‘rapid economic globalization,’ which can be defined as the unfettered transnationalization of economic activities (Dicken 1998: 32). The most striking consequence of rapid economic globalization is therefore the mobility of capital to transcend national borders.

During the 1980s when economic globalization really took off, the mobile capital flows had a dramatic impact on the global game of industrial production. On the demand side of the game, industrial transnational corporations were shifting capital across boundaries in search of more efficient factors of production. In that decade, there were also more enterprises that were involved in transnational projects (Oman 2000: 32). On the supply side, in addition to the greater number of governments liberalizing their trade regimes, the number of states that were encouraging Foreign Direct Investment also rose (see Stallings 1990, and Chang 1998). This ultimately meant that more players were participating in the global game of industrial production. The result was greater competition on both the demand side and on the supply side of the global game of industrial production. Demand-side players (transnational corporations) competed with each other for market share and profit margins, while supply-side players (states, governments and other local groups) competed to attract FDI (which might include the location of industrial transnational corporation) on the basis of the competitiveness of their factors of production. Under such conditions, certain ‘plan rational’ or interventionist states would act (see Amsden 1992, and Henderson 1997). These governments might argue that inactivity during a period of rapid economic globalization would ultimately lead to a loss of national competitiveness, in turn negatively affecting the national economy’s growth and development.

RESPONDING TO GLOBALIZATION

In the global game of industrial production under conditions of rapid economic globalization, competition becomes much more intense. Thus, FDI—especially in industrial projects—can be so eagerly sought that governments might even grant financial subsidies, tax and regulatory concessions in addition to offering access to the factors of production in the area (see Thomas 2000: 8-9). From an economic viewpoint, this competition might lead to wastages and negative effects. For instance, firm specific subsidies might lead to less efficient uses of capital, reduce socially desirable regulations either in the environment or at the workplace, and shifted the tax

burden away from these highly mobile investors to less mobile actors (Thomas 2000: 9). Although there have been some attempts to regulate such competition in the 1990s—for example the refining of European Union competition policy to control state aid (see Oman 2000)—in the rest of the world, including the Americas and Asia, there appears to be no rules for participation in the global game of industrial production. Supply side players can theoretically utilize any strategies to induce investments, leading to a situation where many analysts believe there is an inevitable ‘race to the bottom.’ (Ross and Tratche 1990, and Thomas 2000) Yet, this race—at least by the middle of the 1990s—has either not begun, or has not really had a detrimental effect (Oman 2000: 12). The main reasons put forward for such an optimistic viewpoint stem mainly from the evidence that while most transnational firms might field bids for its investment, the actual location of operations tend to reinforce their core business strategy, and ultimately still depends on managing costs and risks (*ibid.*) In essence, the empirical reality is that investors still base their locational decision on the ‘fundamentals,’ which involves sourcing for the most efficient primary and secondary factors of production, especially for long-term projects. This has spurred certain supply side players to strategically improve the quality (and/or quantity) of primary or secondary factors of production rather than offer financial, tax or regulatory concessions as investment incentives. For example, the Irish and Singapore governments have invested heavily in improving the quality and level of human capital in their respective societies, particularly through national educational programmes (see O’Hearn 1998, and Perry, Kong and Yeoh 1997 respectively). This programme, coupled with other state-sponsored improvements to primary and secondary factors of production, has seen subsequent re-investments by transnational corporations in these countries.

Governmental responses to rapid economic globalization are usually geared towards minimizing the potential negative effects while simultaneously attempting to take advantage of new opportunities. In such situations, governments might rationalize that further intervention rather than greater

liberalization is necessary because the ‘market’ is basically dysfunctional in efficiently allocating resources. Furthermore, interventionist governmental leaders might argue that the blurring of national economic boundaries, coupled with the intensified and apparently unregulated competition in the global economy, requires extensive state intervention. In this sense, national competitiveness has become a central theme in the nationalistic and political discourse of many governments. In many ways, rather than signal the ‘end of the nation state,’ rapid economic globalization has led some states to rationalize the need for greater governmental intervention in the economy (see Held *et al.* 1999).

To recapitulate, within the theories of interventionist development strategies, governments are necessarily motivated to achieve (or maintain) economic growth. It follows that governments, especially those with a ‘plan rational’ ideology, rationalize that it is their role to intervene in the economy to allocate (and reallocate) necessary resources in order to stimulate growth. In this sense, they can be understood as ‘developmental states.’ The actual strategies adopted by the developmental government depend very much on their access to existing resources in society as well as their current economic and political conditions. However, in all cases, governments will attempt to minimize the negative effects of rapid economic globalization while attempting to take advantage of new opportunities. Effective interventionist states need to identify specific economic niches within the global economy, and devise and execute strategies to exploit them. The most common strategies adopted by the developmental state involve encouraging collaboration and maintaining or improving competitiveness.

2.5 CONCLUSION

There are many governments—at the local, regional or national level—that have different resources, and motivations and face varying economic and political conditions. Within this broad category of states, there are certain governments that are motivated to adopt interventionist development strategies. One such government is the transnational entrepreneurial state,

which adopts typically interventionist strategies such as the utilization of collaborative and competitive strategies. Competitive strategies involve constructing competitive advantages to capture and maintain a profitable niche in the 'market,' with the main intention to make the national economy more globally competitive. Collaborative strategies involve encouraging the complementary collaboration of the key partners.

However, this study argues that the transnational entrepreneurial state varies from other interventionist states—such as the archetypal developmental states—in two areas. Firstly, the transnational entrepreneurial state is primarily motivated by generating profits from its strategies, as opposed to just attaining 'developmental effects.' Secondly, its actions, interactions and transactions are outside of its national borders, and are often with non-local groups. As a transnational entrepreneurial state, the outcome of its strategies are dependent not just on its resources, motivations and how it executed its strategies, but also dependent on the actions of its competitors and the influence of the external environment. The following chapter will construct a methodology that will examine the Singapore government's Suzhou Industrial Park project—as a transnational entrepreneurial state participating in the global game of industrial production—in order to further the theories of interventionist development strategies.

¹ See Chu (1995) and Cumings (1999) on the position of the developmental state theory in the history of ideas between the so-called 'neo-liberal' position of the World Bank's 'East Asian Miracle,' (World Bank 1993) and the 'cultural' (Confucianist) position as discussed by Berger and Hsiao (eds.) (1986) and Kim (1994).

² See especially Sklair (1995) on the implications of global as opposed to international or multinational processes.

³ The 'developmental elite' is a historically specific group in various countries that, with a political and economic agenda, managed to manoeuvre its way to capture power. In Japan, the elite came to power through the electoral process, whereas in South Korea, the 'elite' came to power through a military coup (see Johnson 1982, Amsden 1989, and Kim 1997).

⁴ It could be argued that the latter objective 'backfired' in the long run, as America became the consumer market for East Asian exports, causing a huge imbalance in trade (see Wade 1990).

⁵ It was estimated that U. S. Financial aid to Taiwan between 1950 and 1964 was US\$1.5 billion, while to South Korea it was over US\$6 million between 1946 and 1978 (Pempel 1999a: 154). In addition, the U.S. government structured highly favourable trade policies to 'assist' the growth of these countries (see Weiss 1998).

⁶ For details on state-ministry cooperation, see Johnson (1982), Okimoto (1989) for Japan between 1950 and 1970, Amsden (1989) for South Korea between 1960 and 1980, and Wade (1990) for Taiwan between 1970 and 1990.

⁷ Within this perspective, the instances where national governments subsidized the outward investment of domestic enterprises, for example as seen in the Japanese case after 1970 (see Kojima 1978) ought to be considered both entrepreneurial and developmental in nature.

⁸ Implicit in this assumption that although a state might be the largest employer in a particular country, this form of state employment is seldom 'productive' because it neither expands national economic activity nor economic growth (see Evans 1995).

⁹ The 'problem' with this form of state support is the potential for 'rent seeking.' See Krueger (1992) for a discussion on the causes and impact of rent seeking.

¹⁰ The term 'collaboration' is identical to 'co-operation,' which is more commonly utilized in studies of business ventures (see Child and Faulkner 1998, and Buckley 1996). However, this research draws on the concept of 'complementary collaboration,' which was used by Evans (1996) in his paper on state-society synergy, and was also utilized by Schneider and Maxfield (1995: 15), and Saxenian (1994).

¹¹ For the form and nature of joint ventures, see Child (1994), Dunning (1993 and 1997). For strategic alliances, see Spekman *et al.* (1998), and Gerlach (1992).

¹² See Wade (1990) and McBeath (1998) for the background to the economic conditions in Taiwan.

¹³ Although related, Evans' use of the term 'embeddedness' is distinct from the theories of the 'social embeddedness of economic relations' which stems from the work of Polanyi (1957) and re-cast by Granovetter (1985). See Swedberg (1993) for a summary of 'embeddedness' within the field of economic sociology. In this research, embedding is a purposive strategy to get closer to other actors.

¹⁴ This definition is adopted from developmental state analyses, where state autonomy was defined '...as the extent to which leaders can insulate themselves from societal pressures and autonomously define national tasks.' (Shafer 1997: 94)

¹⁵ Autonomy allowed the state to avoid being 'captured.' Capture refers to a situation of dependency, where one partner is beholden to the other for a variety of economic, political and social reasons, and often finds it difficult to break the relationship (Evans 1995: 14).

¹⁶ For 'markets, hierarchy and networks,' from an economic perspective see Williamson (1996), or Thompson *et al.* (1991) for an organizational perspective, while the phrase 'price, authority and trust' is a sociological interpretation of same mechanisms (see Bradach and Eccles 1989).

¹⁷ See Biggart (1997) on how the 'paternalistic' South Korean government utilized military and police power to 'enforce' its development strategies, generating resentment from private enterprises.

¹⁸ These concepts were drawn from Schneider and Maxfield (1997) and Evans (1995).

¹⁹ In the literature on the developmental states of Asia, reciprocity 'means that in direct exchange for subsidies, the state exacts certain performance standards from firms.' (Amsden 1989: 146) However, for this research, a broader definition is adopted.

²⁰ 'Trust' has many different—sometimes problematic—definitions, depending on the perspectives adopted (see Seligman 1997). Definitions span from a form of social capital (Fukuyama 1995) to economic measurement tool (Williamson 1996). This research adopts the term 'trust' as used in the theory of the developmental state (see Evans 1995, and Woo-Cumings 1999).

²¹ The issue of *guanxi* is a factor in the case of the Suzhou Industrial Park, and will be discussed in greater detail in the later chapters.

²² It was argued that the South Korean state's high degree of autonomy from the local footwear enterprises gave the state the capacity to execute this reallocation, without fear of political consequences (see Evans 1995).

²³ The case of how the once powerful MITI in the Japanese developmental state began to lose its embeddedness with private enterprises from the 1970s onwards, particularly over the development of the supercomputer and standardization of video formats, is remarkably similar.

See Callon (1995), who provides excellent insights even without utilizing the developmental state theory.

²⁴ 'Late industrialization,' as originally introduced by Gerschenkron (1962), is qualitatively distinct from 'early industrialization.' (Amsden 1989, and 1992) The key difference is that early industrialization is mainly driven by private enterprises (with the assistance of the state), but late industrialization is mainly driven by the state (with the assistance of private enterprises). Also, late industrialization is a particular condition that occurs under 'global' rather than 'colonial' or 'imperialist' capitalism (see Kiely 1998: chapter five).

²⁵ These 'models' of industrialization are not mutually exclusive; depending on the motivations, resources and strategies of the government, these models may be used in combination. For example, the South Korean and Taiwanese developmental states executed ISI strategies for some industries, and EOI in other sectors (see Fields 1995).

²⁶ It has also been argued that the form and content of such investments cannot be taken for granted; for example, it has been documented that 'investments' by foreign enterprises in China have also included 'in-kind' investments such as pre-used machinery (Strange 1998: 31).

²⁷ Two examples of this were Singapore at the point of political independence in 1965 (see Chapter Four) and Ireland after the Second World War (see O'Hearn 1998).

²⁸ 'Natural Advantage' was introduced by Adam Smith, upon which Ricardo offered the concept of 'Comparative Advantage.' However, both of these terms addressed inter-state trade dynamics. Later refinements have included 'Competitive Advantage,' most commonly associated with Michael Porter (1990), who discusses both trade as well as other inter-state economic activities. See Michalet (1996) for a discussion of all these terms.

²⁹ As implied, certain government are uninterested in participating in the game for various reasons. Thus, some areas are 'unavailable;' for example, there are several countries whose governments did not legally permit foreign investments or even foreign enterprises. They include China before 1979 or North Korea after 1950. See Dicken (1998).

³⁰ In fact, the political mechanisms of institution-building and development is behind a school of thought (the new institutional school) that argues that development—economic, political and social—can only be sustained if institutions are maintained (see Harris *et al.* (eds.) 1995).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH QUESTION REVISITED

This study intends to develop the concept of the ‘transnational entrepreneurial state’ within the existing theories of interventionist development strategies through explaining the strategies of the Singapore government in the Suzhou Industrial Park project between 1992 and 1999. Towards this end, the study formulated a research agenda aimed at evaluating the Singapore transnational entrepreneurial state’s utilization of the competitive and collaborative strategy within ‘the global game of industrial production.’ In the competitive strategy, the Singapore transnational entrepreneurial state constructed certain attributes that would give the Suzhou Industrial Park project a competitive edge over other industrial estates in China. The collaborative strategy was designed to encourage the collaboration of key players. The focus of the research is therefore to sociologically explain whether these strategies were utilized proactive or reactive measures within the global game of industrial production.

MULTI-LEVEL CASE STUDY DESIGN

The research proposes that the Singapore transnational entrepreneurial state’s utilization of competitive and collaborative strategies within the Suzhou Industrial Park project serves as an ‘exemplary case.’ (Yin 1993: 12) An exemplary case, like a critical case, is defined as a single case, which can be used in testing a theory, providing it meets all the conditions for testing the theory (Yin 1994: 38). However, an exemplary case is one where the situation and conditions are significantly different in substance and form despite sharing basic similarities with other cases¹. Extreme or revelatory cases, on the other hand, are singularly unique, and do not have any similarities with any other cases (Yin 1994: 38-39). In both situations, the findings from a single case can be used to determine whether the theory’s propositions are correct or whether some alternative set of explanations might be more relevant (ibid.). In the

Suzhou Industrial Park project, the comparative case methodology is not suitable because of the lack of cases that have enough similarities for effective comparison and contrasting. As discussed in the previous chapter, despite the existence of seven other Singapore-developed regional industrial parks in the Asia-Pacific region (and one other in China), the Singapore government's involvement in the Suzhou Industrial Park is significantly different. Firstly, the Suzhou Industrial Park was the largest, the most expensive and the most politically significant of all the regional industrial parks for the Singapore government. For instance, the project was originally planned to be a total of 70 square kilometres, whereas all the other parks were an average of one square kilometre.

Secondly, the Suzhou Industrial Park project involved a top-level government-to-government collaboration. The other regional industrial parks were mostly joint ventures between a Singapore government linked corporations and a local municipal development authority. Therefore, unlike the other parks, key leaders of both the China and Singapore governments were personally involved in the project. For example, Singapore's Senior Minister was one of the prime movers in the project, and remained as an advisor throughout the period between 1992 and 1999. In addition, Singapore's Deputy Prime Minister Lee Hsien Loong (Lee Kuan Yew's son) and China's Vice Premier Li Nanqing both sat on the Joint Steering Committee of the Suzhou Industrial Park, which met bi-annually to discuss the progress of the project. Furthermore, every Chief Executive Officer of the CSSD—the joint venture company formed from the two governments—was a central member of the Singapore government (see Chapter Five). Finally, the Suzhou Industrial Park involved a formal 'software transfer,' which essentially referred to the transferring of political and social institutions originally developed in Singapore to the Suzhou Industrial Park area. This involved the training of many Chinese officials, both in China and in Singapore, with the aim of transplanting the so-called Singaporean 'operating system.' The other regional industrial parks did not have any formalized institutional transfer.

Thus, because of these factors, the Suzhou Industrial Park empirically stands apart from the others². On the other hand, it shared some similarities with the other regional industrial parks developed by the Singapore government, including being a self-contained industrial estate offering high quality industrial infrastructure, and management by Singaporeans. It could even be argued that the Suzhou Industrial Park even shared some similarities to several other Chinese industrial parks, such as Pudong New Area, which was specifically designed to attract foreign direct investment. Therefore, from a methodological perspective, this study approaches the Suzhou Industrial Park project as an exemplary rather than critical case, on the basis that it does share some similarities with other zones and estates but is ultimately significantly different in important aspects. Under these considerations, although exemplary cases can generate theories from single cases, relevant cross-references to other cases—in this sense, secondary reference to the other Singapore developed industrial parks in the region or other Chinese Special Economic Zones—may further enhance the findings.

Although the Suzhou Industrial Park project could be viewed as a single self-contained exemplary case, the Singapore transnational entrepreneurial state's collaborative and competitive strategies were executed during four different phases, each reflecting different objectives. During the 'construction phase' between 1992 and 1994, the Singapore transnational entrepreneurial state's competitive strategy was implemented to construct competitive advantages for the Suzhou Industrial Park, while the collaborative strategy sought to encourage its main partners—the China government and the transnational corporations—to collaborate in the project. In the following 'take-off phase' between 1994 and 1997, both strategies were utilized to further enhance the overall competitiveness of the project. Between 1997 and 1999—the 'adjustment phase'—the Singapore transnational entrepreneurial state utilized the two strategies in response to changes in the global game, particularly with the impact of the Asian Financial Crisis, and competition from other industrial estates in China. During the 'disengagement phase,'

which began in 1999, both strategies were utilized by the Singapore transnational entrepreneurial state to disengage from the project.

Therefore, the research adopted the framework of a single multi-level exemplary case, where each historical phase was treated as a sub-case within the larger case. The multi-level case also allowed the research to compare the Singapore transnational entrepreneurial state's utilization of the competitive and collaborative strategies over the various phases.

CASE BUILDING

To recapitulate, the Singapore transnational entrepreneurial state's competitive and collaborative strategies were designed to enhance the Suzhou Industrial Park project's competitiveness. The competitive strategy was designed to give the project competitive advantages over its competitors within the global game of industrial production. The collaborative strategy utilized embedding mechanisms to encourage or enhance collaborative relationships between itself and key partners.

For an analysis of the competitive strategy, the focus of the research will be on how the Singapore transnational entrepreneurial state sought to construct competitive advantages for the Suzhou Industrial Park project. The Singapore government believed that the project's competitiveness—defined as having attributes that other competitors did not have—would greatly enhance its competitiveness, in turn enhancing the project's likelihood of success. Therefore, in order to evaluate whether the Singapore transnational entrepreneurial state was effective (or otherwise) in establishing competitiveness for the project, the research would analyze it as an entrepreneurial agent. An effective entrepreneurial agent is firstly defined by its ability to successfully identify and exploit hitherto unnoticed opportunities or competitive niches in the game, and secondly its ability to financially profit from the venture. The niche that the Singapore government was attempting to capture and dominate was the supply of competitive 'secondary factors of production'—particularly high quality industrial infrastructure and industrial

management—in regions that had competitive primary factors in China. However, from an entrepreneurial perspective, an effective entrepreneurial agent necessarily has to maintain the project's competitiveness over a period of time. Indicators of this would include staying ahead of competitors, and/or being able to adjust to changes in the external environment, which is the global game of industrial production. Therefore, in each of the four different sub-cases, the research has to firstly identify which 'competitive' attributes the Singapore transnational entrepreneurial state was intending to construct within the project, and, secondly, how it went about achieving it.

For analysis of the collaborative strategy, the focus is on how the transnational entrepreneurial state utilizes embedding mechanisms to encourage key players to collaborate in the project, and also to maintain or enhance on-going collaboration. From the developmental state model, developmentalist elites accept that they do not have all the resources necessary to achieve their objectives; instead, they pursue collaboration for pragmatic reasons such as the pooling of resources, sharing of investments and reducing risk. For this case, the collaboration was a means to an end, which was to give the project advantages over other competitors in the global game of industrial production. Therefore, to assess the Singapore transnational entrepreneurial state's attempts at achieving embeddedness in the collaborative strategy, the focus of the inquiry is threefold: firstly, how did the transnational entrepreneurial state utilize the economic, political and social mechanisms to encourage the targeted partners to collaborate in the project? In other words, how was embeddedness with targeted players achieved? Economic mechanisms seek to achieve complementarity and mutual benefit between collaborators; political mechanisms seek to achieve governance and control over the project, and social mechanisms seek to develop trust and confidence between collaborators. A key assumption is that players choose to collaborate because they could economically, politically or socially benefit. Therefore, if the transnational entrepreneurial state can create economic or financial incentives to demonstrate economic complementarity, then targeted players

will perceive mutual benefit in collaboration even though interests may be different. Political mechanisms are often utilized to maintain governance or control over the project. Governance refers to the ability of the protagonist to ensure that the collaborating players fulfil their commitments, which can be itself defined as the investment or performance promises. Finally, social mechanisms are utilized to maintain or enhance confidence in the project. Confidence and trust performs the function of assuring targeted players that the complementarity and mutual benefit will be realized. The assumption here is that under occasional circumstances of uncertainty, if other players are unsure about either complementarity or mutual benefit, then they may not commit or stay committed to the project. As discussed in the previous chapter, the reasons why other players choose to collaborate depend on whether these embedding mechanisms can demonstrate complementarity. Therefore, in each of the four sub-cases, the research has to identify how the Singapore transnational entrepreneurial attempted to encourage or enhance the collaboration.

While the research agenda is primarily focused on how the Singapore transnational entrepreneurial state utilized the competitive and collaborative strategies, it will also examine why it embarked upon the project. In order to do this, the research will provide the background to the project. It has to identify why the Singapore government chose to become a transnational entrepreneurial state through examining its internal and external imperatives. Its internal imperatives can be understood as the resources, motivations and strategies of the state elite, as well as the economic, political and social conditions of its society. The external imperatives can be understood as the influence of processes and dynamics emanating from the global game of industrial production. Therefore, by understanding these imperatives, the Singapore transnational entrepreneurial state's objectives for the Suzhou Industrial Park project become clear. In addition, this research would consciously make a distinction in its usage of the terms the Singapore government, the transnational entrepreneurial elite and transnational entrepreneurial state. When the Singapore government is referred to in the

discussion, specific individual government leaders will be identified when possible. The ‘transnational entrepreneurial elite’ refers to the specific coalition of Singapore government leaders, senior bureaucrats from certain state bureaucracies, ministries and agencies, and several Singaporean business leaders³. The research would also attempt to pinpoint and identify specific individual members of the elite when necessary. Finally, the term ‘transnational entrepreneurial state’ is used to refer to the arms of the state, such as the relevant bureaucracies, ministries, state agencies and statutory boards, that are also part of the project.

3.2 DATA COLLECTION

THE SAMPLE

To develop the concept of the transnational entrepreneurial state, the research will analyze how and why the competitive and collaborative strategies were utilized over the different sub-cases. Therefore, the next stage of the research involved developing an efficient and practical data gathering methodology. Broadly speaking, data can be collected from the sample, which is defined as the sources where relevant information can be collected. As such, this research chose to gather data from both primary and secondary sources. Primary sources refer to purposefully generating and soliciting information first-hand, specifically tailored for the research. For the primary data gathering, the majority of the information was gathered from several sub-samples of respondents during a research fieldtrip to Suzhou between June and September 1999 (see Appendix One). In addition, some primary data was collected from interviewing key respondents elsewhere, including interviews in Hamburg (Germany), London (UK) and Shanghai (China). For the gathering of secondary data, existing sources of information that covered the case’s time frame (1990⁴-1999) were consulted. Secondary sources refer to pre-existing published information that may be used to supplement information that could not be directly collected by first-hand means. These included academic studies, media reports and other forms of published information on the collaboration in Suzhou. The main secondary sources were the Singapore media, particularly

the two English language national newspapers—the Singapore Straits Times and Singapore Business Times—and the Chinese language Singaporean newspaper, the *Lianhe Zaobao*. Several other newspaper and journal articles from other countries (including China)—both in English and Chinese—were also consulted. This research collected every article from 1990 to 2000 that reported on the Suzhou Industrial Park from the Singapore Straits Times, Singapore Business Times, China Daily, and UK Financial Times through the use of the British Library of Political and Economic Science’s ‘FT-Profile’ service⁵. This service was able to electronically index and retrieve the full text of several complete newspaper articles, magazines and certain commercial journals. Other relevant documents and publications pertaining to the Suzhou Industrial Park since 1991 were also referred to, including publications from the Suzhou Industrial Park Development Company itself. Finally, academic studies that were related to the Suzhou Industrial Park or the Singapore government’s broader regionalization programme were also reviewed, with the aim of extracting relevant information.

To analyze the transnational entrepreneurial state’s ability to identify and exploit a competitive niche, and how it maintained this competitiveness, the research interviewed members and employees of the Singapore entrepreneurial state. Members of the Singapore entrepreneurial state referred to informants who are part of the Singapore government and senior executives of the state’s bureaucracies and agencies. For example, the research interviewed two different High Commissioners of the Republic of Singapore to the government of the United Kingdom, the first in December 1997 and the second in March 2000. Employees of the state refer to those who are employed to work in the agencies, both in Suzhou and elsewhere. The research also managed to gather useful data from secondary sources to supplement the primary data on the Singapore government’s explicit aims and methods behind the Suzhou Industrial Park project. These emanated mainly from official press releases and statements, newspaper reports and other publications such as annual reports of the Singapore Economic Development Board and other state

agencies. The research also consulted other academic studies that had either directly or indirectly approach the issue of the Singapore entrepreneurial state. To analyze how the transnational entrepreneurial state encouraged targeted players to collaborate, and also how it subsequently enhanced this collaboration, this research focused on four main informational sources. The first group included individuals from institutions and organizations that they were directly involved in applying the strategy; in other words, they were members or employees of the Singapore transnational entrepreneurial state. The three other groups were selected on the basis that they had 'experienced' the strategy. They included members and employees of the China government, transnational corporations, private and semi-private Singaporean enterprises. To gather primary data from the members and employees of the China partner, the research identified that respondents from two organizations, the Suzhou Industrial Park Administrative Committee (SIPAC) and the Chinese Consortium that held the minority stakeholding in the CSSD, were best placed to yield information. This was because these two organizations were the most obvious 'recipients' of the strategy. From the respondents in the transnational corporations and the private (and semi-private) Singaporean enterprises that were operating in the Suzhou Industrial Park, the research felt that they could yield information about the processes and outcomes, again because they were 'recipients' of the strategy. Within these companies, the research identified that senior managers would have the most experience with the Singapore transnational entrepreneurial state's strategy, as it was often directed at them. Furthermore, because of their managerial experience, often drawn previously from working in many different countries, they could offer deeper insights. Based on these criteria, the research felt it was less fruitful to approach the large body of engineer-level managers. Finally, these senior managers would also be well-placed to comment on the collaboration between the Singapore and the China governments. This research process is known as the 'triangulation' method, where a third party would be asked to provide data or comments about two other parties in the social system. Allowances would have to be made for issues of 'accuracy' and 'validity.' However, this research

felt that such data was valuable, regardless of the issues. At the same time, the research also utilized information from secondary data sources to supplement the primary data.

Finally, the research also identified that there might be others not directly involved in the collaboration who might have been on hand to witness how the strategies was applied, such as others interested parties in Suzhou which included local academics and non-managerial employees in the park. The research also conducted face-to-face interviews with several other respondents selected on the basis of their experience or knowledge of the case. The Honorary Consul-General of the Republic of Singapore to the government of the German government was interviewed in July 1998⁶. Lastly, a total of 11 informed academics were interviewed in Suzhou, London and Shanghai; one official of the Suzhou New District was interviewed, and two officials of the Wuxi Industrial Park was conducted in Wuxi (see Appendix One). To accommodate the heterogeneity of the sub-sample, the methodology designed customized interview and inquiry schedules. In addition, secondary sources, such as media reports and official press releases, were consulted to provide supplementary information. In addition to asking the main sample to provide information about these aspects, the research also corresponded with a prominent critic of the Singapore governmental elite⁷, which proved to be useful.

3.3 THE FIELD RESEARCH

ON-SITE FIELDWORK AND INTERVIEWS

The research conducted a period of extensive fieldwork and interviews at the Suzhou Industrial Park between July and September 1999. During that time, 82 companies involved in 'industrial operations' had located in the Suzhou Industrial Park⁸. Also, 10 enterprises had only received their business license within the last 6 months and were still in the process of 'moving in.' All of these 10 declined to be interviewed, mostly citing the lack of time, and the non-availability of senior management in Suzhou during the period of the

fieldwork. A further 10 companies involved in industrial production declined to be included in the research. Eight companies cited lack of interest in participation and lack of time as their main reasons⁹. Two companies declined to be interviewed as the general manager was not available and the next in command did not want to be interviewed. Therefore the research managed to perform at least one interview for each of the 56 companies operating in the park. The research also interviewed a second respondent—also a senior manager—from 8 of these companies, cumulating in a total of 64 interviews with transnational corporations and Singaporean companies for the research (see Appendix One).

The research maximized the researcher's own contact networks as well as utilized a pattern known as 'snowballing' to get in touch with the sub-sample in Suzhou. Personal contacts played an important role in the data collection in Suzhou. I had made several contacts through my personal networks with several managers of the transnational corporations and Singaporean enterprises who were working at the Suzhou Industrial Park. Most of these managers were Singaporean expatriates. I had contacted them prior to the fieldwork to request for their participation in the research. Through this method, seven interviews were secured. The research also approached several organizations, including the Singapore Economic Development Board, the China-Singapore Suzhou Industrial Park Development Company (both Singaporean agencies) and the Suzhou Industrial Park Administrative Committee (Chinese agency), formally before arrival. The public relations departments of these organizations were contacted, and agreed to participate in the research.

The 'snowballing' technique was useful in gaining further access to the sub-sample. This meant using one interviewee to refer or recommend another person to be included in the study and interviewed. This proved relatively successful for both sub-sample groups (governments and enterprises). For example, the China-Singapore Suzhou Industrial Park Development Company referred the researcher to representatives from the Jurong Town Corporation

International as well as to several companies operating in the park. Similarly the representative from the Suzhou Industrial Park Administrative Committee (SIPAC) referred a representative from the Suzhou Consortium. Similarly, the managers interviewed from initial personal contacts were willing to recommend other managers. This process continued until the leads were exhausted. In this research, snowballing accounted for over 60 percent of the interviews with the sub-sample of managers of transnational corporations. The technique of snowballing has its strengths and weaknesses. Firstly, being recommended or referred by a respondent assisted in opening doors to companies with whom I had no prior contact. Another advantage of snowballing was that the research gained an insight to the social networks of the sub-sample. For example, through snowballing, the research discovered that there were several informal 'clubs' in the Suzhou Industrial Park, including the general manager, financial managers and a 'Singaporean' club¹⁰. One weakness of the snowballing technique was that it was often time-consuming and dependent on the motivation of the referrer. For example, several managers had agreed to recommend their peers to the research, but ended up taking long periods of time to actually arrange a meeting.

For companies that were outside the snowball process, the research gained access by asking to interview the general manager. During the onsite research, there were many occasions when the general manager of the company could not find the time to be interviewed, but offered the 'next-in-command,' such as the assistant general manager, the finance manager, or the human resource manager. The research only interviewed three factory or plant managers, who were engineers rather than administrative managers. As mentioned earlier, the research was able to return to 10 companies to interview a second respondent. For the interviews, I identified myself as a Singaporean student studying in London doing research on the Suzhou Industrial Park. I pre-informed the respondents that the interviews would take around 30 minutes, and was willing to send the interview schedule ahead if asked. Being fluent in both English and Mandarin, I was willing to conduct interviews in

either language, and the choice was entirely up to the respondents. At the end, only four interviews were conducted in Mandarin. One interview with a Japanese manager was translated into Mandarin by his assistant manager. Finally, one interview had to be conducted over the telephone because of the manager's time constraints. For a summary profile of the interviews with the sub-samples, please refer to Appendix one.

INTERVIEW SCHEDULE

The inquiry framework required both 'facts' and 'views' from the respondents. Facts referred to specific data usually relating to the organization whereas views sought the personal opinions of the respondents. The format of the semi-structured interview was chosen to allow the research to be extremely flexible yet have a structured guide and purpose. The semi-structured interview is more flexible than a fixed questionnaire (both written and verbal) because it does not predict possible answers to any questions. Instead, the respondent is encouraged to answer the question in his or her own way, and take as long as is reasonable. In addition, by choosing to personally administer these semi-structured interviews, the research had the advantage of being able to clarify any doubts—both from the perspective of the interviewer and the respondent—or to probe for greater details should the opportunity arise. Finally, semi-structured interviews are most effective for gathering 'views.'

As mentioned earlier, due to the heterogeneity of the sample, there were several different inquiry schedules¹¹. This meant that the research had one schedule for each of the four main sub-samples: namely they were the Singapore transnational entrepreneurial state, the China government, transnational corporations and Singaporean enterprises. As a conscious decision, the research requested that the interviews be conducted at the offices of the respondents. The reasons for this included being possibly invited to visit the production factory and collect necessary publications such as brochures and news clippings stored by the organizations. However, fourteen interviews were not conducted at the respondents' offices: ten were conducted at dining premises (over lunch or dinner, either at the factory's canteen or at other

locations), three were conducted at my lodging in Suzhou, and one was conducted at the home of the respondent. In addition, there were other custom designed schedules that were used to interview other respondents, such as the academics and other interested parties in Suzhou.

While the specific details about the methodology and the outcome of the interviews will be interwoven in the discussion of the sub-cases in the following chapters, there were some generalities. The interview schedules for the respondents that were employees of the Singapore transnational entrepreneurial state sought to get information on the background to the genesis of the Suzhou Industrial Park, the state's regional programme, the role and function of their organization in Suzhou, the reason behind their presence in Suzhou, how they operate (past and present) in Suzhou, and views, comments and assessments on the Suzhou Industrial Park (past, present and future). For the China partner sub-sample, the focus of the inquiry was on role and function of their organization in Suzhou, the reason behind their presence in Suzhou, how they operate (past and present) in Suzhou, and views, comments and assessments on the Suzhou Industrial Park (past, present and future). From both these sub-samples, information and views were sought on aspects such as 'software transfer,' 'disengagement,' 'Suzhou New District' and 'Asian Financial Crisis.'

For the respondents from the transnational corporations and Singaporean enterprises, the focus was firstly, to discover how the 'clients' viewed the competitive niche of the Singapore government in China. Secondly, to identify how the Singapore government's strategies were utilized on them. Thirdly, how did their companies respond to the collaborative strategy, as seen from the reasons these companies gave for choosing to collaborate and locate in the Suzhou Industrial Park. Finally, the research sought to find out whether and how the external environment had any impact on the collaboration. In addition, respondents were asked for their views, comments and assessments on the Suzhou Industrial Park and their views and comments on the relationship between the Singapore government and China

government (past, present and future). The interview schedule intentionally omitted directly gathering background information about the company (unless there was additional time after the interview); this information was eventually gathered by requesting a corporate brochure or sourcing the information from other secondary sources¹². By and large, nearly all the respondents were forthcoming with their responses. There were occasions when respondents admitted that they did not have the required information, or did not hold a particular view. However, the researcher felt that at no stage did the respondents attempt to provide false information, or try to mislead the research. Many of these respondents were also willing to give published materials, including Annual Reports, brochures, and even selected newspaper clippings, as a supplement to the interview.

For every question, a list of possible probes was prepared. The function of probes in the interview methodology is to pursue further details, clarify facts and views. As a conscious strategy, the interview schedule included probes that asked the respondent to offer examples of any point that they were trying to make. One consequence of asking respondents to offer examples was that they tended to tell 'stories.' Stories can be useful for certain forms of qualitative research, especially those that hope to solicit views and attitudes (see Gabriel 1998). On the one hand, stories—at face value—have the function of describing the social phenomenon vividly. On the other hand, the research has to take these stories with a pinch of salt as individuals might seek to embellish or tailor the tales to suit their purposes (Gabriel 1998: 57). In either case, since this research sought to get views, the function of stories was extremely useful, as they tended to give a very clear indication of the respondent's state of mind and feelings towards specific subjects. For example, stories could be told as a form of protest or complaint, or may be told in the form of a joke to demonstrate how ridiculous a situation might be. In cases where the research was not clear what the point of the story was, a probe to clarify was used.

Finally, I maintained contact with many of the respondents in the sample, mainly through electronic mail. The correspondences included completing the interviews, clarifying or supplementing the data provided, and information on new developments. For pragmatic reasons, the last included data source was 1 March 2000.

OTHER DATA SOURCES

During the fieldwork, opportunities were taken to carry out some participant observation in Suzhou. The objective of participant observation was to get a feel of the physical and social environment of the park. This involved observing how factories operated on a day-to-day basis, how the industrial park related to the old historic city of Suzhou and to a more limited degree, how the park was perceived by the local population¹³. When the occasion arose, opportunity was also taken to observe how the park was reported by the local (Suzhou) media, both in print and television reports. Finally, the opportunity was also taken to visit the Suzhou New District (another industrial park in the city), the Wuxi Industrial Park (60 kilometres east of Suzhou) in Wuxi city, and also Shanghai-Pudong Development Area (90 kilometres to the west) in Shanghai. On all of these visits, representatives from the parks themselves welcomed the researcher for a one-day tour. At these sites, I took the opportunity to ask the host on their views of the Suzhou Industrial Park. This was not difficult because it had a very high profile in China. It turned out that even without prompting, the hosts at these other industrial sites offered a comparison of their own park with the Suzhou site.

The opportunity was also taken to consult with several interested individuals who had some knowledge of the Suzhou Park. These individuals could be categorized into three groups: academics with an interest in Suzhou and China, non-managerial employees at the park, and other observers. Between July and September 1999, the researcher held informal interviews with 11 academics. Two of these academics based in Suzhou. This research was fortunate that in the middle of the fieldwork, an international conference on the urban issues of China was organized in Shanghai. The researcher took

the opportunity to meet with eight participating academics who had interest in Suzhou and China. These academics were based at universities and research institutes in other parts of China and the rest of the world. Some interesting information and views were gathered from these academics and were incorporated into the case building. While in Suzhou, the researcher took the opportunity to informally interview 10 non-managerial employees of companies based at the Suzhou Industrial Park. Eight of these individuals were engineers, while the other two were employed as production workers. These individuals did not form the main sub-sample because they could not claim to be familiar with the Singapore transnational entrepreneurial state's strategy; however their perception of the industrial park, the state of the relationships between the Singaporean partner and the others, and their own knowledge of Suzhou city proved to be rather useful in supplementing the main data. Similarly, the research also met with various individuals who could be considered interested observers of the park. These included informally interviewing members of the public (including taxi drivers, salespersons at the Suzhou department stores) and Suzhou University undergraduates. The undergraduates gave some particularly interesting views as many of them had grown up in the city, and had witness the urban and economic changes that have occurred since 1990. In the three months, the research informally interviewed seven undergraduates, of whom five were native to Suzhou city¹⁴.

3.4 CONCLUSION

The objective of this chapter was to formulate the key research questions, and to design a data gathering methodology within the resource and time constraints to analyze the Singapore transnational entrepreneurial state's competitive and collaborative strategies within the global game of industrial production. The research then systematically gathered data for each of the four sub-cases. From chapters five to eight, the findings of each sub-case will be presented and discussed within the analytical framework. Before that, the research addressed an important question, why and how did the Singapore government choose to evolve into a transnational entrepreneurial state.

¹ Also see Sjoberg *et al.* (1991), who argue that single case studies can be sub-divided into 'normal, deviant or extreme' forms, each with its own advantages and disadvantages in terms of data coverage, theory generation and reliability.

² The research will however refer to the experiences of the other regional industrial parks when appropriate. Data for these other industrial parks was based on secondary sources, except for information about the Wuxi Industrial Park, another Singaporean industrial park in China, where some data was gathered first hand (see section 3.2 in this chapter).

³ It was discovered that several business leaders, who were chief executive officers of private companies in Singapore, were also members of the ruling People's Action Party and a few were even members of Parliament.

⁴ Although the Singapore government announced the Suzhou Industrial Park project in 1992, earlier fact-finding missions and pre-announcement negotiations from 1990 onwards were considered useful data and included in the secondary sources.

⁵ The full list of newspapers, magazines and journals can be found in the bibliography.

⁶ This respondent was appointed by the German government to lead a business entourage to Suzhou in 1998. See Chapter Six for the details.

⁷ This was done through a series of email correspondences (see Appendix One).

⁸ There were up to 65 non-industrial enterprises in the Suzhou Industrial Park, mainly because of its other aim of being an integrated township rather than solely an industrial estate. For example, there was one international primary school, one medical centre, two restaurants, and one transportation company. The remaining companies were involved in banking, finance and insurance services.

⁹ One manager said: 'This park is over-studied. We have spent too much time talking to students and journalists. We are not spending enough time doing what we are supposed to do, that is business. I am sorry, we cannot help you (with the interviews).' (Telephone conversation)

¹⁰ The role and function of these clubs or associations will be discussed in later chapters in detail.

¹¹ See Appendix Two for information about the four main interview and inquiry schedules.

¹² This included examining the corporate websites of both the company in question and also of the larger parent company where applicable.

¹³ For instance, the opportunity was taken to chat informally with salespersons in department stores, taxi drivers, University students and several other individuals in Suzhou. It was the intention of the chat to understand these people's perception of the Suzhou Industrial Park. To most of these people, they automatically assumed I was a typical Singaporean expatriate working in the Industrial Park.

¹⁴ Throughout the period of the field research, I stayed at the student dormitories of Suzhou University. Although the months of July through to September were university vacations, all these undergraduates were still there attending 'summer school,' in an attempt to gain credits in their courses.

CHAPTER FOUR

PATHWAYS TO SUZHOU

The Suzhou Industrial Park project emerged when the development strategies of the Singapore and China governments converged at the beginning of the 1990s. This chapter discusses the economic, political and social forces that shaped the motivations of the two governments to embark on the project.

4.1 FDI AS A NATIONAL DEVELOPMENT STRATEGY

SINGAPORE'S DEVELOPMENT STRATEGIES (1965-1980)

The Singapore government was central to the country's economic development since political independence in 1965, particularly in devising and executing a Foreign Direct Investment (FDI) oriented development strategy (see Castells 1988, Huff 1994, and Perry, Kong and Yeoh 1997). The Singapore government shared many similarities with the archetypal developmental state. Within the government, a developmental elite—a coalition of governmental leaders and senior state bureaucrats—identified that Singapore's development rested on achieving industrialization (Huff 1995: 1431). The elite—which included the country's first Prime Minister Lee Kuan Yew, other cabinet ministers and senior executives from the Singapore Economic Development Board (SEDB)—controlled key economic, political and social resources in the country (see van Ekland 1995, and Schein 1996). The government leaders had access to political power, while the bureaucrats supplied the expertise for designing economic and industrial policies. The government had secured over US\$100 million of United Nations developmental aid and World Bank loans¹, which it allocated to the SEDB to begin a programme designed to achieve rapid industrialization and economic growth (Schein 1996: 40).

Achieving industrialization in Singapore was problematic because of the economy's industrial inexperience (see Peebles and Wilson 1996: 1-2, and

Huff 1994: 357-8). Before the 1960s, most of the country's economy revolved around the port, the processing of primary exports, tourism and servicing the British military bases (see Regnier 1987). Local Singaporean enterprises only accounted for less than 15 per cent of the economy if petrochemical processing was excluded (Huff 1994: 234). This led the Singapore developmental elite to adopt the most 'pragmatic' solution (Schein 1996), which involved a significant departure from the developmental state model. Rather than fostering local industrial enterprises, the Singapore government chose FDI-oriented industrialization. The aim was to achieve 'developmental effects' such as employment creation, technology transfer and export earnings from the activities of industrial transnational corporations in Singapore. Fostering, in the developmental state's model, was not viable because there were no large scale local enterprises or conglomerates in Singapore², and that it would be a long and tedious process to transform the few small-scale local industrial enterprises to levels of international efficiency and competitiveness (Huff 1995: 1431). On the other hand, transnational corporations had the most modern technology, capital inputs, established brands and marketing outlets, managerial skills and an in-built capacity to respond to changes in the global economy (Peebles and Wilson 1996: 168-9). Of the developmental effects, the Singapore government prioritized employment creation and technology transfer. At the time, unemployment was a serious problem. In 1957, only 57 percent of the population was employed, of which 21.6 percent were women. By 1970, the situation had not improved: 56.5 percent of the population was employed, of which 29.5 percent were women (Singapore Department of Statistics 1957 and 1970). In addition, the population was growing at a rate faster than jobs were being created (Huff 1994: 292). For technology transfer, as Singapore's industrial structure was technologically backward, the government hoped that industrial transnational corporations would not only bring in advanced technology but also invest in training local workers (Huff 1994: 240).

Encouraging industrial transnational corporations to locate operations in Singapore was not going to be easy. As suggested, archetypal industrial transnational corporations would choose to locate in areas where profits could be maximized and costs minimized. To create conditions that would be conducive for such enterprises, the Singapore developmental state offered them highly 'competitive' factors of production.

COMPETITIVE ADVANTAGE

Although Singapore had certain comparative advantages such as its deep harbour, long entrepot history and strategic geographic position in the Southeast Asian region (Lim *et al.* 1988: 1-4), its only 'competitive' factor of production was labour. Furthermore, the relative cost of Singapore's labour in the 1960s was only marginally more competitive than its geographic neighbours. In 1969, although hourly compensation costs for labour in Singapore was less than one eleventh of the United States and other industrialized countries, they were only marginally lower than those in Taiwan, Hong Kong and South Korea, and higher than in places such as Latin America or Mexico (Huff 1995: 1424). Therefore to make labour costs more 'attractive' to industrial transnational corporations, the Singapore developmental state intervened heavily in the economy. Economically, it invested in developing human resources in Singapore through its public housing, mass education and public health programmes (Perry, Kong and Yeoh 1997: 56-79). Although this might improve the 'quality' of the labour force would benefit the potential investor³, it was a long rather than short-term project. For the short term, the Singapore government utilized political mechanisms to suppress the relative cost of labour to compete with other regions. The state therefore set out to control the labour unions in Singapore (see Chew and Chew 1995, Rodan 1997, and Deyo 1989). This was firstly done through coercive measures, when the police was often utilized to disperse strikes after 1965. This was soon followed by a constitutional amendment that made strikes and work stoppages illegal in Singapore in 1967 (Chew and Chew 1995: 32). Ultimately this led to a situation where there was a complete absence of strikes and stoppages in

Singapore after 1973⁴. Secondly, the Singapore developmental state ‘co-opted’ the labour movement⁵, forming the National Trade Union Congress—an umbrella body for unions in the country—for the purposes of ‘pacifying’ labour groups (see Deyo 1989). The utilization of these political mechanisms was meant to create a ‘pro-business environment’⁶ in Singapore that was supposed to benefit industrial transnational corporations. Within such an environment, it was hoped that Singapore’s competitiveness as a location for industrial production would improve.

To enhance the island’s competitiveness, the state focused on the provision of secondary factors of production. In the first national industrial policy, the government intervened significantly in the economy, offering economic, tax and fiscal incentives to attract transnational corporations—especially those in the electronics and related sectors—to invest in Singapore (Mirza 1986: 88-90). In addition, the Singapore government directed the Singapore Economic Development Board and the Jurong Town Corporation (a statutory board that served as an industrial property developer) to prepare ready-built industrial estates (Huff 1994: 330). Also, transportation and communication links, power, water and sewage were built⁷. The objective was to relieve the potential investors of the need and costs of building their own factories, increasing their returns from any capital investments. In this way, the Singapore government’s provision of ‘competitive’ primary and secondary factors of production to industrial transnational corporations was similar to the utilization of economic mechanisms. However, to industrial transnational corporations, these advantages were marginal. Many other governments—which were the Singapore government’s direct competitors in the game⁸—offered similar economic incentives and often could offer access to much larger local markets (Yeung 1998: 125). Furthermore, Singapore’s industrial inexperience constituted a serious ‘risk’, as industrial transnational corporations also would be hesitant to locate in unfamiliar areas or deal with governments they did not trust or had low credibility, regardless of the promised economic incentives.

To overcome these obstacles, the Singapore developmental state once again intervened in the economy. It utilized social mechanisms to develop familiarity, reciprocity, credibility and trust with transnational corporations. As there was almost no prior social contact between the elite and the decision makers of the transnational corporations, the state had to begin from scratch. The two sides did not share a similar institutional or cultural background, as was the case in the Japan (see Johnson 1982, Okimoto 1989, and Callon 1995). In the late 1960s, the Singapore government had to make themselves known to the key decision makers of transnational corporations, engage in reciprocal activities, enhance its credibility and finally win the trust of transnational corporations. In practical terms, the first step was to develop familiarity. This was achieved through increasing the information available to the other parties. The Singapore government despatched Singapore Economic Development Board officers to disseminate information about the industrial opportunities in Singapore at the headquarters or regional branches of transnational corporations (Schein 1996: 42). Also, the Board established offices in North America, Europe and Japan in a bid to improve familiarity⁹. These bureaucrats aimed to develop credibility through demonstrating honesty, competency and commitment (Schein 1996: 125). Fully aware of the 'reputation' of third world countries, these bureaucrats took lengths to stress that corruption was not part of the Singapore government's or Economic Development Board's vocabulary¹⁰. This eventually turned out to be effective, as many industrial transnational corporations made big capital investments in Singapore. A chairman of DuPont was quoted about why he could trust the Singapore government:

'What they [Singapore government] said, they stuck to. We had a lot of experience in other countries where something would be discussed and agreed upon one day, and then the next day or in a week we would get a call back saying "Well, we didn't quite understand," and/or "We can't do that now." In other countries things would constantly come unglued, whereas in Singapore, once they said something, they stuck to it. Or, if they have to renegotiate, the logic was always very clear and very plausible.' (Edgar Woolard, chairman, DuPont, in 1993, quoted in Schein 1996:124)

The Singapore government also purposively focused on improving levels of reciprocity, which refers to the keeping of promises. In the 1960s, several transnational corporations cautiously made small initial investments and waited to see if the Singapore government kept its promises or made sudden policy changes¹¹ (Mirza 1986: 34). As it turned out, the Singapore government kept its promises on maintaining a 'pro-business' environment, developing human resources and providing quality infrastructure. These measures were viewed positively by executives of transnational corporations, and led to the improvement of credibility and trust. With greater trust and confidence in the Singapore government, senior executives were confident enough to recommend that they expand their operations in Singapore.

The Singapore government also utilized political mechanisms to enhance credibility. It not only created institutions and systems that were designed to demonstrate efficiency and competence—particularly in the fields of bureaucratic administration, management, and execution of policies—it enforced these mechanisms effectively (see Lim *et al.* 1988, Huff 1994, and Perry, Kong, and Yeoh 1997). In many ways, the Singapore government's bureaucratic efficiency had been described as coming closest to Weber's ideal-type of bureaucracy (Evans 1995: 37). This also impressed investors, as demonstrated by the following report:

'In 1973, Texas Instruments simply got brownd off with red tape in Taiwan and revamped its investment plans to centre on Singapore—the company was in operation only 50 days after the investment decision was made.' (Huff 1994: 325)

During this period, the enhancement of the Singapore government's credibility in fields such as institutional administration and governance, particularly in the industrial sector, was to prove highly important for its later regionalization programme.

OUTCOMES OF THE FIRST STRATEGY

The Singapore government's FDI-oriented development strategy between 1965 and 1980 was successful. By the early 1970s, many transnational corporations responded positively to overtures from the Singapore developmental state locating large multi-plant factories on the island (see Table 4.1). Between 1972 and 1978, the total investment in Singapore was US\$2,600.7 million, of which 84 percent were 'foreign' and 16 percent were 'local' commitments (Lim *et al.* 1988: 255). In 1981, foreign firms accounted for 70 percent of the gross output in the manufacturing sector, over 50 percent of employment, and 82 percent of direct exports in the country (Bello and Rosenfeld 1990: 293). By 1973, Singapore moved a situation of labour surplus to labour scarcity (Huff 1994: 326). The unemployment rate fell to below four percent by 1974 (Rodan 1997: 153). With the rising number of jobs, women's participation in the labour force increased from 29.5 percent in 1970 to 44.3 percent in 1980. By the early 1980s, labour was so scarce that the government eased restrictions on foreign workers.

TABLE 4.1: FOREIGN INVESTMENT COMMITMENTS IN SINGAPORE'S MANUFACTURING (1966-1984)

Year	Annual Amount (S\$ millions)	Cumulative Amount (S\$ millions)	Annual Growth Rate (%)
1966	82	239	52.2
1967	64	303	26.8
1968	151	454	49.8
1969	146	600	32.2
1970	395	995	65.8
1971	580	1575	58.3
1972	708	2283	45.0
1973	376	2659	16.5
1974	395	3054	14.9
1975	326	3380	10.7
1976	329	3739	10.6
1977	406	4145	10.9
1978	1097	522	26.5
1979	1107	6349	21.1
1980	1189	7538	18.7
1981	1221	8759	16.2
1982	1162	9921	13.3
1983	1269	11190	12.8
1984	1334	12524	11.9

Source: Chia (1989: 32)

The Singapore government's development strategy was successful. It addressed unemployment problems and transformed the economy. By the mid-1970s, the degree of industrial activity had grown, especially in the electronics and other capital-intensive manufacturing sectors¹² (see Table 4.2). During that time, employment in manufacturing rose from 74,000 in 1965 to 433,000 in 1992 (Huff 1995: 741).

TABLE 4.2: PERCENTAGE OF EMPLOYMENT SHARE OF INDUSTRIES IN SINGAPORE (1961-1991)

Industry	1961	1971	1981	1991
Food	15.5	6.9	3.5	3.1
Wood products	9.2	7.7	2.9	0.6
Printing and Publishing	15.3	5.2	4.4	4.7
Transport equipment	4.3	13.2	10.1	8.3
Garment and textiles	2.2	9.5	9.9	7.2
Electronics	4.9	8.4	24.6	34.4
Electrical Appliances	n.a.	4.7	5.7	5.8
Industrial machinery	5.8	4.7	8.5	6.7
Metal products	7.3	6.5	6.9	8.5
Others	35.5	33.2	23.5	20.7
Total	100	100	100	100

Sources: Singapore Department of Statistics (1983: 84-85, and 1991: 114-5)

Thus, by the mid-1970s, the Singapore government had managed to encourage transnational corporations to locate some of their operations on the island. Based on the amounts invested by these transnational corporations, and the emergence of manufacturing as the largest sector in Singapore's economy, the government's wider objective of industrialization had been achieved. This, in turn, was one of the main factors behind Singapore's overall economic growth (see Table 4.3). Singapore's per capita Gross Domestic Product increased from US\$500 (S\$1,330) in 1965 to US\$15,000 (S\$22,587) in 1990.

TABLE 4.3: SINGAPORE'S SELECTED ECONOMIC INDICATORS (1960-1990)

Period	Average Annual Growth (%)			
	1960-1970	1970-1980	1980-1990	
GDP	9.1	9.0	7.1	
Year	Per Capita Level (S\$)			
	1960	1970	1980	1990
GNP	1,330	2,825	9,941	22,587

Source: Wong and Ng (1997: 121).

This does not suggest that these industrial transnational corporations located operations in Singapore because they shared national interests with the government; instead, transnational corporations came to Singapore because they were confident of profitability. From 1974 to 1984, the average rate of

return of U.S. investment in Singapore averaged 35.4 percent, compared to 16.9 percent for investment in Hong Kong, 18.4 percent for Taiwan and 15.2 percent in Korea (Lim *et al.* 1988: 262). Furthermore, several industrial transnational corporations expanded the size and scope of their operations after a few years in Singapore (Lim *et al.* 1988: 235).

However, Singapore's competitiveness was also enhanced by the structure of the external environment, which was the global game of industrial production. In the period 1965-1980, from the perspective of transnational corporations, the relative cost of Singapore's primary and secondary factors of production were similar to competitor Asian locations such as Taiwan and Hong Kong. However, for those hoping to supply the Southeast Asian market, with regions such as Malaysia, Thailand, Indonesia and China omitting transnational corporations in their economic development strategy at the time, this meant that as a location, Singapore had fewer direct competitors. Therefore, the Singapore government's success at attracting FDI were both due to its embedding strategies as well as due to the structure of the global game of industrial production at the time.

4.2 CHANGES IN THE GLOBAL GAME

By 1980, the global game of industrial production underwent rapid change. The most important change was that more states were beginning to participate in the global game of industrial production. This meant that more governments were turning to FDI-oriented strategies to encourage economic growth. These governments, by hoping to supply primary factors of production in exchange for 'developmental effects,' opened up their once protectionist borders to the inflow of foreign capital from the beginning of the 1980s (see Jomo 1997, and Booth 1999). This 'liberalization' reduced the regional competitiveness of Singapore's labour. Furthermore, the growing labour shortage in Singapore soon increased labour costs and labour turnover (Okposin 1999: 12). With the Singapore government only willing to allow very small numbers of foreign labour to ease this strain¹³, enterprises involved in labour intensive operations experienced diminished profitability (see Lim *et*

al. 1988, and Rodan 1997). In addition, with many industrial transnational corporations located in Singapore, congestion and land shortages contributed to rising rent and land costs¹⁴. The transnational corporations' choices were straightforward: become more capital intensive by extracting greater value from the capital inputs (labour, land or raw materials), or relocate to another area, region or country where costs structures were lower (Krause 1987).

In the 1980s, the Singapore government attempted to re-establish the economy's competitiveness by re-engaging transnational corporations in the project of industrial upgrading¹⁵. The 'Second Industrial Revolution' involved a series of highly attractive tax incentives to encourage transnational corporations to upgrade their operations in Singapore (see Bello and Rosenfeld 1990, Rodan 1989, and Chiu, Ho and Lui 1997). In addition, the state increased investments in improving Singapore's human capital. Although it appeared that industrial upgrading was a 'failure' in the short term, in the mid-1990s the upgrading finally took off (Perry, Kong and Yeoh 1997, and Ho 2000). However, during the 1980s, industrial transnational corporations were beginning to relocate much of their labour-intensive and low value-added operations out of Singapore¹⁶ (Kumar and Lee 1991: 2-3). The destination of manufacturing operations headed to regions in China and other parts of Southeast Asia, including areas in Malaysia, Indonesia, Thailand, the Philippines and Vietnam. Due to their relatively late entry in the game, these regions could offer industrial transnational corporations much cheaper primary factors of production. As industrial transnational corporations could relocate capital and technology fairly easily, the option to maintain operations in Singapore was not economically viable.

ENTER THE DRAGON: CHINA'S ECONOMIC REFORM

In 1979, the China government 'partially' entered the global game of industrial production. The then-Chinese Premier Deng Xiaoping marked a new chapter in China's economic history by opening limited segments of the Chinese economy to global capital. Before this, China—operating within a centrally planned economic system—was mainly participating within the

Soviet-centred world economy¹⁷. However by the 1970s, the Chinese economy faced several structural problems that hindered economic growth, including inefficient production from state-owned enterprises, low levels of capital and expertise, small international market and trading networks, backward technology and poor management systems (see Pomfret 1991, Hsing 1998, and Naughton 1995). In 1978, due to pressure from certain local and regional leaders, Deng and a small cohort of like-minded Chinese leaders believed that the best means of achieving development was to embark upon a series of economic reforms¹⁸. The ‘modernization’ drive, introduced in 1979, had four related dimensions: opening limited segments of China’s economy to global capital; reforming the many state-owned enterprises; the encouragement of private enterprises in China; and finally, the lifting of price controls in favour of ‘freer’ market mechanisms (see Selden 1992 and Perkins 1998). While the modernization drive had important implications for nearly every sphere of China’s economy and society—including reforming the massive industrial and agricultural sectors as well as the social welfare and legal systems—of particular relevance to this thesis was the China government’s (limited) participation in the global game of industrial production as a supplier of factors of production as a purposive strategy to stimulate the economy.

While there were internal pressures to look outwards, there was also strong pressure from economic players such as industrial transnational corporations that were lobbying for the China government to open its economic borders. They were attracted by China’s abundant and cheap primary factors of production. Also, many of these transnational corporations were interested in China as a potentially huge consumer market (see Naughton 1995). Although the China government hoped for foreign investment, it wanted to ensure that any economic, political and social changes were incremental and remained under its control (see White 1988 and 1991, Selden 1992 and Breslin 1996). Therefore as a purposive strategy, rather than opening the whole country to global capital, the China government initially only allowed foreign investment in the designated ‘Special Economic Zones’ of

Shenzhen, Zhuhai and Shantou in Guangdong, which were all less than 100 kilometres from either Hong Kong, the New Territories and Macao, and Xiamen in Fujian province, which was, across the straits from Taiwan¹⁹. The purpose of these zones was to obtain capital, modern technology and managerial techniques from foreign enterprises (Park 1997: 4). These zones resembled 'export processing zones' and 'free economic zones' that were developed by various governments around the world since the 1950s. These were self-contained areas where the economic policy could be different from the rest of the country (Chen 1995: 597). Such purpose-built industrial areas were geared to the offshore sourcing needs of transnational corporations. Imports were duty-free on condition that the products assembled or manufactured were re-exported. To transnational corporations, one advantage of producing in an export-processing zone was to take advantage of low cost primary factors of production while not being subjected to other taxes. For the host country, the advantage lay in the jobs created and foreign currency earned through wages (see Sklair 1993: 6). Another benefit, in theory at least, was that export-processing zones provided opportunities for a country to integrate into the international division of labour without subjecting the entire economy to trade liberalization (see Chen 1995). Despite the evidence from such zones that transnational corporations usually benefited more than the host country, many governments still persisted with the establishment of such zones²⁰ (see Sklair 1993 and 1994).

In order to gain access to capital, foreign currency and technology transfer, the China government legislated that 'foreign' businesses that wanted to operate in China had to form equity-joint ventures with Chinese enterprises (Huang 1998: 10). This essentially relieved the China government of this provision (Leung 1986: 1-2). Also regional authorities were earning revenues from taxation and the employment incomes of the ever-growing pool of labour in South China (see Crane 1990, and Leung 1986). Secondary interests were also to foster closer relations with other countries, particularly Hong Kong, Macao and Taiwan (for their overseas Chinese links). In real terms, the China

government hoped to court the large potential of industrial capital emanating from the overseas Chinese in these three regions²¹.

THE 'OVERSEAS CHINESE' CONNECTION

The China government's strategy to participate in the global game of industrial production initially was aimed at a particular group of transnational investors: the overseas Chinese industrial capitalists²². From the beginning of the 20th century right until the 1980s, overseas Chinese had continued to retain pervasive kinship and village ties in China, regardless of the international diplomatic environment or the overseas Chinese's country of nationality (see Lever-Tracy, Ip and Tracy 1996: 6). Financial remittances made by overseas Chinese after the Second World War right through the period of the Cold War remained high (Bolt 2000: 41-43). Therefore when Beijing made overtures to overseas Chinese business-persons to invest this capital in industrial production in China after 1979, the response was overwhelming (see Table 4.4).

TABLE 4.4: SOURCES OF FOREIGN DIRECT INVESTMENT IN CHINA (1979-1995)
(CUMULATIVE)

Rank	Country/Region	Number of Projects	Contractual FDI (US\$ millions)	Actual FDI (US\$ millions)
1	Hong Kong/ Macao	17, 713	42, 111	20, 500
2	Taiwan	4, 847	5, 849	3, 162
3	Japan	2, 946	7, 592	3, 108
4	United States	3, 474	7, 471	3, 083
5	Singapore	1, 279	8, 666	1, 851
6	South Korea	1, 975	2, 998	1, 043
7	United Kingdom	457	3, 577	914

Source: The Bulletin of MOFTEC (1996), quoted in Luo (1998: 12).

It was not that overseas Chinese capitalists were overtly nationalistic, nostalgic or sentimental when it came to investing in China. Rather, as players in the global game of industrial production, overseas Chinese capitalists were in the best position to take advantage of the opportunities because of their 'advantages': they understood Chinese business practices and *guanxi*, and

could utilize their shared ethnicity if necessary (Roehrig 1994: 91). Although business in China could operate without these three factors, it was argued that ‘outsiders’²³, would face greater obstacles and costs because of the distinctiveness of the Chinese economy:

‘The problems that non-Chinese investors face have frequently been noted: the language barrier, the incompatibility of Western and Japanese management styles with Chinese practices, the distinctive bureaucratic organization of the workplace, the difficulties of hiring and firing workers and of eliminating inefficient work practices, low labour productivity, poor quality control, differences in negotiating practices and the long time-frame needed for their completion and most of all the lack of an established legal framework.’ (Lever-Tracy, Ip and Tracy 1996: 67)

Familiarity with these practices gave overseas Chinese capitalists an advantage in China, reducing ambiguities and enhancing efficiency. By understanding the importance of seniority (also known as hierarchy), ‘face’, consensus, goodwill and *guanxi* when dealing with (traditional) Chinese business-persons, overseas Chinese capitalists reduced uncertainty and penetrated China’s markets quickly (see Bolt 2000). *Guanxi* refers to social and obligatory ties between parties (Hamilton 1997: 270-4). In the business sphere, *guanxi* is believed to enhance reciprocity, credibility and trust (*xinyong*) between partners (Tong and Yong 1998: 84). Thus, when an actor has familiarity, and by implication, expertise with these Chinese business institutions and *guanxi*, he or she has a wider range of resources to maximize over competitors²⁴. The third factor—the shared ethnicity—is probably the most problematic one, riddled with contradiction. On the one hand, there is a perception that the Chinese—like most ‘rational’ human beings—would do business with anyone else regardless of ethnicity, so long as there was profit to be made. On the other hand, there is a perception that the Chinese not only prefer to do business with other ethnic Chinese, but also dislike doing business with non-Chinese. Although this research is not directly interested in proving whether these traditional notions are still pervasive in the contemporary Chinese business sphere, it accepts that

these notions are still perceived to be important by players with an interest in the Chinese economy.

However, within the global game of industrial production, China's relative lack of exposure to global capital and the legacy of its communist economic system incurred higher risk and uncertainty costs for industrial transnational corporations. With the added burden of China's archaic 'Chinese' business characteristics²⁵, these costs would translate into real financial costs when they have to learn about the Chinese business system (see Roehig 1994). 'Communist' hangovers from China's planned economic system included the 'family register' labour system, the collectivization programme, and the large but apparently dysfunctional bureaucracy (Wong 1998: 76-77). Also, there were conflicts of management practices; local managers were reportedly either unfamiliar with so-called 'western' managerial techniques, or reluctant to adapt to them (see Weldon and Jehn 1996, and Hannan 1998). In addition to the costs and risks, transnational corporations faced other obstacles—including linguistic, cultural, legal and political—when investing in a 'developing' country. Furthermore, in China corruption was reportedly rife at virtually all levels of government and Chinese businesses²⁶. A final risk factor was the geo-political status of the state itself. As a world superpower—especially one that had its own nuclear weapons programme—the China government's stance on issues such as sovereignty of Tibet and Taiwan (and a host of other military and strategic hotspots) constantly left China in a position where trade and economic embargoes were commonly threatened. Yet despite all these factors, profit-seeking capitalists still hoped to take advantage of the country's massive potential market and attractive costs structures. To them, China was simply a dragon that was waiting to awaken. By the mid-1980s, it certainly had. Certain transnational corporations with large economic, political and social resources were willing to enter the China market regardless of these risks and uncertainties. Others entered into strategic joint-ventures as a strategy to familiarize themselves with the Chinese business environment (see Nolan and Wang 1999, and Roehig

1994). There were, however, many other more cautious industrial transnational corporations that delayed investing in China because of the deficient secondary factors of production.

After five years of limited participation in the global game of industrial production, the China government was fairly satisfied with the SEZ programme. It had seen the expansion of employment opportunities, increasing worker income, and most importantly increasing the state's foreign currency earnings in the country (Duckett 1998, and Luo 1998). Also, the central China government in Beijing could reduce its financial subsidies to the regions now that tax revenues from foreign investments generated a substantial income for the local authorities²⁷. However, there were some unintended consequences of the Special Economic Zones programme. These included the increasing income disparity in urban centres, uncontrolled urban sprawl, environmental degradation and the growing black market²⁸. Yet, in the 1980s Beijing pushed ahead with the rapid expansion of the zoning programme²⁹. In 1984, an additional 14 cities or towns were designated 'Open Coastal City' or 'Open Coastal Economic Area.' In 1985, the Lower Yangtze Delta, the Pearl River Delta and the Xiamen-Zhangzhou-Quanzhou Triangle were designated as Coastal Economic Development Zones. In 1985, Hainan Island was designated the fifth and last official Special Economic Zone³⁰. By 1990, a 'myriad' of free trade zones, economic and technological development zones, high and new technology industrial development zones, open provincial capitals, border region open areas and state tourist vacation zones were approved by Beijing. By 1995, there were 422 such zones (Yang 1997: 30). In a parallel development, the Beijing government began to encourage broader forms of foreign investment from 1986 onwards with the passage of the Wholly Foreign Owned Enterprise Law, which allowed wholly foreign owned companies to invest and operate these zones (Huang 1998: 10). By 1990, it was clear that the China government had decided to increase its participation in the global game of industrial production as part of the country's development strategy³¹.

4.3 THE GLOBAL GAME OF INDUSTRIAL PRODUCTION IN THE 1990S

By the beginning of the 1990s, China's entry into the global game of production—albeit still limited—added to the trend where more national governments (and indeed local governments) turned to Foreign Direct Investment as part of their economic development strategies. Many of these governments hoped to attract the location of transnational corporations within their shores through offering to supply relatively cheap factors of production. This had the effect of intensifying the competition to become the suppliers of factors of production to industrial transnational corporations. It was under such conditions that the Singapore government consciously and purposively altered its own development strategy.

SINGAPORE'S REGIONALIZATION STRATEGY

At the beginning of the 1990s, the Singapore government formulated the 'regionalization programme' within its new national policy known as the 'Strategic Economic Plan.' (Wong and Ng 1997: 92) This saw the Singapore government evolve into an 'transnational entrepreneurial state.' The evolution can be explained by the developmental state's changed motivations, resources and strategies. In response to the country's internal environment, the Singapore developmental elite was aware that the country could not compete with lower cost areas for the location of transnational corporations³². At the same time, it identified that the external environment—the Asia-Pacific region—held many attractive economic opportunities, some of which it believed it could profitably exploit.

The developmental elite's main motivation for the 'regionalization' programme was officially announced as follows:

'The strategic intent of the regionalisation programme is to build an external economy that is closely linked to and which enhances the domestic economy by participating in the growth of Asia. This programme seeks to form a network of strategic zones in key markets with emphasis on building good linkages between our regional projects and domestic clusters.' (Singapore Economic Development Board 1995: 8)

This meant that the Singapore government was planning to intervene in the regional rather than national economy. In the region, the governments of Indonesia, Malaysia and Thailand had already opened their once protectionist borders to Foreign Direct Investment, particularly between 1987 and 1992 (see Jomo 1997, and Booth 1999). A number of factors were responsible for this significant inflow including the appreciation of the Japanese Yen since the 1985 Plaza Accord, rising costs of labour in Japan and other newly industrializing countries (South Korea, Taiwan and Singapore), increasing lack of security in Taiwan and the 1997 reversion of Hong Kong to China. From the perspective of transnational corporations, these locations had three attractive factors: stable macroeconomic environment, liberal economic regimes and competitive rates of return on investment (Tongzon 1998: 27-29). Therefore, by opening up these borders, the governments of Malaysia, Indonesia and China successfully entered the global game of industrial production. These governments were motivated to participate not just after observing the success of Singapore, Hong Kong and Taiwan with FDI-oriented strategies, but also because of the limited success of their import-substitution industrialization strategies. By 1990, it was difficult for Singapore to compete with these locations to supply primary factors of production. For example, labour and land costs in Malaysia and Indonesia were 75 percent lower than in Singapore (Kumar and Lee 1991: 7). Against this background, the Singapore government accepted the old adage: 'If you can't beat them, join them.' This had three implications. Firstly, the Singapore government sought to move the country out of direct competition for low cost manufacturing operations. Secondly, it identified that it could generate profits if it were an investor in the region. Finally, the surpluses from regional investments could supplement the domestic Singapore economy, maintaining or increasing positive growth rates.

The prime movers behind the Singapore government's regionalization programme were the Singapore transnational entrepreneurial elite. This elite was similar to the developmental elite, in that it consisted of key leaders from the Singapore government, including Lee Kuan Yew (who had by the 1990s

retired as Singapore's Prime Minister and was appointed Senior Minister), his son Lee Hsien Loong (who was Deputy Prime Minister and Minister for Industry and Trade), and senior bureaucrats from state agencies such as Philip Yeo, the Chairman of the Singapore Economic Development Board. Again, because of the political and social resources of these individuals, they had the capacity to direct the various arms of the state, such as the Ministries of Finance, and Trade and Industry, and statutory boards including the Jurong Town Corporation, in the regionalization programme.

The Singapore transnational entrepreneurial elite was confident about the regionalization programme because of its accumulated economic, political and social resources. With more than 20 years of positive economic growth, the country had large financial reserves³³. Politically, it had relatively good diplomatic relationships with the neighbouring governments³⁴. Socially, to industrial transnational corporations, the Singapore government had credibility as an effective and efficient developer and administrator of industrial properties, established from the earlier period of industrial transformation (1965-1980). With these economic, social and political resources, the Singapore government attempted to realize its entrepreneurial motivations.

TRANSNATIONAL ENTREPRENEURSHIP

As discussed in the Chapter One, effective entrepreneurship refers to an agent's ability to identify hitherto unnoticed opportunities and devise strategies to capture them. In practical terms, the Singapore transnational entrepreneurial state had identified that there was demand from transnational corporations for effective secondary factors of production—particularly high-quality industrial infrastructure and efficient industrial management—in the region. Thus, it believed that as an experienced and credible developer of industrial property for industrial transnational corporations, it could provide assistance to companies that wanted to 'regionalize,' which mostly meant relocating lower value-added operations to the region. Although the Singapore government had to financially invest in the region, it was confident that this strategy could generate profits and accumulate wealth, which in turn could

supplement Singapore's national economy. The Singapore government also felt that the country's diplomatic relations with the neighbouring governments could be improved in the process, as mutually beneficial economic relationships between regional governments would lay the foundation for long-term regional geo-political stability (Leifer 1998: 21-22).

The Singapore government's regionalization programme therefore involved 'transnationalization.' In this research's theoretical framework, it is defined as the processes that cross national boundaries but do not necessarily emanate from states or state agencies (Sklair 2001: 1). In this sense, government-to-government transactions are better described as 'international,' or 'bi-national.' Yet, the Singapore government's actual role in its regionalization programme was not very 'state'-like, in the sense that it did not pursue security, trade or bilateral issues. In many ways, it was closer to that of a commercial investor. Thus, these financial investments in the region could not be considered 'international aid,' as the Singapore government's profit motivation was paramount³⁵. In this sense, the Singapore transnational entrepreneurial state was operating as a capitalistic developer and manager of industrial property outside of its national borders. Although it might occasionally utilize political resources such as diplomatic pressure, it was primarily driven by motivations of profit-seeking and wealth accumulation.

INDUSTRIAL PARKS PROGRAMME

One of the central thrusts of the Singapore government's regionalization programme was the Regional Industrial Parks project. As an entrepreneurial strategy, this project targeted a niche in the global game of industrial production. This niche was created by the demand for high quality secondary factors of production in the emerging manufacturing regions of Asia. Although the cost of primary factors of production was very attractive, these regions lacked high quality industrial infrastructure and administrative systems (Kumar and Lee 1991: 12). Therefore, even though production costs were low in the neighbouring regions, many transnational corporations viewed that investing there carried high uncertainty risks and costs. The Singapore

government was convinced that its own 'core competence' was in industrial property development and management. It also had relatively good diplomatic ties with the regional governments that could facilitate its operations. Finally, the Singapore government had financial resources, accumulated from its high economic growth in the earlier period, to invest in the region. Thus, it embarked upon a strategy to exploit this niche in the global game of industrial production to provide and administer high quality industrial estates in the region. The state forecasted that there was, firstly, strong demand from transnational corporations for such industrial estates. Secondly, such industrial estates could be mutually beneficial to the Singapore government, transnational corporations and the local governments. Finally, the Singapore transnational entrepreneurial state was confident that the programme would be financially profitable.

The Singapore government's pilot industrial park project was situated in the Sijori Growth Triangle (see Kumar and Lee 1991). In 1989, the outgoing Prime Minister Lee Kuan Yew and his successor Goh Chok Tong signed agreements with Indonesian leaders such as the then-President Suharto and the then-Minister of Research and Technology B.J. Habibie to develop an industrial estate on Batam Island, an Indonesian duty-free export-processing zone. Batam's attractiveness, at least from the perspective of the Singapore transnational entrepreneurial state, was that it was only a one-hour journey by boat from Singapore. In 1990, labour and land costs were a quarter of those in Singapore (Kumar and Lee 1991: 7-8). The Batamindo Industrial Park, as it was called, was established as a formal a joint venture between a Singaporean and an Indonesian consortium³⁶. The Singapore consortium—consisting of two government-linked companies (Singapore Technologies Industrial Corporation and Jurong Environmental Engineering)—took a 40 percent stake in the venture, while the Indonesian consortium—consisting of the Salim Group—held the rest (Perry, Kong and Yeoh 1997: 175). More importantly, the marketing, development and the management of the property of the park assigned the day-to-day operations to the Singaporean partner (Grundy-Warr,

Peachey and Perry 1999: 310). Many transnational corporations—assured by the quality of industrial infrastructure and administration—relocated many of their lower value-added operations from Singapore to Batam³⁷. At the same time, many of these transnational corporations retained some operations (including their regional headquarters) in Singapore. By 1991, the park was fully functional. Initial responses from investors—both transnational corporations and Singaporean companies—were very positive about the park, particularly as the projected cost savings were realized³⁸. The Indonesian government also benefited from the park, as it created employment and brought in foreign currency through employment and tax revenues. In 1988, just over 10,000 persons were employed in Batam; by 1996, 125,000 were employed, and the foreign exchange revenue earned per employee jumped from US\$620 in 1988 to US\$27,000 in 1996 (Grundy-Warr, Peachey and Perry 1999: 313). Although it was difficult to calculate whether the Park was profitable, most indications were that Batamindo was generating healthy incomes through the sale of industrial units and the sub-lease of factories as well as from management charges (*ibid.*).

At the Batamindo Industrial Park, the Singapore transnational entrepreneurial state's embedding mechanisms were important in encouraging transnational corporations to locate. The economic mechanisms included high quality industrial parks that were similar to those in Singapore, but at a significantly lower cost. The Singapore government utilized political mechanisms such as implementing legal institutions and administrative procedures. The Singapore transnational entrepreneurial state also utilized social mechanisms on industrial transnational corporations, especially in capitalizing on the high level of trust and confidence that transnational corporations had (Kumar and Lee 1991: 12-3). Simultaneously, the Singapore government also utilized embedding mechanisms on with the Indonesian government. Economically, it would underwrite the infrastructural investment and promised the creation of employment opportunities for Batam. It utilized political mechanisms such as its good bilateral diplomatic ties to enhance the

collaboration. Finally, social mechanisms also proved important because inter-personal and inter-organizational relations between government leaders played an important role in getting the project off the ground (see Perry, Kong and Yeoh 1997, and Schein 1996). Buoyed by the relative success of the Batam Industrial Park, the Singapore government was confident that similar industrial estates in the region would be both in demand and potentially profitable. By 1992, the Singapore Economic Development Board had planned for Singaporean industrial parks to be located in Vietnam, Indonesia, India, Thailand and China (see Wong and Ng 1997).

The 'regional industrial parks' project had clearly indicated how the Singapore government's development strategies were transnational and entrepreneurial. It had identified transnational economic opportunities and devised strategies to intervene and capture a niche—the supply of secondary factors of production—in the global game of industrial production. With its economic, political and social resources, the Singapore transnational entrepreneurial elite was confident that such Singapore-run industrial estates would be more competitive over other industrial estates in the region. The ultimate objective was that this programme would serve as a platform to generate financial profits that could supplement Singapore's economy.

4.4 CONVERGENCE

By 1980, with the many new participants in the global game of industrial production, Singapore's earlier competitiveness as a location for industrial transnational corporations had declined. Many transnational corporations were looking to relocate lower value-added manufacturing activities out of Singapore to the new emerging production areas such as China, Indonesia and Malaysia. However, for most of them, despite their competitive primary factors of production—such as labour, raw materials, and land costs—many industrial transnational corporations were still hesitant to relocate operations there because of its relative lack of secondary factors of production (infrastructure and administration). For China specifically, it also had a history of problematic geo-political relations with the 'West' (see Shee

1998). Under these conditions, the Singapore developmental elite projected that its intervention in the Chinese economy—through its transnational entrepreneurship—could not only be profitable to the Singapore economy, but potentially beneficial for the China government and industrial transnational corporations as well. Thus, that was why China, as a location, was included in the Singapore transnational entrepreneurial state's 'regionalization' programme.

BASIS FOR COLLABORATION

One of the main thrusts of the Singapore transnational entrepreneurial state's regionalization programme involved collaboration with key partners. This section analyzes the China government's motivations for collaborating. China's late premier Deng Xiaoping had been an 'admirer' of Singapore's economic development ever since Singapore emerged as one of the successful Asian 'newly industrializing countries' in the mid-1970s (Wong 1999: 51). He was particularly interested in how the Singapore government was able to achieve rapid economic growth and industrial transformation but maintained its dominance in the social and political sphere:

'Many top CCP leaders hope that China will follow Singapore's route to prosperity in which one party dominates politics (with token representation for other parties) but facilitates private enterprise and foreign investment. The system maintains order but spawns wealth.' (Clemens 1999: 7).

Singapore's version of 'authoritarian capitalism' was perceived by Chinese leaders to produce low levels of crime, corruption, and environmental pollution despite large scale industrialization while retaining centralization of power. Furthermore, the Singapore government's policies for providing public housing, education and social welfare were also highly regarded in China (Wong 1999: 53). In the other direction, several Singapore governmental leaders had long viewed China with great interest. While some might have had a cultural interest in forging closer ties with China—as the majority of the governmental leaders were of ethnic Chinese descent³⁹—others had economic

and political motivations. China, to Singaporean leaders, was simultaneously a pot of gold as well as a military threat⁴⁰. Therefore, it was believed that constructive engagement with China could be both economically beneficial and could reduce the likelihood of political confrontation (Shee 1998: 340).

Before 1980, the China government was actually viewed as a 'communist' threat by the Singapore government. It was accused of supporting the Malayan Communist Party, which had in the pre-1965 era been trying to destabilise British Malaya and Singapore (see Turnbull 1990). Yet, the Singapore government's 'Multiracial' ethnic policy encouraged Singaporeans to retain their ancestral cultural and ethnic identity (see Hill and Lian 1995). In the national education system, all schoolchildren were required to learn a second language; this other language was not of one's free choice but pre-determined by one's ethnicity. Therefore, for ethnic Chinese schoolchildren, they would have to study Mandarin. The government also promoted an annual 'Speak Mandarin Campaign.' Although the Singaporean state might not have intentionally meant to build bridges with Beijing, its 'ethnic policies' certainly laid the foundation for future cooperation. With the China government's economic reforms after 1979, trade and bilateral state activities with the Singapore government intensified. The Chinese had sent many delegations to Singapore to 'study' various aspects of Singapore's development including industrial transformation, economic growth, the public housing programme, social welfare system (especially the use of the Central Provident Fund), and public administration (see Wong 1999).

Also in the late 1980s, many Singaporean private enterprises wanted to invest in China to take advantage of the economic potential of the 'sleeping dragon' (see Tan 1992, Yeung 2000, and Yeoh and Wills 1998). By 1990, several Singaporean companies—mostly small and medium sized enterprises owned by overseas ethnic Chinese Singaporeans—had ventured into China (Yeoh and Willis 1998: 3). Like their counterparts in Hong Kong, Taiwan and Macau, these Singaporeans believed that they held an advantage in China because they were familiar with Chinese business practices, *guanxi* and shared

ethnic ties (Yeoh and Willis 1998: 12). Most of their investments were fairly profitable, and the news of their success was soon transmitted to other companies in Singapore. As Singapore government's regionalization programme was about to be launched in 1990, and also because there was a growing demand from Singaporean firms, China was included as a location where, firstly, financial assistance would be given for interested firms to regionalize and secondly, Singaporean-managed industrial parks would be built (see Perry, Kong and Yeoh 1997). Singapore's Prime Minister Goh Chok Tong offered himself as the parks' 'chief salesman.' (*Singapore Straits Times* 12 Sep 1994). Former Prime Minister Lee Kuan Yew—a key member of the Singapore transnational entrepreneurial elite—had gone on record saying that the Singapore government would promote such industrial estates all over the world:

'They [transnational corporations] believe that Singapore's participation will ease their way into the unfamiliar surroundings in China, and will help them achieve conditions more like what they are familiar with in Singapore.' (Lee Kuan Yew, quoted in *Singapore Straits Times* 29 Sep 1994).

The China government welcomed the Singapore government's interests in China, and signed a memorandum of understanding in 1991 to fully support a Singapore-developed industrial park in China. The China government had clearly recognized the benefits of collaboration:

'Westerners find it relatively easy to accept Singapore compared with China. And we find it easier to accept Singaporeans than Westerners. So Singapore stands right in the middle.' (Li Juchuan SIPAC Official, quoted in *Asia INC*, 1 March 1996.)

However, Lee made the Singapore government's objectives about any industrial parks very clear:

'Let us be clear that when we help them (the Chinese), we are not doing it for charity. If it was of no advantage to us, we would not be doing it.' (Lee Kuan Yew, quoted in *Singapore Business Times* 30 Aug 1995).

The 'advantage' was financial profit. Due to the relative success of attracting transnational corporations to the Batam Industrial Park and Bintang Industrial Park in Indonesia, the Singapore transnational entrepreneurial elite had confidence that China would be equally—if not even more eagerly—sought as a location for industrial production by transnational corporations. They could gain access to the Chinese market (in the long term) and to relatively cheap primary factors of production (in the short term). However, in a Singapore government-developed industrial park they would have the additional benefit of gaining access to high quality secondary factors of production, such as Singaporean industrial infrastructure and administration. The local economy could benefit from the employment opportunities created and foreign currency earned through wages. The area would also benefit from urban development, as a new industrial estate would bring new public infrastructure (roads, water, sewage and power), communications (roads and telecommunications) and other industrial facilities underwritten by the Singapore government. As another Special Economic Zone, this Singapore-developed industrial park would not be a threat to the economic or political stability of the country as it could be incorporated within the China government's own zonal programme. Finally, from the China government's perspective, by having such a park, it could 'learn' Singapore's social and economic development strategies 'first hand.' Thus, the project was intended to bring mutual benefit for all the collaborators.

4.5 CONCLUSION

This chapter has discussed the background to the Suzhou Industrial Park project. It has specifically focused on how the Singapore government's interventionist development strategies have been formulated to take advantage of opportunities within the global game of industrial production. In 1965, the Singapore government became a variant of the developmental state. It chose to heavily intervene in its national economy, with the aim of encouraging the location industrial transnational corporations through offering competitive factors of production. However, by the late 1980s, Singapore's

competitiveness declined because of the many new entrants to the global game of industrial production. In response, the Singapore developmental state evolved into a transnational entrepreneurial state with its ‘regionalization’ programme, intervening in the regional rather than national economy. This programme converged with the China government’s own development strategies which were FDI-oriented, as well as the interests of expansionist industrial transnational corporations which were keen to take advantage of China’s cheap primary factors of production. The next chapter discusses how these actors brought the Suzhou Industrial Park into reality.

¹ These funds came from loans from international overseas aid, the United Nations Development Programme and from the World Bank (see Huff 1994). In a typically developmentalist mode, the elite invested most of these funds into economic development projects rather than using them for their self-benefit (predatory state), see Evans (1995).

² In Japan, the developmental state mainly collaborated with the large family-based industrial conglomerates known as *zaibatsus* (Johnson 1982) and in South Korea it was with similarly structured *chaebols* (Amsden 1989, and Kim 1997). The picture in Taiwan was less uniform; the state did collaborate with large state-owned and government linked enterprises, but at the same time devised an indirect form of collaboration with the myriad of small and medium sized family-based enterprises (Wade 1990).

³ As the Singapore government did not have to subsidize many local enterprises, funds were made available for social and physical infrastructure development (see Lim *et al.* 1988).

⁴ There was only one stoppage reported between 1973 and 1985, with one company involved, resulting in 122 workers on strike (see Chew and Chew 1995: 47).

⁵ In disciplining labour for the benefit for foreign investors, the Singapore government has been described as an ‘authoritarian corporatist’ state (see Deyo 1981, and Rodan 1997). The aim was both to suppress wages as well as ensuring industrial peace. In this sense, these measures were to enhance the relative competitiveness of Singapore’s workforce.

⁶ ‘Pro-business environment’ was a phrase regularly utilized by the Singapore government (Mirza 1986). It has been used even in the 1990s, as the later chapters will demonstrate. Several analyses have argued that ‘pro-business’ conditions—defined as favouring investors—were also ‘anti-labour’—defined as being highly inequitable to local labour (Deyo 1981, Rodan 1989, and Bello and Rosenfeld 1990). However, other analysts argued that this bias towards investors was initially accepted by the Singapore government, which it eventually rectified by ensuring equitable distribution after economic growth was achieved (Lim *et al.* 1988, Huff 1994, and Perry, Kong and Yeoh 1997).

⁷ See Perry, Kong and Yeoh (1997), and Schein (1996) on the role of the Singapore Economic Development Board and the Jurong Town Corporation in building industrial estates in Singapore.

⁸ In the 1960s and 1970s, the Singapore Economic Development Board identified Taiwan and Hong Kong as the most ‘serious’ regional competitors, while globally, these included Ireland, Malta and Mexico (see Schein 1996: Chapter Two).

⁹ By the 1970s, the SEDB had opened offices in North America (four branches), Europe (three branches), and Japan (two branches) (Schein 1996: 4).

¹⁰ In a survey of senior executives of the earliest transnational corporations that located in Singapore by Schein in the 1990s, he found that these executives perceived the officers of the

Economic Development Board to be honest bureaucrats, often inflexible but better than being fickle (Schein 1996:125).

¹¹ The record of so-called 'third-world' governments in this regard has suggested that many were unlikely to keep to their promises for very long; they would soon start to make minor alterations to try and benefit more than the transnational corporations. However, transnational corporations were reported not to be easily duped by these governments, often being very cautious with investments. One strategy was to invest incrementally, thus allowing for the possibility of quick and seamless withdrawal should the situation sour (see Evans 1995: 35).

¹² The Singapore government had also attracted industrial investors in the toys, plastics, and textiles sectors in the late 1960s. It always stressed that these were 'interim' and 'temporary' measures (see Mirza 1986). In addition, the island's entrepot trade, which accounted for 32 percent in 1960, declined to under 17 percent in 1990 (Okposin 1999: 49).

¹³ The government cited 'social' problems as the main reason why large-scale economic immigration was never considered (see Lim *et al.* 1988, and Perry, Kong and Yeoh 1997).

¹⁴ While the government had even attempted a land reclamation programme that increased the island's physical size by eight percent, the larger demand for industrial land could not be met (Okposin 1999: 12).

¹⁵ Another term for this process is called industrial 'restructuring.' However, the Singapore government leaders frequently used the term 'upgrading' (see Rodan 1997, and Perry, Kong and Yeoh 1997).

¹⁶ The Singapore government was not that concerned about 'losing jobs' to the regions, as this 'hollowing out' process actually eased the country's labour shortage and dependence on foreign workers (Chiu, Ho and Lui 1997). In addition, the jobs that were lost were mainly low paying and relatively labour intensive. Thus, the 'political repercussions' of hollowing out were not serious enough to worry the Singapore government (see Perry, Kong and Yeoh 1997).

¹⁷ This was despite a Sino-Soviet political 'split' in 1960 (see Pomfret 1991: 2-3).

¹⁸ As in 1979, right until the 1990s, there were many powerful critics in China of the Deng reforms (see Naughton 1995, and Chu 1986). However Deng and his colleagues used a combination of political exclusion and regional diversification to keep his critics at bay until the reforms began to take effect (see Yang 1997).

¹⁹ It was argued that another factor that went in favour of these two provinces was that they were 'starved of any investment during the Mao Tse-tung regime in the 1950s and 1960s.' (Yang 1997: 29)

²⁰ While the concessions and incentives offered in these zones often allowed transnational capital to benefit from cheap local labour and low taxes, critics of EPZs found incidences of excessive waste in infrastructure provision, fragmented production process, low domestic value added, limited job creation, gendered wage inequality, exploitation of the indigenous labour force, especially young female labour, harsh factory conditions, lack of technology transfer, vulnerability to footloose industries, and a lack or absence of forward and backward linkages (see Chen 1995, and Frobel, Heinrichs, and Kreye 1981).

²¹ The two big sources of unemployment in China have been identified as the fallout from 'the streamlining of inefficient state owned enterprises' (see Nolan and Wang 1999 and Wong 1998) and the large levels of displaced rural labour that were coming to urban areas in China (see Wong 1998).

²² The China government also attempted to attract transnational corporations that originated from the West; however, it was clear that the main thrust of its strategies in the first few years after 1979 were directed towards the overseas Chinese (see Huang 1998, Lever-Tracy, Ip and Tracy 1996 and Naughton 1995).

²³ The term 'Outsiders' is often used as a shorthand for 'foreigners.' The term is often applied in an ethnocentric manner by many Chinese businesspersons, making a correlation where ethnicity deterministically corresponds with the ability to understand a particular business culture or practice. However, as this research will show, not only is it possible that non-ethnic Chinese might understand so-called Chinese business practices (see Weldon and Jehn 1997), but it is equally possible that ethnic Chinese—including those in Singapore—might not be able to comprehend the nuances of these practices.

²⁴ There was however much evidence that by the mid-1990s, *guanxi* was becoming less salient as a business practice in China (see Guthrie 1998). Some reasons for this change were China's ever-increasing exposure to Western and Japanese business practices, as well as the intensified competition between Chinese businesses for foreign capital (ibid.).

²⁵ Several analysts have argued that because of China's communist period, certain 'ancient' Chinese business practices have been 'locked in time,' whereas in locations such as Taiwan and Hong Kong, Chinese business practices have been 'modernized', which is defined as having adapted itself to Western capitalism (see Hamilton 1997).

²⁶ Although it is well documented that the China's top-level government is strongly anti-corruption (the punishment is death penalty if perpetrators are caught), the sheer size of the massive Chinese bureaucracy, which stretches from Beijing through to Provincial, Municipal and Local bureaucracies, meant that enforcement was highly problematic (see Wong 1998).

²⁷ See Duckett (1998) on how certain regional authorities were highly 'entrepreneurial' in strategy—particularly in the real estate market—as they had to raise revenues for their regions rather than rely on Beijing for subsidies.

²⁸ See Wu (1999), Park (1997), and Leung (1986) for details.

²⁹ While it might appear that the Central Government appeared to be the prime mover behind the zone expansion programme, Yang (1997) argues that in fact, Beijing was under constant pressure from other regions in China to grant them the benefits that South China provinces received.

³⁰ See Luo for details of the tax, fiscal and regulatory differences in each type of zone or area (1998: 41-3.)

³¹ Even by 1999, China could not be described to be fully participating in the global game of industrial production because 'foreign investment' was still restricted to state-approved zones.

³² In 1980, the Singapore government unveiled the 'Second Industrial Revolution' national industrial policy, which had limited short-term impact. However, the 'positive' effects were much more evident in the 1990s. See Rodan (1997), and Chiu, Ho and Lui (1997) for details.

³³ The amount has been estimated at US\$200 billion in the early 1990s (Perry and Yeoh 2000: 200).

³⁴ Even the once frosty relationships with Malaysian and Indonesian governments had altered significantly in the 1980s, particularly with the development of ASEAN as a regional institution and the overall economic growth of the region (see Leifer 1998).

³⁵ Even though it has been well documented that the 'international aid' man governments offer have business and economic motivations (in addition to humanitarian purposes) (see for example Stallings 1990), the overt profit-seeking nature of the Singapore government's project does not fall into this category and should be considered as a entrepreneurial venture.

³⁶ For a holistic view on the Batamindo project, see Kumar and Lee (1991) for the original objectives and intentions (studied at the onset of the Park), and Gundy-Warr, Peachy and Perry (1999) for a re-assessment of the park after nearly 10 years.

³⁷ In 1995, there were 77 companies operating in the Batamindo Industrial Park (SEDB 1995: 23). Also see report in *Fortune*, 4 March 1996.

³⁸ See Kumar and Lee (1991) where a 'satisfaction' survey was conducted of the managers of the transnational corporations and Singaporean companies that located in the Batam Industrial Park. The general findings indicated very positive feelings towards the park. However these findings must be tempered by the fact that managers were surveyed one year after the park began operations. See Gundy-Warr, Peachey and Perry (1999) for the managers' reactions almost 10 years later.

³⁹ In Singapore, around 65 percent of the population are of ethnic Chinese descent, 15 percent are ethnic Malays, and 10 percent are ethnic Indians.

⁴⁰ China's military threat was significantly reduced with the 1979 Economic Reforms, but the Singapore government, like most other Southeast Asian states, were wary of flashpoints involving the Chinese government, including the border conflict with Vietnam and the issue of sovereignty over the Spratly Islands and Taiwan (see Shee 1998). Also see Wong (1998 and 1999).

CHAPTER FIVE

THE CONSTRUCTION PHASE

Between 1992 and 1994, the Singapore government's main objective was to attract the location of industrial transnational corporations at the Suzhou Industrial Park. Towards this end, the Singapore transnational entrepreneurial state utilized two strategies. The 'competitive' strategy involved designing the estate to have geographic, infrastructural and institutional advantages, while the 'collaborative' strategy involved maximizing the inputs of the project's key partners, which were the China government and industrial transnational corporations. This chapter analyzes how the two strategies were implemented during the construction phase.

5.1 GEOGRAPHICAL COMPETITIVE ADVANTAGES

As discussed in the previous chapter, China was included as one of the destinations for Singapore government investments within the regionalization programme. In 1991 and 1992, to find a suitable location for its regional industrial park, several fact-finding missions were conducted by various members of the Singapore entrepreneurial elite, including Singapore's Senior Minister Lee Kuan Yew¹. By the beginning of 1993, the Singapore government announced it would develop not one but two industrial parks in China, both of which were in Jiangsu Province. Suzhou had been selected as the site for the 'major' industrial park while Wuxi would house the 'regular' estate. The key differences between the two parks were, firstly, that the Suzhou project would be developed and managed by the 'Singapore government' itself whereas the Wuxi project was 'assigned' to a government-linked company and statutory boards (see Chapter Nine). Secondly, the Suzhou Industrial Park would cover 70 square kilometres when completed, while the Wuxi Industrial Park was only one square kilometre in size. Indeed, the Suzhou project was physically the largest of all the Singapore government's regional industrial park (see Table 5.1).

TABLE 5.1: SINGAPORE'S INDUSTRIAL PARKS IN THE REGION IN 1995

Location	Start-up Year	Projected Final Area Size
Batam Island, Indonesia	1991	500 ha
Bintang Island, Indonesia	1992	4 sq km
Suzhou, China	1994	70 sq km
Wuxi, China	1995	1 sq km
Ho Chi Minh, Vietnam	1997 (projected)	500 ha
Bangalore, India	1997 (projected)	100 ha

Source: SEDB (1995: 12)

Furthermore, the Suzhou project was designated by the Singapore transnational entrepreneurial state as its 'flagship' project. This indicated that the Suzhou Industrial Park was more important in terms of prestige and governmental support. Later that year, the two governments signed a Memorandum of Understanding (MOU), giving the Suzhou Industrial Park 'special economic zone' status. This meant that its economic policies had to conform to those in the existing five SEZs and Pudong² (see Appendix Three, section one). However, the agreement also gave the Singapore government special dispensation to implement its own social and administrative institutions at the estate.

'LOCATION, LOCATION AND LOCATION'

To industrial transnational corporations, the main factors that affect locational choices include the economic viability of the location, the costs structures, and the potential agglomeration opportunities³ (Hayter 1997: 12). It was no surprise that the Suzhou Industrial Park's planners were well aware of these factors:

'Firstly, we chose Suzhou because it is geographically near but not in Shanghai, the economic centre of China. Suzhou is only 90 kilometres away from Shanghai, which is a drive of an hour and a half along the highways or a 60-minute ride by train. Shanghai has a population of over 13 million, an international airport and seaport, and the location of the first stock exchange market of the post-reform era. Shanghai is known as the 'gateway into China,' it is a thriving financial and industrial zone, particularly with the emergence of Pudong.' (SO 4⁴)

Thus it was clear that the Singapore transnational entrepreneurial state's intentionally sought to situate its flagship industrial park near Shanghai, as that was the economic centre of China (see Olds 1997, and Yeung and Li 1999). In fact, several leaders of the Singapore transnational entrepreneurial elite had even considered locating the industrial park within Shanghai's Pudong New Area⁵, which was established in 1990 and designated as a 'Special Economic Zones.' Shanghai's Gross Domestic Product grew ten-fold from 1990 to 1997, with industrial activities accounting for over 50 percent of the output. It was reported that at the end of 1997, over a quarter of a million persons were employed in Pudong, and over five thousand overseas-funded projects from 63 different countries with a total realized investment of US\$25.69 billion from a pledged investment of US\$34 billion (Pudong New Area 1999: 34-35). However, the Singapore transnational entrepreneurial elite had reservations about locating their flagship project within Shanghai.

'But after careful consideration, we felt that Shanghai-Pudong was industrially 'saturated.' This industrial saturation would only serve to eventually push costs upwards, through a combination rising wages, land prices and service costs through competition. Also, if we located the project in Pudong, we probably would have to give up some power to the Shanghai authorities. Basically, they have been historically very powerful in the overall political and economic hierarchy in China.' (SO 4)

As the Singapore transnational entrepreneurial state wanted complete autonomy and capacity to build and administer its flagship project, it was wary of any potential interference from interest groups. Thus, with Shanghai 'ruled out' for costs and political reasons⁶, the Singapore transnational entrepreneurial elite chose to locate its projects in the neighbouring Jiangsu Province. By the 1990s, Jiangsu was one of the wealthiest provinces in China (Yang 1997: 32). If the 'municipal cities' such as Beijing, Tianjin and Shanghai were excluded from the ranking of provinces, only Guangdong, Fujian, and Liaoning had higher average per capita GDP between 1979 and 1989 (Chen, Chang and Zhang 1995: 694). It had had an average Real Gross

Domestic Product growth rate of over 12 percent between 1978 and 1996 (see Table 5.2).

TABLE 5.2: SELECTED ECONOMIC INDICATORS BY PROVINCE (1978-1996)

Province	Distribution of National FDI (%)	Real GDP Growth (%)	Population (m)
Guangdong	30.4	14.0	1.8
Fujian	10.3	13.8	1.6
Zhejiang	3.2	13.8	0.8
Jiangsu	11.2	12.7	1.1
Shandong	6.8	11.9	1.1
Hainan	2.6	11.9	1.8
Henan	1.1	11.0	1.5
Anhui	< 0.5	10.8	1.4
Xinjiang	< 0.5	10.8	8.7
Hubei	1.1	10.6	1.4

Source: OECD (2000: 15)

Jiangsu's 'level' of human resource supply was also one of the highest in China, promising the availability of highly skilled persons:

TABLE 5.3: SELECTED SOCIO-ECONOMIC INDICATORS COMPARING JIANGSU WITH THE CHINA AVERAGE (1995)

	Jiangsu	China Average
Per capita net income of residents (RMB)	2,475	1,578
Savings per capita (RMB)	2,721	2,449
Medical profession (per 10,000)	35	10
College students (per 10,000)	30	9

Source: Wei (2000: 153)

Within Jiangsu Province, the Singapore transnational entrepreneurial state selected Suzhou because it was '...prosperous but not industrial.' (SO 4) The city's wealth came from tourism and its silk production. Suzhou also had good transportation and logistic links. It was along the highly developed Nanjing-Shanghai railway line and the Nanjing-Shanghai motorway⁷. In addition, only 15 kilometres away was the Changshu Port, which had direct links with Shanghai Port further down the Yangtze River. However, another consideration was that Suzhou was not already saturated with foreign investment or heavy industrial activity.

‘We looked at sites in Shandong province, which was the next province to the north. They have several economic development zones and there are many Japanese and Korean companies there. But if there were too many foreign players there, our advantage would be reduced. For those reasons, we immediately ruled out the southern provinces of Guangdong, Fujian and Hainan Island because of their concentration of investments from Hong Kong, Taiwan and Macau. Beijing would like more investments in the northernmost provinces of Liaoning and Hebei, but we projected that these areas would be considered too remote. Then there was, of course, Beijing and the next satellite town of Tianjin. But we ruled it out along with Shanghai because of their very high costs structures.’ (SO 4)

This respondent also indicated that the Singapore transnational entrepreneurial elite preferred to operate outside highly developed urban metropolises because it sought some degree of autonomy in implementing its plans. Not only were Beijing and Shanghai already very built-up, both cities already had strong local business, urban and industrial elites⁸. Suzhou, on the other hand was mainly a tourist destination.

‘At first, we thought that if we chose Suzhou, and were successful here, there would be the potential for participating in developing the tourism opportunities. Opportunities for Singaporean companies to come and help develop the tourism industry.’ (SO 4)

Suzhou’s history goes back 2500 years. Long known to Chinese as ‘paradise on earth’ and the ‘city of gardens,’ because of its scenic canals, it was also known as the ‘Venice of the East’ after Marco Polo visited the town in the 15th century⁹. The city’s historic gardens were designated as a United Nation’s UNESCO World Heritage Site. The town is criss-crossed by a network of rivers and canals linked with the many lakes and ponds. There are 175 bridges over these waterways within the 14 square kilometres area of the historic city. In addition to its role as a historically important tourist resort for the Chinese, Suzhou has also been China’s silk production capital for over 500 years. However, these were not the only reasons why the Singapore government chose to locate its flagship project in Suzhou.

LEE KUAN YEW'S PERSONAL INVOLVEMENT

In a pre-release of his autobiography in the year 2000, Lee Kuan Yew, a central member of the Singapore transnational entrepreneurial elite, wrote¹⁰:

'In September 1992, together with Deputy Prime Minister Ong Teng Cheong, I visited Suzhou, China's Venice. It was in a dilapidated condition, with its canals filthy and polluted. But it struck us that we could redevelop Suzhou, make it into a beautiful city, and build a new industrial and commercial section next to it... Suzhou's mayor Zhang Xinsheng drew me aside after lunch one day to say: "Singapore has US\$50 billion in reserves." "Who told you that?" I asked. He had read it in World Bank reports. He added: "Why don't you invest 10 per cent of it in Suzhou? Get us industrialised like Singapore. I will guarantee you special treatment so that your investments will succeed." I said: "Able and energetic mayors soon get promoted; then what?" He paused and replied: "Well, you may have trouble with my successor but, after a while, he will have no choice but to go along the route that I would have laid down. People in Suzhou want what they have seen of Singapore on television, and in the newspapers—jobs, housing and a garden city." I replied: "You have no power to give us a fresh site on which we can build a miniature Singapore. You need the central government's authority to do that." I gave no more thought to this. That December, he turned up at my office to say he had approached Deng Xiaoping's office with his proposition. There was a good chance it would go through. Could I put up a proposal in a plan? He was close to Deng Xiaoping's son, Deng Pufang. So Ong Teng Cheong¹¹ did some artist's impressions of what old Suzhou could be like after restoration, with a modern industrial township next to it. A few months later, when Deng Pufang visited Singapore, I showed him sketch plans of a restored city, together with an adjoining new industrial township. He was enthusiastic. His input, through his father's office, gave this project a push. When Prime Minister Goh visited Beijing in April, he discussed the proposal with Premier Li Peng and [President] Jiang Zemin. In May 1993, I met Vice-Premier Zhu Rongji in Shanghai. I had earlier written to him on the Suzhou project. I explained my proposal for cooperation: a government-to-government technical-assistance agreement to transfer our knowledge and experience (what we called "software") in attracting investments and building industrial estates, complete with housing and commercial centres, to an unbuilt site of about 100 sq km in Suzhou.' (Lee Kuan Yew, 2000)

Lee's personal insights into the origin of the Suzhou Industrial Park highlighted three important features, which would become more significant in later years¹². Firstly, the Singapore transnational entrepreneurial elite was keenly aware that regardless of the geographic, economic and structural

'fundamentals,' it believed that any project in China required the strong collaboration of the central government in Beijing. In this sense, Lee's optimism at this stage was based on Beijing's 'enthusiasm,' as manifested by Deng's son (and by association Deng himself), and later by the three highest-ranking political leaders in China (Li Peng, Jiang Zemin, and Zhu Rongji). Secondly, based on the Suzhou Mayor's 'aggressive' tactics to attract the Singapore transnational entrepreneurial state to Suzhou, it was clear that there was already intense inter-city competition for foreign direct investment in China. As discussed in the previous chapter, nearly every region and province in China had 'economic development zones,' which were courting foreign investors (see Yang 1997). While Beijing had its own national FDI-oriented industrialization strategies—for example, the national projects such as modernization of the automobile and telecommunications sectors (see Nolan and Wang 1999)—regional and provincial governments were 'encouraged' to compete among themselves for additional foreign direct investment. The incentive for local governments was that they could retain the majority of taxes from foreign operations within their city region or province, remitting only a minor proportion to Beijing (see Duckett 1998). This incentive was in addition to any 'developmental effects'—defined as the employment created, technology or managerial skills transferred, revenues earned and local enterprise linkages formed—that might spill over from the location of foreign businesses. On the other hand, because of this 'relative autonomy' to manage the local economy, it also meant that Beijing could reduce state financial subsidies to local governments for economic projects. Beijing might still invest in 'public goods' development such as telecommunications, roads, water and electricity at the local level, but no longer in a socialist sense where it owned and financially supported local industry (Zhong 1996: 363-4). The overall effect of the post-reform central-local economic relationship created many 'entrepreneurial governments' hoping to raise revenue from foreign capital (Duckett 1998: 1-2).

Finally, Lee's recollection hinted of the 'warning signs' that were already present. Lee suggested that the Suzhou Mayor's impending promotion would potentially create problems, as the successor might not share the same motivations. As the later chapters would demonstrate, this turned out to be true, and was one important factor that led to the Singapore government's disengagement from the Suzhou Industrial Park project.

5.2 *INFRASTRUCTURAL COMPETITIVE ADVANTAGES*

Another competitive advantage of the Suzhou Industrial Park's was its provision of 'international standard' or 'world class' industrial infrastructure¹³. One of the weaknesses of China as an industrial location was its poor industrial infrastructure, especially its lack of reliability of the power supply and the quality of water and sewerage systems (Leung 1986: 2-3). Clearly aware of this perception, the Singapore transnational entrepreneurial state decided to build many essential utility plants specifically for the Suzhou Industrial Park to ensure quality and reliability¹⁴. The power and electricity supply was to be supplied from the Suzhou Industrial Park's own 1,200 megawatt diesel-fired Huaneng power plant at Taicang (20 kilometres away) (CSSD 1999: 18). This was however a major development, and was projected to be completed only in the year 2000. Thus, between 1994 and 1999, power was supplied from the national grid¹⁵. As part of the agreements to develop the Suzhou Industrial Park, the Singapore transnational entrepreneurial state ordered the building of a water treatment plant. This plant sourced its raw water from Lake Tai (80 kilometres away) and would supply 150,000 cubic metres of water per day initially for Phase One. The capacity could be increased to 600,000 cubic metres when the Park expanded into later phases. According to the CSSD:

'This water works treats water better than Chinese and WHO 1993 potable water standard. Thus there is no need to install filtration devices if the water standards meet user requirements.' (CSSD 1999: 66)

The Lake Tai Water Treatment Plant became operational in 1998. In an interesting move, the CSSD published its 'treated water standards,' where it defined the minimum required levels for the quality of the water based on its composition. For example, it outlined thresholds for levels of alkalinity, chloride, nitrates, iron, lead, copper and DDT (CSSD 1999: 68). This was a clear strategy to assure potential investors of how serious the CSSD was about maintaining water quality standards. When investors took tenancy at the Suzhou Industrial Park, they were given a copy of the water (and other utilities) standards. This acted as a legal contract between developer and tenant, making the CSSD liable should standards fall below the published thresholds. Similar standards were established for the sewage treatment plant and the toxic waste treatment centre, both purposively built by the CSSD solely for the Suzhou Industrial Park. Gas supplies at the Suzhou Industrial Park came from a joint-venture between the global fuel conglomerate Shell, Keppel Intergrated Engineering (KIE)¹⁶, and the SIP Economic Development Company. Keppel was also given the contract to supply steam within the Suzhou Industrial Park. The only other utility that was not unique to the Suzhou Industrial Park was telecommunications, which was supplied by the Suzhou Post and Telecommunications Bureau.

However, the main competitive advantage of the Suzhou Industrial Park was its industrial facilities. By 1999, the CSSD reported that it had spent over US\$500 million preparing the land. The planners had designed the Park to be highly 'rational' and 'ordered.'

'Its not often that these architects, planners and engineers have a totally blank canvas to work from; but given this opportunity, we wanted to design the most accessible industrial park for the investors. It all boils down to ensuring that we design something that somebody would want to buy!' (SO 4)

Allowances were made for the four canals that ran through the Park, but in general, the properties were well-spaced and the planners intentionally wanted each stand-alone plot to have a small patch of surrounding grass fields. It prepared plots of industrial land of various sizes (minimum 0.5 hectares), all

serviced by roads and utilities. The first eight square kilometres (Phase one) was landfilled to more than 2.626 metres above the Yellow River level (CSSD 1999: 18). This was believed to be higher than the worst flood recorded in Suzhou. It was viewed as being absolutely necessary to ensure that the Suzhou Industrial Park had ‘international-standard’ infrastructure.

‘What we have done is to install the most modern and most effective structures, communications, and technologies to this area. On the south side, Xinsu has built its own estate within the estate, mostly with ready-built factories. On the north side, we have prepared and treated the land, provided the connecting roads, power, communications, sewage and water links. For investors, its almost plug and play [a term referring to being immediately being able to start operations by just putting the plug into the socket].’ (SO 4)

Although CSSD re-leased or ‘sold’ land to companies to build their own factory buildings, it legislated many restrictions and controls over what could be installed. For example, there was an investment criterion for the Suzhou Industrial Park that stated that a minimum investment of US\$200 per square metre on the Gross Floor Area was required to ensure an adequate standard of factory buildings in the Park¹⁷. Also, even though Suzhou is not in an earthquake zone, all buildings were still required to be built to sustain an earthquake intensity of magnitude ‘6’ on the Richter scale (CSSD 1999: 20). In addition, investors were required to comply with all of CSSD’s planning, safety, environmental and other regulatory controls, some of which were standardized for all of China. The objective of these controls was to ensure that the Suzhou Industrial Park not only internally contained the best infrastructure (particularly the power, water and sewage supply), but also had the appearance of having the best external infrastructure, which referred to the architecture of the factories.

‘When we approve projects, we tried to take into consideration how the investor’s building would blend in with the background. We of course do not dictate what the buildings should look like, but we will—and have in the past—object to certain designs.’ (CO 1)

READY BUILT FACTORIES

At the Suzhou Industrial Park, investors could thus either acquire the land from CSSD and build the factories themselves, or take the 'quicker' option, which was to buy or lease a Ready-Built Factory (RBF). RBFs could relieve investors of the need to spend time and money building their own factories. Between 1965 and 1980 in Singapore, the Singapore government had invested heavily in providing RBFs to industrial transnational corporations. Thus, the Singapore transnational entrepreneurial state once again projected that RBFs would enhance the competitiveness of the Suzhou Industrial Park. The Jurong Town Corporation, which was also responsible for building RBFs in the past, was awarded the contract for this task. Its overseas wing, known as JTC International (JTIC), established Xinsu Industrial Development (Suzhou) Company Limited¹⁸. Xinsu would acquire the land lease from CSSD in a commercial transaction, then develop ready-built factories of several different specifications, including stand-alone units or units in multi-storey complexes (see Appendix Three, section two). According to Xinsu:

'At the heart of the vibrant China-Singapore Suzhou Industrial Park is a series of ready-built factories owned, developed and managed by the Xinsu Industrial Development (Suzhou) Co Ltd. Modelled after Singapore's successful industrial estates, Xinsu's factories offer international manufacturers the advantage of easy entry into the dynamic China market, or to tap China's vast resources to reach world markets. World-class ready built factories, complete with the vital infrastructure and services, minimise hassles at start-ups, allowing investors to devote their full efforts to building their business.' (Xinsu 1999: 1)

At the Suzhou Industrial Park, tenants could sub-lease RBF units for a minimum of three years, or buy the leasehold from Xinsu. With the availability of RBFs, investors had the possibility of a quick start-up, only undertaking minor renovations to customize the RBFs to suit their operations. It also allowed certain investors the relative flexibility to 'test the water' with an initial small-scaled operation in Suzhou. With the relatively short minimum sub-lease, and with the relatively low relocation and renovation costs incurred, should an industrial transnational corporation decide not to extend its stay in

Suzhou, withdrawal costs would be significantly lower than if the company had built its own factory. By 1999, Xinsu's RBFs occupied 13.7 hectares of the total eight square kilometres at the Suzhou Industrial Park, which translated into about 25 percent of the overall area¹⁹.

Although the provision of high quality infrastructure was one of the key economic mechanisms to attract transnational corporations to the Suzhou Industrial Park, it made the Park more expensive when compared to many other industrial estates in China. Still, the Singapore transnational entrepreneurial elite believed that the project's overall costs would still be lower than in 'developed' industrial areas such as Hong Kong, Taiwan, Singapore or South Korea.

5.3 *INSTITUTIONAL COMPETITIVE ADVANTAGES*

'Learn from Singapore's experience, build a Singapore standard industrial park.'²⁰ (Banner at entrance of Suzhou Industrial Park, reported in *Singapore Straits Times* 15 Sep 1994)

To many transnational corporations, despite China's cheap primary factors of production, the risk of investing in China was seen as high because of the country's lack of effective secondary factors of production. These include its weak governance system, a lack of formal legal institutions and the existence of 'grey' institutions (Wong 1999: 55). Actors could overcome these weak governance structures by utilizing informal institutions such as Chinese business practices or *guanxi* (see Hamilton 1997). However, as the Singapore transnational entrepreneurial state did not want to play this 'game,' it decided to establish its own 'rules' for the Suzhou Industrial Park. More specifically, it wanted the Suzhou Industrial Park's to have a Singaporean operating system (OS), especially in administration and governance. The so-called Singaporean 'operating system' could be broadly understood as 'institutions.' Institutions were defined as '...the rules of the game, some formal others informal.' (North 1990: 1) Therefore, the main role of institutions is governance or control, defining how things should be done, both formally and informally. Thus, the Singapore transnational entrepreneurial state introduced both formal and

informal institutions to provide a stable and predictable operating environment for industrial transnational corporations.

'PRO-BUSINESS' ENVIRONMENT

In order to construct institutional competitive advantages at the Suzhou Industrial Park, the Singapore transnational entrepreneurial state sought to offer industrial transnational corporations a 'pro-business environment'²¹. This would be achieved through the transfer of 'Singaporean software' to the Suzhou Industrial Park Administrative Committee (SIPAC), which was the local authority appointed by China's State Council and the Jiangsu Province Government to govern the Suzhou Industrial Park project²² (CSSD 1999: 2). SIPAC administered services such as the selling of leasehold rights of the land under its jurisdiction, approving investment projects, the planning and regulation of the usage of land and natural resources, construction, traffic growth and environmental protection of its designated area (CSSD 1999: 6).

The Singapore transnational entrepreneurial state did not want SIPAC to resemble the 'stereotypical' Chinese local governments that administered the SEZs and other economic zones. Criticisms of these administrations were that they either were inexperienced or inefficient in dealing with transnational corporations, or corrupt²³. Therefore, the Singapore transnational entrepreneurial elite formally institutionalized the 'software transfer' programme with the aim of training SIPAC to operate under 'international standards.'

'What we need is to train a team of people who will master international economic management, gather practical experience and have creativity and a pragmatic attitude.' (Yang Xiaotong, Vice-Governor of Jiangsu, quoted in *Singapore Straits Times* 5 Dec 1994)

'We have two sets of people looking after the baby, one used to looking after the baby in the Chinese way and the other in the Singapore way. And we are trying to teach them how to handle the baby in the Singapore way.' (Goh Chok Tong, Prime Minister of Singapore, quoted in *Financial Times* (UK) 27 May 1997)

The programme's 'official' objective was to impart Singapore's 'accumulated and proven methods of industrial development and administration' to its Chinese partner (CSSD 1999: 10). However, within the theoretical framework of this research, this programme had the additional purposes of governance and credibility building.

'Software transfer refers to the sharing of Singapore's successful public administration and economic management experience with the Chinese authorities so that they can formulate **pro-business policies** in the CS-SIP, and govern with **transparency and efficiency**... SIPAC together with the SSPO will identify the relevant type of "software" to be shared. Mutual visits and training attachments help Suzhou officials understand the Singapore way as well as international practices. Together with Singapore government officials, Suzhou officials decide how best to adapt Singapore's practices to suit local circumstance by selecting and modifying appropriate elements. Singapore sends its government officials to Suzhou to assist in this adaptational process.' (Emphasis in the original) (CSSD 1999: 10).

Although the Singapore transnational entrepreneurial elite accepted that the Suzhou Industrial Park would have to operate under the standardized tax policies of the other SEZs in China, it could institutionalize how these policies were administered.

'We want SIPAC to be fast, efficient, pro-business, and professional towards investors. SIPAC has to be the solution, not the problem. For speed, we set specific time periods for nearly every task, from business license approvals to answering queries. For efficiency, we wanted SIPAC to have at its fingertips answers to every question. For pro-business environment, we want SIPAC to be sympathetic and understanding to the needs of the investor. Of course, we want them to be firm and fair at the same time, but we believe these are compatible. All this adds up to a sense of professionalism. This is what got Singapore a good name, and if they can get it done here, it will give them a good name too.' (SO 4)

It was clear the Singapore transnational entrepreneurial state gave this programme high priority. The Singapore Software Project Office (SSPO)—managed by the Singapore Economic Development Board—was established in 1993 in Suzhou. By 1996, nearly 50 Singapore government bodies—including the Ministries of Labour, Trade and Industry and National Development, the

Housing Development Board, the Central Provident Fund Board, the National Trade Union Congress, the Trade Development Board and the Urban Redevelopment Authority—were involved in conducting courses for Chinese officials both in Singapore and in Suzhou (*Singapore Straits Times* 16 Apr 1996). In 1996 alone, 200 Chinese officers and bureaucrats were sent on short training trips to Singapore (*Singapore Straits Times* 16 Apr 1996). The courses, run in Mandarin, covered three areas: ‘economic management,’ encompassing marketing, registration of companies and incentive programmes for investors; ‘urban management,’ which covered environmental protection, building control and town planning; and ‘labour management,’ which included employment contracts, health care and labour insurance. In addition, specialized courses on customs clearance, waste management, workers’ provident fund, human resource matters and real estate management were also organized. The Software Transfer Project’s Chief Co-ordinator also reported that Singapore officials from various bodies were sent to Suzhou for up to two months at a time to train Chinese officials (*Singapore Straits Times* 16 Apr 1996). Although no figures were supplied for the cost of these programmes, it was evident that this was not a ‘cheap exercise,’ especially to the Singapore government that was financially underwriting the Project²⁴.

In addition to these formal institutions, the Singapore transnational entrepreneurial state introduced informal institutions to SIPAC as well. One example was in SIPAC’s recruitment policies. SIPAC was essentially an organization under the jurisdiction of the China government; in other words, recruitment of its staff should have been entirely its own business. However, the Singapore entrepreneurial elite wanted SIPAC to be staffed by highly educated techno-bureaucrats. It lobbied the Chinese government to recruit some of the best talent in the region²⁵. Furthermore, the Jiangsu provincial government and the Suzhou municipal authorities were asked to release their best bureaucrats to join SIPAC. The Singapore transnational entrepreneurial state then encouraged SIPAC to remunerate their bureaucrats at almost 200 percent above local bureaucrats, and almost 150 percent above their peers

in the private sector. This saw, for instance, a person with a PhD degree in Chemistry lecturing in Nanjing University joined SIPAC as the Investments Officer for the Chemicals Industry Sector. The Singapore transnational entrepreneurial state believed that the high remuneration of these bureaucrats was critical for insulation against capture from interest groups. Even though SIPAC's bureaucrats were fluent in both Chinese and English, the appearance, the manner and posture of bureaucrats were deemed to be extremely important.

If these institutions were successfully introduced at the Suzhou Industrial Park, then the Suzhou Industrial Park would have a Singaporean 'operating system' which was preferred by industrial transnational corporations over the 'grey' Chinese business system. Thus, the constructed institutional advantages functioned as economic mechanisms that encouraged the location of industrial transnational corporations.

'INNOVATIVE' SYSTEMS

However, the aim of the software transfer not just to benefit the investor. The China government was keen to experiment with the transplanting of social welfare and labour management institutions developed in Singapore to Suzhou. As suggested in the previous chapter, the China government was ambivalent about embracing 'capitalism,' and had admired how the Singapore government had maintained economic efficiency and industrialization together with providing effective social welfare policies (see Wong 1999). In this regards, the China government allowed Singapore transnational entrepreneurial state to implement social security and labour management systems in the Park. For the labour management system, although Suzhou city had a large pool of highly skilled persons, the Singapore entrepreneurial elite wanted the employers (transnational corporations) in the Park to be able to recruit staff from all over China. This was therefore an opportunity for the China government to experiment with its (internal) migration policy. Previously, labour mobility was virtually non-existent in China. This was because each individual was tied to his or her *xiangqu* (literally translated into village district) or local district. The existing system provided the individual

with all the social, medical, educational and residential entitlements under socialism. If an individual decided to move from one city to another, he or she would have to apply for a transfer of *xiangqu* from one district to another. Considering the tight residential situation in urban China, mobility was more or less considered impossible. The only exceptions to this were for individuals who were civil servants, where the state or provincial authorities would be in a better position to facilitate the 'transfer.' These civil servants would be issued with the Blue Residency Permit, which gave them equal rights and privileges as local residents. Secondly, in China, employment matters were managed by local *renqaiweiliu zhongxin* (talent exchange centres), which were state-run employment agencies. At the Suzhou Industrial Park, the Singapore transnational entrepreneurial state established a 'talent exchange centre' of its own, known as the Suzhou Industrial Park Human Resource Company (SIPHRC) in the industrial estate, albeit with a slight but significant difference.

'Although we had these employment centres, they were very different from those in other estates. We [SIPAC] felt that we shouldn't allocate employees to companies. This was certainly not how they hired workers, so we felt that by doing this, it would not be 'appreciated' by the multinationals. We thus allowed the companies to interview, recruit and hire employees themselves.' (CO 1)

Thus, industrial transnational corporations were not obliged to 'use' the SIPHRC. Instead, it functioned as an information consolidator and intermediary for transnational corporations and the workers by assisting in setting up recruitment fairs on behalf of employers, or announcing vacancies at a company. It could also process 'transfer of personnel records,' for persons coming to work in the Suzhou Industrial Park, and even the processing of passports for overseas training for PRC nationals. However, the most significant powers that the Singapore transnational entrepreneurial elite negotiated for was in the area of hiring non-Suzhou residents.

'Besides hiring from Suzhou, investors in CS-SIP can also hire non-Suzhou residents to augment their talent pool. University graduates from all over China may be recruited, provided they are not *dingxiang* (pre-assigned) or *weike* (company-sponsored) students²⁶. College and

specialised secondary school graduates (vocational schools) from other cities may also be recruited. All other categories of graduates may be recruited with SIPAC's prior approval. At the lower-skills level, hiring of non-Suzhou residents is permitted if the enterprises can show proof of their unsuccessful recruitment attempts within Suzhou.' (CSSD 1999: 31)

To establish a 'mobile labour' policy, the Singapore transnational entrepreneurial state urged the China government to expand the 'Blue Residency Scheme,' where Blue Permit holders—as discussed earlier—were allowed to enjoy similar rights to residents, including educational opportunities for their children. For example, the children of Blue Permit holders could come under the Suzhou quota for university entrance examinations and placement after graduation. Also Blue Permit holders would have the same housing benefits and access to public amenities in the Suzhou Industrial Park as local residents. The new regulation allowed Blue Residency Scheme holders become Permanent Residents after two years of residency. The key difference was that anyone, not just civil servants, employed in the Suzhou Industrial Park would be eligible to apply for the Blue Permit scheme. Thus, the Singapore transnational entrepreneurial state believed that the mobile labour system would be perceived by industrial transnational corporations as contributing to the estate's 'pro-business' environment. At the same time, it also served as a testing ground for China's own social and labour reforms.

Another institution that the China government was keen to implement was the Singapore government's version of the Provident Fund scheme. The China government had admired Singapore's Central Provident Fund system, which had been in operation for more than 25 years (Wong 1999: 57). China's own Provident Fund functioned as a communal mandatory savings system, where 20 percent of an employee's wages went into a consolidated communal fund administered by the company. In a society where residential, medical and education needs are entirely provided by the state, the key objective of the communal fund was for retirement support²⁷. However, for the Suzhou

Industrial Park, the Provident Fund would function as an individual savings account, whose use was left up to the individual. In this system, the employee and employer would both contribute 20 percent of the income to the employee's individual Provident Fund account²⁸ (see Appendix Three, section three). The Singapore government hoped that transnational corporations would view that the Provident Fund system contributed to the 'pro-business' environment as it relieved them of having to officially manage their employees' social security and welfare. However, this scheme, along with the mobile labour policy, was also important to the China government as it hoped to find an 'alternative path towards industrial capitalism.'

The Singapore transnational entrepreneurial state established a variety of institutions and practices for the Suzhou Industrial Park. Some were specifically designed to enhance the project's competitive advantage vis-à-vis other industrial estates in China, and were thus targeted at potential investors (industrial transnational corporations). These institutions served to demonstrate to potential investors that the park had a 'pro-business' environment, and thus assuring industrial transnational corporations that they would have to deal with the 'grey' Chinese business practices. At the same time, there were other institutions implemented that were of particular interest to the China government. In this manner, the Singapore transnational entrepreneurial state's strategies during the construction period were intended to achieve complementarity and mutual benefit.

5.4 'GOVERNMENT-TO-GOVERNMENT' EMBEDDEDNESS

The Singapore transnational entrepreneurial state's collaborative strategy with the China government and industrial transnational corporations was designed to enhance the competitiveness of the Suzhou Industrial Park project. With the China government, not only would the project benefit from the China government's inputs, close 'government-to-government' collaboration would demonstrate to potential investors that the Park had a high level of importance within China. This in turn had the objective of improving the credibility of the project. This section examines how the Singapore

transnational entrepreneurial state utilized embedding mechanisms to enhance its collaboration with the China government.

EMBEDDING IN SUZHOU

The Singapore transnational entrepreneurial state's collaboration with the China government at the local level was formally reflected in the collaboration between the China-Singapore Suzhou Development (CSSD) Company Private Limited and Suzhou Industrial Park Administrative Committee (SIPAC). However, even within the CSSD, there was another level of Singapore-China collaboration. These multi-level collaborative ventures made the Suzhou project very different when compared to the Singapore transnational entrepreneurial state's other regional industrial parks. In Suzhou, rather than assigning the development and management to a Singaporean state-owned enterprise or government-linked corporation²⁹, the Singapore transnational entrepreneurial state decided that, for a project of this size and scope, it should become directly involved. Therefore, it formed the CSSD, whose responsibility was the development and the marketing of the industrial park. Officially, the CSSD was a legal joint-venture between a Singapore consortium and a Chinese consortium where the Singapore consortium would hold 65 percent of the shares in the company, while the Chinese consortium would own the remaining 35 percent. The Singapore consortium was registered as the Singapore Suzhou Township Development (SSTD) with a capital of US\$50 million. The SSTD had 24 shareholder companies, which included publicly listed companies in Singapore, and companies from the United States, Japan and Korea and the Netherlands (see Appendix Four, section one). The Chairman of the Singapore Economic Development Board, Philip Yeo—another key member of the Singapore transnational entrepreneurial elite—was appointed chairman of the Singapore consortium. The Chinese consortium was formed from 12 shareholder companies, including representatives from Suzhou city, Jiangsu Province and nine state-owned enterprises that reported directly to the Central Government (see Appendix Four, section one). In 1994, it was reported that each of the

shareholders had invested US\$2.25 million, raising about US\$80 million in capital (*Singapore Business Times* 27 Jan 1996). The joint venture had, in addition, secured a loan of US\$100 million from international banks (*China Business Information Network* 7 Dec 1995) and around US\$30 million, from various financial institutions in China. The CSSD would use these funds for infrastructural development, operations and marketing costs (*China Business Information Network* 9 Apr 1996). The CSSD was an important institution introduced by the Singapore transnational entrepreneurial elite to achieve embeddedness with the Chinese partner. In many ways, the CSSD was an extension of the Singapore government. The senior executives of the CSSD were close and trusted members of the Singapore transnational entrepreneurial elite (see Table 5.4).

TABLE 5.4: CHAIRMAN/CHIEF EXECUTIVE OFFICERS OF THE CSSD (1992-1999)

	Name	Other designation(s) in Singapore
1994-1996	Lim Chee Onn (Chairman)	Member of parliament
	Chan Soo Sen (CEO)	Parliamentary Secretary
1996-1998	David Lim (CEO)	Member of Parliament, CEO Port Authority of Singapore.
1998-1999	Lim Neo Chian (CEO)	Chairman Jurong Town Corporation

Source: Compiled from various media sources

At the same time, the representatives from the Chinese shareholders on the CSSD's managerial board were senior political figures in the Jiangsu province. Thus, because of its composition, the CSSD's managerial board only had one degree of separation from the Singapore and China governments. This in turn meant that the CSSD had direct and immediate information flows to the two governments.

This 'government-to-government' collaboration also could be seen at the CSSD-SIPAC collaborative level. SIPAC (Suzhou Industrial Park Administrative Committee) was the project's local government, and, technically, the legal landlord. This was because in China, economic development zones could not be administered foreign companies. In

procedural terms, CSSD had to acquire the leasehold of the land from SIPAC in a financial transaction. Then, once it held the rights to the lease, it could prepare the property for industrial, residential or commercial activities. CSSD was thus a 'commercial' company that re-sold the leasehold—50 years for industrial properties, 70 years for residential properties, 40 years for commercial properties and 50 years for mixed development (CSSD 1999: 18)—to buyers at a profit. SIPAC's role was to vet applications from companies wishing to establish business operations in the Suzhou Industrial Park. Its task was also to collect tax revenue from tenants, maintain the public amenities and liaise with the Suzhou Municipal Authorities on any urban matters.

The Singapore transnational entrepreneurial state utilized several political mechanisms to create institutions to govern the collaborative relationship between CSSD and SIPAC. Firstly, both organizations reported to the Joint Working Committee, co-chaired by the Suzhou Mayor and the Chairman of the Singapore Economic Development Board (see Appendix Four, section two). This Working Committee answered to the Joint Steering Council, which was co-chaired by China's Vice President Li Lanqing and Singapore's Deputy Prime Minister Lee Hsien Loong, Lee Kuan Yew's son and another key figure of the Singapore transnational entrepreneurial elite. By having Singapore's Deputy Prime Minister and China's Vice Premier sitting on the Joint Steering Committee, the Suzhou Industrial Park's level of national importance was made evident to investors. Also on the Council were ministers, vice ministers and senior bureaucrats from key ministries from both countries. Representing China were ministers and bureaucrats from the State Planning Commission, the SEZ Officer, the State Economic and Trade Commission, the Ministry of Finance, the MOFTEC, the People's Bank of China and the State Taxation Bureau. From the Singapore side, ministers and bureaucrats from the Ministry of Trade and Industry, Ministry of National Development, the Ministry of Environment, the Ministry of Foreign Affairs, and the Economic Development Board were represented (CSSD 1999: 12).

The Joint Working Committee would meet four times a year, while the Joint Steering Council would meet annually if there were no extra-ordinary calls for meetings. To the Singapore entrepreneurial elite, these organizations had a dual purpose: firstly, the Singapore transnational entrepreneurial state could embed itself onto the Chinese partner. Secondly, with embeddedness onto the China government, the close collaboration could act as an economic incentive to potential investors. By demonstrating that the Singapore and China governments were working closely over this project, the Singapore entrepreneurial state hoped that industrial transnational corporations would perceive that the political risks of investing in the Suzhou Industrial Park were reduced.

EMBEDDING WITH BEIJING

‘The development and construction of the Suzhou Industrial Park has established a new model for Sino-Singapore co-operation.’ (President Jiang Zemin 1993, source unknown, quoted in SIPAC 1999: 1)

At the ‘government-to-government’ level, complementary collaboration was also evident. Complementary collaboration refers to a situation when partners contribute different but complementary inputs to the venture. Therefore while the Singapore transnational entrepreneurial state invested financial capital as well as its expertise in constructing infrastructural and institutional advantages for the Suzhou Industrial Park, the China government invested ‘political capital’ in the project. This could be seen from the manner and the frequency in which it endorsed and supported the Suzhou Industrial Park. Between 1992 and 1996, central figures of the Beijing administration—such as Zhu Rongji and Li Lanqing—were regularly visitors to the project. Also, President Jiang Zemin³⁰ was reported to have said that the Suzhou Industrial Park was the ‘...priorities of all priorities, and must not be allowed to fail.’ (SIPAC 1999: ii) Such top level support was particularly significantly considering that the Suzhou Industrial Park was essentially a ‘foreign’ venture and that there were 422 other economic zones in China.

The ‘government-to-government’ embeddedness was important in enhancing the competitiveness of the park vis-à-vis other industrial parks in China. As mentioned earlier, the high level of state support within China was intended to contribute to the project’s credibility and level of prestige. This in turn would assure potential investors about the project’s long-term viability. But why was the China government so keen on collaborating in this manner? Success in the Suzhou Industrial Park project could potentially take away investors from other Chinese development zones. One possible reason was the nature of central-local relationships in China. As will become evident in later chapters, there is a tension-filled and ambivalent set of relationships that have evolved since the introduction of economic reform in 1979. In essence, the centre (Beijing) still retained most of its economic, political and social power; however, after reform, various regional governments now have large resources themselves. In this sense, the central Beijing government has been described as being a ‘dysfunctional’ developmental state³¹ (Breslin 1996: 689). While it had ‘developmental’ motivations, it was unable to gather the necessary resources to implement truly ‘developmentalist’ strategies. This ultimately indicated that there was little embeddedness between the state and important other players in the Chinese economy. However, this autonomy gave Beijing the capacity to actually enter into a transnational relationship with the Singapore transnational entrepreneurial state in projects that directly benefited China, as a nation-state, rather than any one specific region or area. A second possible reason could be that in the early 1990s, there were just so many transnational corporations interested in entering China that there might be plenty to go around, with or without the Suzhou Industrial Park. Even with the most optimistic projections in 1994, where the Suzhou Industrial Park was aiming for 100 companies, this was really very small compared to any industrial estate in Shanghai, Beijing, Tianjin or any of the Special Economic Zones. Even the town of Wuxi has had an economic development zone three times the size of Suzhou³². Therefore, Beijing’s endorsement of the Suzhou Industrial Park carried little economic and political costs to competitor zones. In fact, many were hoping to benefit

from the Suzhou Industrial Park, especially through learning FDI-oriented development strategies from the Singapore transnational entrepreneurial state.

Therefore, even though the two governments' bilateral diplomatic relationship had long been positive (see Wong 1999), the Suzhou Industrial Park project enhanced the relationship further. One indicator of the closeness of partners is their degree of embeddedness, especially social embeddedness. The example of the SIP's investment approval procedures demonstrated the high degree of social embeddedness between the Singapore and China governments, particularly in the sphere of reciprocity.

'At the beginning, we approached Beijing to give SIPAC the power to approve projects up to US\$50 million in fixed investment commitments without having seek Central Government approval. This was because the rule for all the Special Economic and Development Zones stated that the local governments could approve projects up to US\$30 million on their own. For projects above that figure, they had to seek approval from Beijing. As many projects in Suzhou might consist of large investment commitments, the Singapore government was concerned that having to apply to Beijing might be a bureaucratic disadvantage, leading to possible delays and increased transaction costs. However, if large projects could be approved in Suzhou itself, then the turn-around time would be quicker and the investments more quickly realized. Therefore, we were asking for a privilege—for greater financial decision making autonomy—that the other zones did not have. The response from Beijing surprised us. Alright, in 1994, Beijing granted SIPAC the authority to approve investments of up to US\$50 million. But in 1995, it gave the SIPAC complete autonomy over the financial decision making. In other words, SIPAC could approve projects of any size without turning to Beijing. Even though by 1999, only a very small handful of investors went above US\$30 million, by conferring this financial autonomy onto SIPAC, it was a gesture by the Central Government that demonstrated its commitment to the project which in turn was perceived to make the investment climate for transnational corporations more attractive.' (SO 2)

Another indicator of the China government's reciprocity in the collaborative relationship was its relatively frequent public endorsement of the Suzhou Industrial Park. For example, China's Acting Premier Zhu Rongji was quoted as saying that from what was learnt in Suzhou, '...we will make the five Special Economic Zones and Pudong New District better.' (*Singapore*

Business Times 5 Oct 1995) Implicit in this statement was both an endorsement for the Park as well as a criticism of other estates. Similarly, the Suzhou Municipal Party Committee, which held its annual meeting in January 1996, made a statement ‘to exhort the people of Suzhou to wholeheartedly support and hasten the pace of development [for the SIP].’ (*Xinhua* 23 Jan 1996) There were also many similar public statements from the Co-Chairman of the Joint Steering Committee, Li Lanqing, who was also China’s Vice-Premier. These gestures developed familiarity and reciprocity. Also, on 22 March 1996, Wong Hung Khim, the Chairman of Jurong Town Corporation, the parent company of Xinsu Development Company in Suzhou, was named an honorary citizen of Suzhou (*Singapore Straits Times* 22 Mar 1996). In the same article, it was reported that in October 1995, the Chairman of the CSSD, Lim Chee Onn, was awarded the same award.

5.5 ‘PIONEER’ COMPANIES

Despite its geographic, infrastructural and institutional competitive advantages, there was still no guarantee that transnational corporations would locate in the Suzhou Industrial Park. In many ways, encouraging them to invest or locate in the Suzhou Industrial Park was similar to encouraging them to ‘collaborate’ in the project. Towards this end, the Singapore transnational entrepreneurial state utilized social mechanisms.

Once the Suzhou Industrial Park project was formally announced in 1992, the Singapore transnational entrepreneurial elite immediately began marketing the park to transnational corporations and Singaporean companies.

‘Although there was a long term objective to completely fill up the Park, the short term objective was to get a handful of companies to commit immediately. We wanted to announce some takers during the ground-breaking ceremony scheduled for 1994. We were intentionally hoping that this would create the snowball effect.’ (SO 4)

According to informants from the Singapore Economic Development Board and CSSD, ‘snowballing’ was a marketing technique that used the presence of

some companies in the Park to attract others. Snowballing was based on several premises:

‘The first premise was that by getting *big brother* companies to locate in the park, *little brothers* would also choose to come. This meant that if large industrial operators were located at one site, the supplier or support companies might decide to locate there as well. For instance, if an automobile plant will be located in one place, supplier companies—such as those producing individual parts or electronic components—might choose to locate nearby to take advantage of the *big brother’s* presence, and thus reduce their logistic costs. Therefore, we targeted the large finished products manufacturers, hoping that their presence would snowball and attract their components suppliers as well.’ (SO 1, emphases in original)

The ‘big brother-little brother’ idea was based on industrial ‘agglomeration’ (see Hayter 1997). The second premise was to use the presence of existing companies to indicate the ‘health’ of the Park to other prospective companies. To the marketing personnel, ‘health’ here referred to a combination of strategic location, efficiency and prestige:

‘In marketing terms, if the Park could boast the existing presence of big name companies that have pumped in lots of money, then it would indicate their confidence in the Park. In this sense, the bigger the investor—both in terms of brand name or amount invested—the healthier the park. The health of the Park could therefore be used to attract other companies to come as well.’ (SO 4)

On 14 September 1994 during the project’s ground-breaking ceremony, the Singapore transnational entrepreneurial state announced that 14 companies had chosen to locate their operations in the park (*Singapore Straits Times* 15 Sep 1994). These companies had made their decisions on off-site plans even before the Park was operational.

Through an analysis of how these companies were convinced to sign up for the project, the Singapore transnational entrepreneurial state’s use of social mechanisms can be illustrated. Of the 14 companies introduced at the groundbreaking ceremony, only six were actually involved in industrial activities. Two other companies were property developers, while another company was using the park as a base for taxi operations. Three other

companies in fact never took tenancy at the industrial park³³. However, as this research found, nine other companies had signed up in 1994, but opted not to go public with the announcements. For this reason, they would be considered as ‘pioneer’ companies³⁴. Of the 15 ‘pioneer’ companies in Suzhou involved in industrial activities, 10 of them were included in the research’s sample. Information from these interviews was also supplemented with secondary data that existed in the public domain, including newspaper reports, brochures and other publications.

At the ground-breaking ceremony, it was announced that the largest investments had come from Samsung (semiconductors), which pledged US\$450 million and had acquired 33 hectares, followed by Lion Nathan (brewery), which committed US\$250 million on a 15 hectares plot (*Singapore Straits Times* 15 Sep 1994). In the same report, it was said that American Micro Devices (microchips) (AMD) and Pokka (soft drinks) had invested US\$29 million and US\$15 million respectively. The other companies that had announced that they would take up tenancy at the Suzhou Industrial Park included Becton Dickinson (medical devices) (US\$50 million), Nabisco (foodstuff) (US\$50 million), and Solectron (microchips) (US\$45 million). Other companies that were coming to the Suzhou Industrial Park within the next year included Vickers (mechanical pumps), Siemens-Rexton (hearing aid devices), Knowles (medical accessories), MTU (engine parts), Hitachi (semiconductors), Singapore Technologies (mechanical parts), Amtek (metal stamping) and Delphi (automotive components). The announcements that these companies—many of them heralded as so-called ‘*Fortune* Global 500,’ ‘US Global 500,’ and ‘*Asiaweek* 500’ companies—had taken tenancy were extremely important to the reputation, status and credibility of the Suzhou Industrial Park. The ‘health’ of any industrial zone, country or region, depends very much on the size of the investment commitments, the reputation of the companies and the number of investors attracted. In this regards, the Suzhou Industrial Park could be considered ‘healthy’ for having lined-up this many ‘large’ investors with their relatively large investment commitments,

particularly considering that the park itself had not been built. The Singapore transnational entrepreneurial state had especially wanted to utilize the news of such investments to encourage other investors to locate at the Suzhou Industrial Park.

The marketing wing of the Suzhou Industrial Park, which comprised the Marketing Department of CSSD and the Singapore Economic Development Board told this research that several of these ‘pioneer’ companies were strategically targeted, including ‘big brother’ companies that already had prior presence in Singapore such as Samsung and AMD. Samsung had announced that they were going to produce household electronic appliances in Suzhou. This meant that they would have to source for components, including power cables, casings, computer microchips and many other items, from other companies³⁵. The hope was that support or supplier companies would choose to locate in Suzhou rather than choose to deliver long distance. The second rationale for choosing this group of companies was because they were already familiar with the Singaporean ‘operating system’ from their earlier operations in Singapore. Of the ‘pioneer’ companies that were at the Suzhou Industrial Park, only Solectron did not have a factory, regional sales or operations office in Singapore. To these companies, the Singapore government had credibility and a good reputation as an industrial developer and administrator. Already, some of the regional industrial parks—such as those in Batam and Bintang—were fairly successful in terms of achieving the initial objectives. With the active involvement of both the Singapore and China governments, this signalled that the Suzhou Industrial Park was of national importance. In addition, many of the informants from the transnational corporations in the ‘pioneer’ sample had indicated that they believed that the Singapore government was in an advantageous position as it was sensitive to the Chinese system of doing business. One respondent said that the Singaporean leaders were of a ‘Asian mentality and understood Chinese culture and tradition.’ Such factors combined to develop trust on the part of the transnational corporations.

‘Service the investor, draw him in, and give him the support he needs so that news will spread. Then better and better investors will come in, That is the way we built up Singapore.’ (Lee Kuan Yew, quoted in *Singapore Straits Times* 28 Aug 1995).

While these were some of the more commonly reported reasons why the ‘pioneers’ chose to invest in the Suzhou Industrial Park, the Singapore transnational entrepreneurial state hoped to take advantage of its existing strong networks of relationships with industrial transnational corporations.

‘The EDB will tap its network of international offices and experience in investment promotion to help SSTD and CSSD step up the marketing of the SIP. We aim to attract more quality industrial projects to make this a top-class industrial park.’ (Philip Yeo, Chairman SEDB and Chairman of CSSD, quoted in *Singapore Business Times* 27 Jan 1996)

One manager of a ‘pioneer’ company said:

‘We were willing to invest in the Suzhou Industrial Park way back in 1994 because we were guaranteed that the Singapore government was running it. This gave our company assurance that it was not going to be a fly-by-night venture, but something with prestige and importance. We were sure our money was safe.’ (NA 1)

‘One reason why we were willing to come to Suzhou was because of our relationship with the EDB. Throughout our operations in Singapore, we had one EDB officer look after us. This same officer came to us with the information about the SIP, and provided us with all the necessary information. Of course, she was aware that we were looking to move some of our lower value-added activities to the region, and therefore, Suzhou appeared to be a logical place for us.’ (EU 1).

‘We had been looking to come to China for a long time, but we were hesitant because we were concerned about the Chinese way of doing business. We have done several feasibility studies in the past, and we’ve even gone to China to do fact finding ourselves. But one thing the SIP had was professionalism. All the information—from the land prices, the laws, rules, everything—was clearly stated in the brochure. The Singapore EDB officer was also very helpful in providing information. He even accompanied me to report to our headquarters in America about the SIP. So in the end, I would have to say that the officer was the key reason why we chose Suzhou ahead of maybe other sites in China.’ (NA 2).

‘We were actually going to come into China anyway, but the question was where. And then our Singapore RHQ was informed about the SIP.

Also, our boss in Singapore was personally assured by the Chairman of the EDB that the SIP would be a great success. And I don't think that Singapore officials make blind or empty promises. I stress that we are here not only because of the Singapore presence, but that the Singapore presence might have given this Park an edge over others in China.' (AS 2).

Thus, familiarity, credibility, confidence and trust were factors that encouraged these transnational corporations to locate in the Suzhou Industrial Park. It was true that they were going to enter China anyway, but it was important to the Singapore transnational entrepreneurial state that they took up tenancy at the Suzhou Industrial Park instead of locating elsewhere in China. This not only ensured that the project took off, but was the first step in the long process of making this park financially profitable.

5.5 CONCLUSION

'We are going to make this succeed, or what will suffer is our reputation. When we have succeeded, we will open up branches in China. We have not put our brand name in Langfang or Shijiazhuang...but here, we will defend our quality, because here, our reputation is at stake.' (Lee Kuan Yew, quoted in *Singapore Business Times* 25 Aug 1995)

In September 1994, when the Suzhou Industrial Park began operations, the grand experiment was also underway. Already, pioneer investors had pledged about US\$200 million in investments. This marked a clear shift in the Singapore transnational entrepreneurial state's participation in the global game of industrial production. From supplying primary factors of production in Singapore, the Singapore government now supplied secondary factors of production in China in collaboration with the China government. Although the motivations of all the major collaborators were different—the Chinese government sought local economic growth, the Singapore government wanted to further its regionalization programme, and industrial transnational corporations wanted to invest in China for profits—the project was complementary and mutually beneficial. In this construction phase, the Singapore transnational entrepreneurial state utilized the embedding strategy

separately for each partner. Towards the Chinese partner, it utilized economic, political and social mechanisms to increase its embeddedness, not only to encourage the Chinese partner to collaborate, but also to establish structures to govern the collaboration. For transnational corporations, especially the 'pioneer' companies, the Singapore transnational entrepreneurial state utilized economic and social mechanisms to encourage them to locate their industrial operations at the park. Together with the project's geographic, infrastructural and institutional attributes, the Singapore transnational entrepreneurial state hoped that the Suzhou Industrial Park would be significantly more competitive than other zones in China.

¹ Lee had stepped down as Singapore's Prime Minister before the 1990 general elections. Upon being re-elected as Member of Parliament for his constituency, the appointment of Senior Minister was created for him to remain on the Cabinet (see Hill and Lian 1995).

² One reason why Beijing was unable (or unwilling) to allow the Singapore government to introduce its own economic and tax policies was to maintain a co-ordinated tax system across China for these zones. The Wuxi Industrial Park, the other Singapore government-developed park, was awarded 'Economic Development Zone' status, which had slightly fewer tax perks for foreign investors.

³ Agglomeration was defined as being physically close to as many suppliers and customers as possible (Hayter 1997: 32). It was supposed to cut down on transportation and time-saving costs; however, agglomeration also had social benefits in terms of firms being able to network, share information and form informal associations for certain purposes.

⁴ These codes identify the respondents as listed in Appendix One.

⁵ Pudong was the previously undeveloped area south-east of the Huangpu River across historic Shanghai city. The area's name was an amalgam of Pu (from Huang Pu River) and Dong (which means East).

⁶ Shanghai is one of only four municipal cities. This meant that even though it was only the size of a city (albeit a rather huge one), it had the political and economic status of an entire province (see Yeung and Li 1999).

⁷ The Shanghai-Nanjing highway is officially known as Highway 312 in China.

⁸ See Pearson (1997) for details on urban business elites in several Chinese cities.

⁹ The economic history of Jiangsu, the province where Suzhou is located, is discussed in detail in Wei (2000: chapter 5).

¹⁰ This chapter from Lee's autobiography was electronically published in September 2000, after the research's fieldwork. Although rather long and the details not verifiable, the reproduction of this text is useful as it brings to light information that even senior officials of the CSSD were not aware of. This version of the text was released on 27 September 2000 on the *Singapore Straits Times* website, with Lee's autobiography (part two) due to be released in December 2000 in Singapore.

¹¹ Ong was an architect by training. He had always been close to Lee, and when he 'retired' from politics in 1994 because of ill health, he was urged by the government to run for Singapore's first elected President. He duly won the election, and stepped down in 1998 at the end of the term.

¹² Also, this research was aware that Lee wrote this chapter retrospectively (after the Singapore government chose to disengage from the project), and could therefore be more 'reflective' in trying to explain the situation in 1992-3.

¹³ In Xinsu's marketing brochures, it states: 'World-class ready built facilities with vital infrastructure, professional services and minimal start-up hassles.' (Xinsu 1999: cover)

¹⁴ These contracts were eventually awarded to either Singaporean companies (including state-owned and government-linked companies) or Singaporean joint-ventures with other transnational corporations. For example, Township Construction, which was awarded a US\$10 million contract to begin development of the first two square kilometres in Suzhou, was in fact a joint venture between Keppel Engineering (government-linked company), Lum Chang and Sum Cheong (both private Singaporean companies which had previously done many Singapore government projects (*Singapore Straits Times* 18 Aug 1994).

¹⁵ The national grid supplied power capacity at 486 MW, whereas the first phase—promised in the year 2000—of Huaneng's capacity promised power at 600 MW (CSSD 1999: 61).

¹⁶ KIE is a Singaporean government-linked corporation. It is directly in charge of developing the other regional industrial parks.

¹⁷ As Strange (1998) points out, in China foreign investors could utilize 'in-kind' investments, which might, for example, involve the relocation of previously used machinery. Thus, such minimum investment standards do not always reflect actual financial investments.

¹⁸ Xinsu is an amalgamation of Singapore and Suzhou. Singapore in Mandarin is pronounced Xin Jia Po. JTCI—which develops and manages several others of the Singapore government's regional industrial parks—was awarded the contract after an 'official tender,' although this research found that there in fact were very few competitors for this contract because of the criteria set by the CSSD.

¹⁹ Another 30 percent of the eight square kilometres in Phase One was allocated to township development projects such as housing, schools, commercial centre, and public amenities.

²⁰ This banner was no longer there during the period of the fieldwork (Jun-Sep 1999).

²¹ The phrase 'pro-business environment' has been frequently used by the Singapore government (see previous chapter). Also see *Singapore Business Times* 'Suzhou Township will create competitive and pro-business climate, says SM,' (30 Aug 1995).

²² In addition, the 183 square kilometres surrounding the Suzhou Industrial Park also came under SIPAC's jurisdiction. Therefore, SIPAC was in charge of a total 253 square kilometres which had official 'Economic Zone' Status from the central government. See Kwok (1986) for an overview on the specific role of such 'local administrative and development agencies' in China's Special Economic Zones.

²³ See Hutchcroft (1997) for a useful summary of the concepts of rent seeking, clientelism and corruption. See Wong (1998) and Huang (1998: chapter four) for a discussion of how foreign investors felt towards corrupt and inefficient practices.

²⁴ It was interesting that SM Lee Kuan Yew offered to extend the 'software transfer' to 'all pats' of China. See *Singapore Business Times* (25 Aug 1995).

²⁵ Even Lee Kuan Yew criticized this regional recruitment strategy. 'Noting that the majority of officials recruited to work on the project were from Suzhou or Jiangsu province, he [Lee Kuan Yew] said that the net should be cast wider [to the whole of China].' (*Singapore Straits Times* 25 Aug 1995)

²⁶ *Dingxiang* students were state-level scholarship recipients normally earmarked for posts in the civil service, while *weike* students were expected to serve a bond of service with their sponsored company that had paid for their education.

²⁷ See Liu (2000) for a discussion of China's social security system after the economic reforms of 1979.

²⁸ The Provident Fund scheme was introduced in April 1997 on a trial basis, where 4000 employees in 63 companies participated (*Singapore Investment News* 1 Jan 1998). The original threshold was 25 percent from both sides; but was lowered to 22 percent when official introduced in April 1998. The threshold was lowered to 20 percent as a result of the Asian Financial Crisis (see chapter seven).

²⁹ As mentioned earlier, by 1997 the Singapore government established seven regional industrial parks, of which only the Suzhou Industrial Park was directly 'managed' by the

government. The others were managed by state-owned enterprises or government linked corporations.

³⁰ This research has not been able to trace the source and origin of President Jiang's statement. However, it is also cited in Wang *et al.* (1997: 2).

³¹ Also see volumes by White (ed.) (1988, and 1991) for an analysis of China since 1979 within the developmental state framework.

³² Wuxi is the most industrial town in the Jiangsu Province. It is 60 kilometres west of Suzhou, and since 1995 has housed another of Singapore's regional industrial park, developed and managed by Sembawang Corporation, a Singapore government-linked corporation. Also see Chapter nine, which has a compares the Suzhou Industrial Park with the Singapore-run Wuxi Industrial Park.

³³ The research found out that one company had problems with getting its business license approval, while two others later cited financial difficulties and withdrew from the project (SO1, SO2, and CO1).

³⁴ The term 'pioneer' was brought to my attention by both officials of the Suzhou Industrial Park as well as by several managers of 'pioneer' companies.

³⁵ Data gathered from interview (SO 1). Items such as circuit boards and metal casings were sourced by other Samsung subsidiaries in other countries.

CHAPTER SIX

TAKE OFF PHASE

6.1 *TRANSNATIONAL CORPORATIONS AT THE SIP*

The period immediately after the opening of the Suzhou Industrial Park was crucial to the Singapore transnational entrepreneurial state. The demand for industrial property at the Park would give a very clear indication of whether the Singapore transnational entrepreneurial state's strategies—including the design and creation of the Park's competitive advantages and the collaboration of its partners—were effective or otherwise. To evaluate the effectiveness of these strategies, this chapter analyzes the data from the interviews with managers of industrial transnational corporations located at the Suzhou Industrial Park. Respondents were firstly asked to rank all the reasons why their companies chose to locate in the Suzhou Industrial Park. Secondly, respondents were asked to comment on their tenancy at the Park so far, and to evaluate whether their companies' initial expectations had been met. Also, the interview used a series of secondary probes to gather qualitative responses from the informants. These probes were used to clarify any ambiguous points, and other exploratory issues such as why they had not chosen alternatives (to China, to Suzhou and to the Suzhou Industrial Park), and what was their company's previous links with Singapore or the Singapore government. Finally, secondary data sources—such as newspaper reports, official documents, and marketing brochures—were used to supplement the primary sources.

PROFILE

The profile of the companies included in the research indicated that all of them were 'expansionist industrial transnational corporations,' which can be defined as enterprises that transcend borders to establish an additional operating unit (or units). All the companies included in the sample were 'pre-existing' enterprises; none of them were newly formed companies. All the

respondents said that the enterprise in the Suzhou Industrial Park was an additional or subsidiary operation. Also, all the tenants at the Suzhou Industrial Park were officially ‘foreign’ businesses (see Table 6.1). The CSSD’s categorization of the ‘country of origin’ was based on ‘the country of origin of the main stockholder,’ (CSSD 1999b: 1) even though the named categories were regions such as ‘North America,’ ‘Europe,’ and ‘Asia Pacific.’

TABLE 6.1: COMPANIES LOCATED IN THE SIP AND THOSE INCLUDED IN THE SAMPLE, CATEGORIZED BY COUNTRY OF ORIGIN (OF LARGEST SHAREHOLDER) (N=56)

Country/Region	Overall		Included in Sample	
	Number	Percent	Number	Percent
European	18	21.7	15	26.8
Japan	19	22.9	7	12.5
Singapore	18	21.7	10	17.9
North America	28	33.7	24	42.9
Total	83	100	56	100.0

Source: Compiled from CSSD (1999b)

Many of the companies were affiliates of global conglomerates, where the domiciled status of the largest shareholder was not only very difficult to ascertain, but sometimes had shareholders from Europe, North America and even Asia. Finally, the categories did not reflect the varied nature of some of the projects, as this research found that there were companies included in the sample that were joint-ventures between a Japanese and American company, a Japanese and Singaporean company, a European and American company, and a Japanese and Hong Kong company. An official from the CSSD acknowledged that the categorization was neither absolutely accurate, nor even crucial. The exercise was more for ‘marketing’ rather than ‘operational’ purposes:

‘We don’t really care where they come from, so long as they do come and invest here. The compilation of these stats [statistics] is for marketing purposes. There is a real mentality among some multinationals that having lots of US, European and Japanese companies shows the park to be in good health. So we tailor our charts to reflect that. But if we went to Europe, I might break out this other chart that shows where the European companies here come from, like

so many from the UK, Finland, Germany and so on. In the end, its just marketing.’ (SO 1)

‘Actually, if you look very carefully at some of the multinationals here, on paper they might sound American or British. But look even closer, and you see that some of them are Singaporean companies in heart and soul, but multinational outside. Many of these companies came to Singapore in the 70s, and localized there. So when they decided to penetrate China, the head office told the Singapore RHQ to take over.’ (SO 2)

None of the companies included in the sample ‘relocated’ operations from a previous site to the Suzhou Industrial Park. ‘Relocation,’ in this sense, meant that companies closed one plant and shifted the entire operations elsewhere. Instead, all the respondents said that the Suzhou entity was an additional unit, and thus nearly all of them had affiliate production sites and/or regional offices (including sales, marketing and other services) elsewhere in the Asia Pacific region. Many of the non-Singaporean companies either had current or former operations in Singapore. Only two companies out of the 46 non-Singaporean companies did not have any prior business activities in Singapore. More significantly, nearly half of the non-Singaporean companies included in the sample had Regional Headquarters (RHQs) located in Singapore. Five of these had chosen to locate or were in the process of taking up leases to locate at other Singaporean regional industrial parks at Batam, Bintang, and Bangalore. Thus the majority of the sample had prior contact and familiarity with Singapore, which would prove to be important, as the later sections will discuss. However, based on the total absence of wholly indigenous Chinese companies, the Park had—intentionally or otherwise—managed to capture its main market, which comprised of industrial transnational corporations (which in this case included Singaporean companies). Furthermore, this ‘national’ distribution becomes significant when the 90 percent total occupancy rate of the Suzhou Industrial Park’s Phase One was considered. Therefore the Park’s near-full occupancy was not buffered by local indigenous companies, but had in fact, satisfied demand for property from industrial transnational corporations. Also, the managerial respondents as well as respondents who

were officials at the Suzhou Industrial Park could not name any industrial estate in China other than the Wuxi Industrial Park—which was developed and managed by a Singaporean government linked company—that had a total absence of local (Chinese) enterprises. At the Suzhou New District and Pudong, wholly Chinese owned enterprises accounted for half and a third of the tenants respectively¹.

Another indicator that the Suzhou Industrial Park was quite uncharacteristic of other Chinese estates was the types of business licenses held by the tenants. In both the research's sample as well as in the overall list of tenants, Sino-Foreign joint ventures accounted for less than 10 percent of the tenants (see Table 6.2). This is significant, especially when compared to the national averages in China, where wholly foreign owned enterprises only accounted for a quarter of all 'foreign investments' (see Table 6.3).

TABLE 6.2: COMPANIES INCLUDED IN THE RESEARCH CATEGORIZED BY BUSINESS LICENSE TYPE (N=56)

Type	Sample (1)		Overall (2)	
	Number	Percent	Number	Percent
Joint Venture	3	5.4	8	10
Wholly Foreign Owned	53	94.6	74	90
Total	56	100.0	82	100

Source: (1) Interview data, (2) compiled from CSSD (1999b).

TABLE 6.3: PROPORTION OF BUSINESS LICENSE TYPES OF FOREIGN DIRECT INVESTMENT IN CHINA (1979-1996)

	Total (US\$m)	Percentage
Equity joint ventures	90,726	51.4
Contractual joint ventures	38,034	21.5
Wholly foreign-owned enterprises	42,551	24.1
Joint exploration	5,281	3.0
Total	176,595	100

Source: MOFTEC, various years, compiled by Wei (2000: 116)

The high proportion of 'wholly foreign owned' business licenses at the Suzhou Industrial Park suggested that the industrial transnational corporations which chose to locate there were not motivated to form equity or contractual joint ventures in China. Although joint ventures could have beneficial business

advantages—such as having a local partner that could ‘deal with all the grey areas of Chinese business practices and laws’ and assist in localization—there were also significant disadvantages, such as the difficulty of finding a suitable local partner, the incompatibility of management and operational cultures (see Wu and Strange 1997: 213). Other obstacles might include the high costs incurred from having to ‘buy into’ a Chinese company. Furthermore, certain industrial transnational corporations were not interested in relinquishing their managerial and operational autonomy, which was expected in joint ventures (see Yan and Gray 1996: 108). Thus, the Suzhou Industrial Park was perhaps the most logical location for these foreign enterprises, as it promised that the bureaucratic administration would resemble the ‘Singaporean operating system’—which had established a reputation for being widely accepted among transnational corporations—rendering the imperative of finding a local partner to deal the Chinese bureaucracy redundant. It was probable that these industrial transnational corporations were willing to pay the higher financial premium for industrial property at the Suzhou Industrial Park, accepting that this might actually be a savings as opposed to having to buy into Chinese companies. On the other hand, it could be argued companies that could form joint ventures therefore did not need a site like the Suzhou Industrial Park, and could theoretically locate in any of the other Chinese industrial estates open to foreign investment. The discussion will eventually return to this issue in the later chapter, especially during the discussion of the impact of the Asian Financial Crisis on the Suzhou Industrial Park (see Chapter Eight).

In the sample, the overwhelming majority of companies were involved in manufacturing activities (see Table 6.4). ‘Manufacturing’ was defined both by the CSSD as well as the companies themselves to include production of products as diverse as footwear, pharmaceuticals, electronic components, appliances, computers and computer peripherals, polymer materials, automotive parts, primary and secondary telecommunications equipment, and food and drinks. Of the others, two companies were involved in software-related activities, one was in software development and design, while the other

was involved in multimedia publishing. The single company involved in providing services operated as a machinery repair centre and support office.

TABLE 6.4: COMPANIES INCLUDED IN THE RESEARCH CATEGORIZED BY BUSINESS SECTOR² (N=56)

	Number	Percent
Manufacturing	52	92.8
Software	2	3.6
Support	1	1.8
Services	1	1.8
Total	56	100.0

Source: Compiled from CSSD (1999b)

Most companies in the sample—a combined 70 percent—had been in operation for less than two years (before July 1999) (see Table 6.5). There were slightly more companies that had chosen to build their own factories as opposed to those that selected Ready-Built Factories (see Table 6.6). This might suggest that most companies included in the sample had long-term plans for their operations in the Suzhou Industrial Park.

TABLE 6.5: COMPANIES INCLUDED IN THE RESEARCH CATEGORIZED BY LENGTH OF OCCUPANCY (N=56)

Length of Occupancy	Frequency	Percent
Less than 1 yr	24	42.9
1-2 yrs	15	26.8
2-3 yrs	10	17.9
Over 3 yrs	7	12.5
Total	56	100.0

Source: Interview data

TABLE 6.6: COMPANIES INCLUDED IN THE RESEARCH CATEGORIZED BY FACTORY TYPE (N=56)

Type	Frequency	Percent
Commercial	1	1.8
Own	31	55.4
RBF	24	42.9
Total	56	100.0

Source: Interview data

In this brief survey of the profile of the companies included in the research, it could be concluded that the Suzhou Industrial Park was a location for expansionist industrial transnational corporations that generally sought to enter China as ‘wholly foreign owned’ enterprises.

6.2 COMPETITIVE ADVANTAGE

WHY CHINA?

As discussed earlier, the Singapore transnational entrepreneurial state specifically designed the Suzhou Industrial Park to have certain competitive advantages vis-à-vis other special economic zones in China in order to attract the presence of industrial transnational corporations. This section explores whether or not these advantages were actual factors that encouraged the companies to locate in the Suzhou Industrial Park, or whether there were other factors. In the data, the two most frequently cited reasons were to gain access to the country’s market and its cheap factors of production (see Table 6.7).

TABLE 6.7: RESPONSES TO ‘WHY CHINA?’ (N=64)³

Reasons	Response Rate (%)	Mentioned as Most Important (%)
Market	100	75
Costs	100	25
Supply Chain	30	0
Other	10	0

Source: Interview data

Although these reasons came as no surprise, the logic behind them was interesting. For many respondents, China’s ‘market’ was perceived as a potential rather than existing market. The products manufactured by these industrial transnational corporations were not immediately meant for domestic consumption. In fact, many of the companies had not chosen to apply for domestic distribution and sales. Instead, for the vast majority of the companies in the sub-sample, their products were re-exported (see Table 6.8)

TABLE 6.8: DESTINATION OF PRODUCTS FOR COMPANIES IN THE SAMPLE (N=56)

Destination	Number	Percentage
100% re-export	43	76.8
Over 50% re-export	6	10.7
100% domestic	7	12.5
Total	56	100

Source: Interview data

Even though the Suzhou Industrial Park was predominantly an export-processing zone, as in all other China special economic zones, a percentage of its products could technically be sold domestically subject to state approval. The definition of domestic sales covered both supplying other industrial producers as well as the public. However, domestic sales did not appear to be an important short term motivation. Instead, these companies were more interested in gaining a foothold in the China market while they were waiting for ‘...the dragon to wake up.’ (NA 27)

‘We know China will eventually open up; its going to be sooner rather than later. And we know that one day, the population’s buying power is going to be up there. So we have to be here early to learn about the Chinese system, and be ready to pounce when the opportunity comes. We have to develop a reputation for being able to conquer the Chinese market. And that comes from having experience in China. So we are actually more interested training our workers, middle managers, and area managers, who are all local, than in our re-exports.’ (NA 28)

‘While we are mainly involved in re-exports—we send nearly all of our products to Japan and Southeast Asia—we want to establish our company’s brand name at the same time. This means we want our products to be known in China, even if it is not sold here. And we want to be known as a good and decent employer. All these things add up. Five or ten years down the road, we will have an advantage over new arrivals in China.’ (AS 1)

Several companies did, however, already have domestic consumers for their product.

‘Our strategy is to be located close to our customers with the highest quality products in the marketplace. We currently serve the fast growing China electronics market with products from our five locations in Asia. We made the decision to invest in China to meet the demand we see for laminate circuitry materials in the near terms and

the outstanding prospects we see for growth in the future.’ (Don Jobe, Vice President and General Manager Asia Pacific, Allied Signal Laminates, quoted in *Singapore Straits Times* 15 Apr 1996)

‘Chemfab is the global market and technology leader in our industry. This new operation in China will further strengthen our position in Asia, the most exciting and rapidly growing market in the world, by being close to our customers with efficient, low cost manufacturing capability and effective sales and service.’ Duane C. Montopoli, President and Chief Executive Officer, Chemfab, quoted in *Business Wire*, 16 Apr 1996)

Also, for many transnational corporations included in the sample, their choice of establishing operations in China did not necessarily mean that other locations were ignored. Of the 35 transnational corporations interviewed, 10 already had prior production plants elsewhere in China. Also, 15 of these companies reported that they had either already established production facilities in other countries around the same time, or were planning to in the very near future, in India, Malaysia, Thailand, Indonesia, and Vietnam.

WHY SUZHOU?

The ‘Why Suzhou (as a region)?’ question was meant to establish whether the Singapore transnational entrepreneurial state’s choice of Suzhou was viewed as a geographic competitive advantage—as explained in Chapter Five—by the transnational corporations. The data tended to confirm that it did (see Table 6.9). To recapitulate, the Singapore transnational entrepreneurial state selected Suzhou because of the city’s geographic proximity to Shanghai, and its relatively high quality of human resources (see Chapter Five).

TABLE 6.9: RESPONSES TO ‘WHY SUZHOU?’ (N=64)

Reasons	Frequency (%)	Most Important (%)
Shanghai	100	50
Human Resources	50	10
SIP	50	40
Other	30	0

Source: Interview data

‘We have selected Suzhou for its access to customers, transportation logistics, and the availability of labour, engineering resources and

materials.’ (Ken Tsai, President Solectron Asia, quoted in *Singapore Investment News*, 1 Jan 1998)

‘The region is very industrialized and is an excellent location for us to source for raw materials and market our products to the surrounding companies.’ (C.F. Chai, Vice President of Littelfuse OVS (Suzhou) quoted in *Singapore Investment News*, 1 May 1996)

‘I think Suzhou is really good. We are one hour away from Shanghai’s airport. And Shanghai has a major port. That means we cut down on internal transportation times. That’s costs savings. And there’s this new highway (Nanjing-Shanghai highway), where I can get people to or from Shanghai quickly.’ (EU 1)

‘In fact, my main office is in Shanghai. All we have here is one floor manager and the production team. I can hop over here within an hour—traffic conditions permitting. And we can stay in Shanghai to be close to the banks, diplomats, whatever. Any further inland and we would have to consider opening a full office together with the plant.’ (EU 14)

However, Suzhou’s human resource supply and relative prosperity were not really important factors to the sample, but that having them were ‘bonuses’.

‘Human resources may have played a part in our decision, but to be honest, China is so uniform that we will find plenty of university graduates, technical school graduates and high school leavers wherever we go. Also, high quality HR is not always necessarily good. Too many educated people means we end up paying more for salaries. Sometimes, for certain types of operations, we prefer less educated people to be workers. But over here [Suzhou], I can say we have no real complaints.’ (NA 25)

It also emerged that for many companies in the sample, Suzhou as a location by itself was not a major contributing factor. In fact, several respondents reported that their companies had chosen to locate simply on the basis of where the Singapore industrial park would be located.

‘We evaluated this park on a cost and benefit basis starting from the position of where the Singapore government was (going to set up). Now, the Singapore government isn’t going to choose some God-forsaken wilderness; of course they want to get the location right. So once they chose Suzhou, we looked at whether this place was suitable for us. The alternatives were to go to Shanghai, or to Beijing. We were not interested in locating anywhere else.’ (NA 14)

WHY SIP?

For the ‘Why SIP?’ question, the responses were less homogeneous (see Table 6.10).

TABLE 6.10: RESPONSES TO ‘WHY SIP?’ (N=64)

Reasons	Frequency (%)	Most Important (%)
Singapore System	100	75
Singapore government	100	25
Govt-to-Govt	100	0
Infrastructure	60	0
Information	60	0
Ready Built Factories	50	0
Other	30	0

Source: Interview Data

It emerged that competitive advantages such as ‘Singapore system,’ ‘Singapore government’s presence,’ and ‘government-to-government level importance’ (which will be discussed in the next section) were unanimously cited.

Interestingly, ‘infrastructure’ did not appear to be the most important factor for the majority of the companies. This might be influenced by the company’s nature of operation or business sector. From the interviews, it was quite clear that companies in two sectors—the pharmaceutical and the chemical sectors—ranked the provision of ‘high quality industrial infrastructure’ as very important. Companies in the telecommunications and the semiconductor sectors did rank infrastructure as important but was not paramount.

‘We decided to come here because of our Singapore connection. We have a plant in Singapore, and from there, we know that when the Singapore people say that they will have international standard infrastructure, they deliver. And we were proven right. Well, we might have been proven wrong at the other sites—as in they would have delivered too—but head-office would not have taken that gamble.’ (NA 15)

‘For our company, the infrastructure was vital. We make medicines, and we need high quality water and a regular supply of electricity and steam. When we surveyed several sites in China in 1996, it became obvious that only one site would meet our HQ’s standards: this one (SIP). Right now, we are not producing anything. Our application to sell locally produced drugs is being processed somewhere in Beijing, so even though all our equipment is here and ready to go, we can’t

begin. We could, however, produce to export. However, ‘a made in China’ product would never sell to the public back home [Japan] because they think China is some un-developed area. If only the people saw this place.’ (AS 2)

‘We produce mechanical parts here. We don’t really need world-class infrastructure. But having them certainly helps. We’ve been here nearly two years, and we haven’t had any brown-outs [loss of power supply], contaminated water, etc. etc. Things here work nearly all the time, which is a major compliment in China, I can tell you.’ (EU 9)

Half the respondents cited the availability of ‘Ready Built Factories’ (RBFs) as an important consideration. As mentioned in earlier chapters, RBFs played an important role in Singapore’s industrial transformation between 1965 and 1980, enhancing the country’s competitive advantage. They relieved investors of the financial burden of building their own factories. RBFs also facilitated a quick start-up for investors as investors only had to do minor renovations to customize the property to their specifications.

‘RBFs are really good for medium sized companies like ours. This is our first venture in China, and we were not absolutely sure about our long-term strategy. So we took a three-year lease at Xinsu. Because we didn’t have to build our own factory, we kept costs low and move in here fast. If our venture does well, we will then decide to expand or build our own factory. If it fails, we pack up and go home. Don’t want to be in a situation like [company name suppressed], who built their own factory, then had to leave China. Now they’ve got to sell their custom made factory.’ (AS 22)

‘RBFs were useful to us, because we wanted to start here quickly. What was the point of giving us our business license in six weeks if it took one year to build the factory? Well, we wanted to hit the ground running. So we took a three-year lease here, and started renovations as soon as we got our license. Took us a grand total of one month to do the place up to fit our machinery, and maybe another month to get it approved. Our first products took a grand total of six months to appear. Quite amazing. We could only achieve this sort of results in first world countries.’ (EU 8)

‘One of the reasons why we are here is because of the RBFs. We took a short-term lease (three years) when we first came in 1998 and began moving in some of the operations straight away. Then we acquired our own plot over at the north side of the park, and after all the planning and checking, began building our own factory. That should be ready in six months (year 2000). Then we will shift out of the RBF into our own home. By then, our operators would have been trained, we already have

exports and we really don't have to worry about the old plot. I'm sure Xinsu will lease it to somebody else.' (NA 12)

For example, in 1999, several companies such as Glaxo-Wellcome, Nokia and Andrew Telecoms were temporarily operating out of RBFs while their own factories were being built. The 'other' reasons for locating at the Suzhou Industrial Park included agglomeration objectives, and '...dumb luck.' As discussed earlier, agglomeration could be defined as locating to take advantage of supply links or being spatially close to one's business partners. This was frequently articulated as: 'We are here, because we supply so-and-so who is also here.' This implied that companies which located to take advantage of agglomeration would probably have located wherever else their recipient company had chosen. However, this research found that only seven companies in the sub-sample had agglomeration objectives. Although this was not a direct incentive of the Singapore entrepreneurial elite, it had planned to attract such 'big-brother' companies to correspondingly attract support companies. If logistical factors were cited by these support companies, it could also be argued that they could have located near but not within the Suzhou Industrial Park in areas that were comparatively cheaper and still had Special Economic Zone status. For example, the Suzhou New District, Kunshan Industrial Park and the Wu Industrial Area are all less than 20 kilometres away from the Suzhou Industrial Park. In addition, there was a SIPAC-governed area that was outside the Suzhou Industrial Park that was another option for companies. Despite these alternatives, these support companies had still chosen to locate in the Suzhou Industrial Park.

Interestingly, one company was came to the Suzhou Industrial Park not because of its promised or actual competitive advantages, but because of 'luck':

'Our company located here simply by chance, what you might call dumb luck. We wanted to be in Shanghai Pudong, because our customers were all there. But our competitor had good connections with powerful people there. So we actually had applied for a business license, and it got rejected several times, for reasons that we felt were

unreasonable. So over one weekend, the former manager decided to come for a sightseeing trip to Suzhou, drove past this industrial park, which was actually only a signboard at the time. He noted the name, and cabled to our HQ to follow up. Three months later, we had the business license in our hands.’ (EU 13)

Still, it would appear that the data generally supported the premise that the tenants did not locate at the Suzhou Industrial Park solely because of its geographic and infrastructural competitive advantages; instead, institutional competitive advantages were reportedly most important.

6.3 INSTITUTIONAL COMPETITIVE ADVANTAGES

In the previous section, the Suzhou Industrial Park’s institutional features were most frequently cited and ranked as most important by the respondents. As suggested in the Chapter Five, the Singapore transnational entrepreneurial state envisaged that the Suzhou Industrial Park’s institutional competitive advantages had several facets, including its ‘Singaporean operating system’ and the ‘government-to-government’ collaboration. To the respondents, the Singapore ‘operating system’ entailed having corruption-free officials, rule of law policies and a pro-business orientation. Thus, the key litmus test of this would be judged from the effectiveness of the ‘software transfer’ to SIPAC, the local Chinese authority administering the estate.

ASSESSING THE SOFTWARE TRANSFER

This research found evidence that the Singapore officials and the Suzhou bureaucrats both felt that the ‘Software Transfer’ was generally successful⁴.

‘The Chinese officials have shown that they can learn fast and thoroughly. They also were very interested and serious about the training. They weren’t in Singapore for a holiday for sure. Having been here for nearly four years, I personally can say that they were trying to implement what they learnt. Don’t just ask me, ask the companies.’ (SO 1)

‘These SIPAC officials are a breed apart. Today [1999], they are miles ahead of their peers who are administrators in other zones. They think and act with the aim of assisting companies to do well here. We’ve

shown them that if companies do well, they also do well. If companies feel that these fellows are not doing their job, they tell other companies not to come, and these officials' jobs would be at stake. This is how they remain motivated and committed to the training we gave them.' (SO 4)

'We learnt a lot from the Singaporeans. But what is most satisfying is that I can say that we can see the results of this training. Companies are happy with our work. This gives us the will to maintain this standard.' (CO 3)

'Sometimes, it is difficult for us. We have to behave in one way when we deal with the companies and the Singaporeans, and when we go downtown (Suzhou city), we have to use different system. But we can do it, and by now, we are used to it. It just takes getting used to.' (CO 1)

The software transfer was also cited as the most successful adaptation of the Suzhou Industrial Park project in a study conducted by the Department of Business Studies at Nanjing University⁵. However, of greater relevance was whether these institutional competitive advantages were actually realized, or whether they remained as empty (or partially fulfilled) promises from the Singapore government. In this regards, most managers unanimously gave the software transfer the symbolic 'thumbs-up.' (see Table 6.11)

TABLE 6.11: RESPONDENT'S VIEWS ON SIPAC (N=64)

Aspect	Percentage		
	Satisfied	Neutral	Dissatisfied
<i>Evaluation of SIPAC's Operations</i>			
Business license approval procedures	96	4	0
Transparency	90	10	0
Professionalism	85	15	0
Competence	75	25	0
Speed	75	15	10
<i>Respondent's Views of SIPAC</i>	Agree	Neutral	Disagree
Better than Singapore	25	25	50
Same as Singapore	40	40	20
Better than other parts of China	80	20	0
Worse than other parts of China	0	0	100

Source: Interview Data

Nearly all the companies were satisfied with SIPAC's performance, especially in 'business license approval' procedures. On the average, it took an average

of a fortnight for SIPAC to approve most projects, compared to an average of three months in other zones in China.

‘We are a Western multinational company. We operate entirely above board. We don’t like hidden costs and personal benefits in business. We came on the basis that there would be a Singaporean system here. We can justify every single entry honestly in our account books.’ (EU 5)

‘We chose to invest in the SIP because we have confidence in the Singapore-style management adopted by the Suzhou authorities. SIP has a pro-business environment.’ (C.F. Chai, Vice President of Littelfuse OVS (Suzhou) quoted in *SEDB Press Release*, 25 March 1996)

‘SIPAC was fast, clear and efficient. When we had not supplied the correct information, or had some vague figures, they contacted us for requests for information. We took over a month for our application, but some of that was our own fault, not theirs.’ (SG 4)

‘SIPAC has performance targets it set itself, and it states on its application forms that it estimates that it will take between two and four weeks to process, upon receipt of all the forms and necessary documents. In reality, they got ours done in a week and a half. This was amazing, because we submitted all our papers from Singapore by post and we weren’t even physically here. I heard that when other branches were applying to other zones in China, they had to wine and dine officials as part of the process. We didn’t face anything like that. The license came back so quickly, that in fact, it was a minor cost to us because we couldn’t operate—our factory hadn’t been renovated yet—but had to begin paying license fees and those sorts of things. But better to have that, than being stuck in some red tape somewhere between here (Suzhou) and Beijing.’ (EU 17)

In November 1998, SIPAC made the unprecedented move of publishing ‘performance vows.’ (*Singapore Straits Times* 10 Nov 1998) SIPAC announced that, for example, it would deal with emergencies within 24 hours (or within 72 hours for major breakdowns); respond to enquiries or answer correspondence within seven working days; and where matters required approval outside the authority of SIPAC, the agency would work with the relevant local departments to ensure the requisite approval is obtained within three working days in general or seven working days at the latest (*ibid.*). It was even reported that these ‘performance vows’ were designed ‘...to improve the investment environment further at the industrial park and to raise standards of

service for domestic and foreign investors.’ (ibid.) Although such a gesture might appear symbolic, it was highlighted by the Chinese media as being the first of its kind. More importantly, even though other industrial estates might claim to be more efficient, with this publication of the performance vows, SIPAC had institutionalized its service standards. Thus, it could theoretically be held against its words by dissatisfied tenants. Based on the research, most respondents from the companies included in the sample knew of this performance charter.

‘That they dare to state their duties so formally must put an awful amount of pressure on themselves. Imagine if they—for some reason—cannot deliver. I can just about imagine heads rolling. Come on, it is quite safe to say that nobody [companies] are going to read every letter of the law to SIPAC, but at least its there. They can’t fudge it later, or make up some rule as they go along. In the end, we benefit.’ (NA 5)

Most managers, when asked, credited this to the Singapore government’s influence. The ‘influence’ was a combination of the Software Transfer, the Singapore government’s presence and the closeness between CSSD and SIPAC. Another aspect that the companies reported satisfaction was SIPAC’s ‘transparency.’ This was defined, by most companies, as an absence of ‘grey’ practices; instead, they were impressed by SIPAC’s adherence to ‘published’ procedures.

‘For every problem, there is a black and white solution sitting in their investment guidebook. These officials carry this guidebook everywhere they go, and refer to it like a bible. So whenever we ask questions, they flip it open and refer to it. Everything is above board. If the answer is not in that book, they will get back to us in writing. I think in the west, if bureaucrats carry the rules around, something is wrong. Over here, its a bonus!’ (NA 1)

The majority of managers interviewed felt that SIPAC officials were ‘professional,’ in terms of being committed and competent at their duties. Ironically, when asked to elaborate on this ‘transparency’ and ‘professionalism,’ most of the managers found it difficult to think of specific examples because they reported that everything proceeded mostly according to

procedure and there was in fact no exceptional or outstanding aspect that stuck in their mind. But as one manager put it: 'We prefer such dull but predictable transactions over uncertainties.' (AS 2)

Therefore, from the perspective of the respondents, which included Singaporean and China officials and managers of companies in the park, the Software Transfer had achieved its objectives. The software transfer was effective for two main reasons: firstly, it had the backing of the Beijing government, and secondly the Singaporean institutions and practices did not seriously conflict with any pre-existing formal or informal practices. In addition, by operating as an autonomous authority in a relatively small area, the software transfer did not threaten the status quo elsewhere in the city⁶. Also, SIPAC bureaucrats had to justify their relatively high salaries (when compared to other Chinese bureaucrats); many employees probably were worried that if they performed poorly in administrative terms, they would be 'replaced.' From the perspective of the Singapore transnational entrepreneurial state, having Chinese bureaucrats operating along the same 'frequency' was critical in order to reduce its own transaction and operational costs in Suzhou. By the end of 1996, SIPAC had emerged with flying colours, equally admired by the Singapore transnational entrepreneurial state as well as by the executives of the transnational corporations located at the Park. Such efficiency and professionalism gave the Suzhou Industrial Park a distinctive competitive edge over other special economic zones in China.

6.4 GOVERNMENT-TO-GOVERNMENT COLLABORATION

'Their [The Chinese and Singapore governments] co-operation and commitment in locating a world-class industrial park in Suzhou is a tremendous achievement and was very important to us in making the decision to locate our new factory here.' (W. Russell Morcom, VP and GM, Harris Semiconductor Products Division, quoted in *Singapore Investment News*, 1 May 1996)

Another frequently cited reason that influenced industrial transnational corporations' choice for locating in the Suzhou Industrial Park was the 'government-to-government' collaboration. As discussed in the previous

chapter, this collaboration was meant to enhance the credibility of the Suzhou Industrial Park.

When respondents cited ‘the Singapore government’s presence’ and the ‘government-to-government’ collaboration, they viewed this both as a means of maintaining the prestige level of the project, as well as a way by the Singapore government of ‘keeping an eye’ on the Chinese officials.

‘The actual on-site presence of the Singapore government made a difference to our decision making. You see, in the other Singaporean parks in India or Thailand, the Singapore government is not really there on a day-to-day basis. It shows up once in a while, and it comes for major events like anniversaries, ground-breaking for big companies and audits. But they are here [in Suzhou]. This means that if there’s a problem, it does not take them two or three days to hear about it.’ (EU 11)

‘The presence of the Singapore government gave us assurance that this park would operate with rules of law. We believe that many other places might promise this, but here, we are confident that this would be carried out because the Singapore government are actually here monitoring the situation.’ (AS 5)

Beijing’s own strong presence was important to some respondents.

‘I think having Beijing put a lot of effort and support into this Park was a factor in our decision to come here. You see, Beijing cannot afford to let this place fail. They have their reputation to protect. Whereas in some locally run estate, Beijing might not have any idea what’s going on, and may not even bother. We need this sort of long-term guarantees. We’re here for the long haul.’ (NA 8)

Many respondents stated they did not base their locational decisions solely on the ‘government-to-government’ collaboration. Most respondents reported that the close relationship between the two governments had more advantages than disadvantages. The most commonly cited advantage was that the collaboration increased the park’s credibility, in turn improving the park’s viability (long term future) and operational efficiency. Several respondents cited that because the Suzhou Industrial Park was high on the China government’s agenda despite its relatively small size, it meant that the prestige level of the park must correspondingly be high.

‘Remember, China is a world superpower, and therefore it has superpower issue to deal with. Yet it appears to have given the SIP a lot of priority.’ (NA 3)

‘To get any concessions out of China government is a major coup. You see the WTO negotiations, and the NAFTA thing with the Americans. China never gives anything away. And they simply do not negotiate over things like Hong Kong, Macau and of course Taiwan. But look what the Singapore government got out of this. The SIP gets SEZ status, placing it as one of the most important sites in China. And then all these privileges. This made the SIP very prestigious in China, which only benefited investors.’ (NA 2)

‘At the time (1994-1996), we were monitoring the relationship between the Singapore and China government. We saw that the relationship was rock solid, perhaps based on the fact that here were two Asian governments with a lot in common; culture, ideas, business practices and so on. Then we saw the agreements signed and development work started, all going very smoothly. Then we saw the software transfer supported by both sides. Also very smooth. So we decided that this place was for us.’ (AS 2)

‘I think the relationship between Singapore and Beijing is very good. The leaders seem very friendly and understanding with each other. I think that’s important. And of course, there was the incentive that if this place succeeded, both sides would benefit. Our company felt secure under this umbrella.’ (EU 6)

Finally, another regularly cited advantage was that the government-to-government collaboration could enhance operational smoothness at the park.

‘If there are operational problems, such as tax problems or legal obstacles, we believe that by having top level support at this park, we can get these sorted out faster and more efficiently. For example, we complained about one particular tax item, where we felt we were being taxed twice. When we brought this up with the park authorities, within days Beijing had a response. Its very important to have a direct line both to Singapore and to Beijing. And it is also very important that the line between those two is also good.’ (SG 12)

However, this research found that the ‘government-to-government’ collaboration was also viewed by some respondents to have some disadvantages. One respondent said that having such high profile backing could potentially bring some negative effects, mainly in the sphere of ‘control.’ He suggested that the China government might not take too kindly to

Singapore's orders, especially when the relative size and the power of the two governments are taken into consideration.

'A good long-term joint-venture requires the relationship between the partners to be squabble-free. Squabbles lead to bad relationships, and subsequently bad business performance. These two governments want to make this place the best in China, they have remain committed to fully supporting it, through thick and thin.' (NA 1)

Therefore, because of the economic complementarity of the project, both the Singapore transnational entrepreneurial state and the China government—more specifically the top leadership in Beijing—were keen to improve their mutual embeddedness. Such embeddedness or closeness was important to the companies located at the Park, as strong 'government-to-government' relationships did increase the credibility of the park, in turn acting as an incentive to encourage companies to locate. It could be concluded that during this period, the embeddedness between the two governments had contributed to enhancing the competitiveness of the Suzhou Industrial Park vis-à-vis other industrial estates in China.

6.5 KEEPING CUSTOMERS SATISFIED

'One good word from the investors is worth 10 good words from us,' (Lee Kuan Yew, quoted in *Singapore Business Times* 11 Sep 96)

Another strategy that the Singapore transnational entrepreneurial state utilized to enhance the Suzhou Industrial Park's competitive advantage was to achieve embeddedness with tenants. Such embeddedness would improve their economic, political and social relationships, which might in turn lead to positive referrals from the existing tenants. The underlying rationale was that if these tenants were 'satisfied' with the Park, 'the good word' would get around the business community and potentially attract additional investors. Positive referrals firstly function as accurate information from reliable sources. In this case, accurate information becomes a highly valuable commodity that had the real impact of reducing uncertainty and risk (see Lewegie 1999). Secondly, positive referrals of the SIP improved its credibility. To examine whether

tenants were ‘satisfied’ with their tenancy at the SIP, respondents were asked to list and rank all the reasons why their company was satisfied (or dissatisfied) about their tenancy at the Suzhou Industrial Park. This would also give an indication of whether these companies had their initial expectations realized after starting operations at the Park. Additional probes were prepared to inquire whether these respondents had offered referrals to other potential investors.

The research found that three aspects were commonly cited as being ‘satisfactory’: Singapore system, SIPAC’s performance, and the quality infrastructure (see Table 6.12).

TABLE 6.12: ‘SATISFACTION’ INDEX (N=64)

Aspect	Response (%)	Ranked First (%)
Singapore Government	50	10
Singapore System	100	10
SIPAC	100	10
Infrastructure	75	20
Human Resources	10	5
Business	50	25
Costs	10	0

Source: Interview Data

The data indicated that the ‘Singapore [operating] system’ was the most ‘satisfactory’ aspect.

‘We’ve been here over two years now, and by and large, you can say this place resembles Singapore more than China, especially in terms of the rules and the laws, and the management of the park. We didn’t actually believe that this was possible in China. We thought that maybe the Singapore government could implement 50 percent of their system here, which is a pretty good achievement already. Instead, I would say that it probably achieved 80 percent and above.’ (NA 3)

‘I would say that a Singapore system was one where the administrators were pro-business, efficient and predictable. These are the most important. By saying that this area is pro-business, the administrators treat us as important clients, look after our welfare, and do whatever it takes to help us in our operations. This park is efficient because, just like in Singapore, every action has a response time. For example, this request has a fixed three-day response time, or queries have a two-hour response time. Very good. And predictability is the most successful; I

mean we have very few surprises over here. Rules, tax rates or conservancy charges don't change. Well, they did change, but we were given six months prior notice!' (AS 1)

'The Singapore system gave our company a solid foundation for coming to China. This is our first venture in China, and without the system, we would have probably incurred much higher costs to secure a local Chinese partner, learn their system and then try to build our own factory. We didn't have to do any of these, and because we've been in Singapore for 10 years, coming here, we know what to expect, how things are done.' (AS 2)

On the aspect of 'service,' many respondents were satisfied with the assistance provided by both CSSD and SIPAC during the businesses' 'start-up' phase and the 'after-sales' service. Some respondents also identified the willingness of CSSD and Xinsu to try to solve problems, receive feedback and criticism as being 'satisfactory.' Several respondents also said that CSSD's willingness to act on behalf of the tenants under certain circumstances, especially when having to clarify certain legal or financial policies, was very helpful.

'We have 12 other plants in China. This was number 13. Lucky or unlucky number? Well, this plant took six weeks for the business license to be approved, and three months renovation to the ready-built factory. From the day headquarters approved this plant until the day we ran our first line, it was six months. The other 12 plants took an average of one year to start up. On the one hand, you can say we are a lot more experienced about doing things in China, after all, we've filled that business application form many times. Personally, I've filled it up three times [started-up three other factories]. But the process here was by far the smoothest and easiest. The CSSD and SIPAC officials were very efficient and helpful.' (NA4)

If tenants were generally satisfied with the Singapore system, the service and SIPAC, and the infrastructure, it was therefore rather surprising to find that only half the respondents were satisfied with the Singapore government. This could be attributed to the research being conducted immediately after the events of June and July 1999, when the Singapore government announced it was disengaging from the project. Therefore, this aspect will be examined separately in a later section. It was also interesting to find that several respondents indicated that they were satisfied with their 'business operations,'

despite the impact of the Asian Financial Crisis that began in the latter half of 1997⁷.

However, several others were dissatisfied with the Park's costs structures (only 10 percent voluntarily said that they were satisfied with the Park's costs—see Table 6.12, and Table 6.13). A reason for this could be that these respondents would not generally or publicly report that business was poor, even if it actually was. This might be because as senior executives of the company, poor business performance might reflect their own individual performance. Therefore, when probed, several respondents modified their responses to state that 'business operations were satisfactory...given the conditions.' The conditions, more often than not, referred to the Asian Financial Crisis.

TABLE 6.13: 'DISSATISFACTION' INDEX (N=64)

Aspect	Response (%)	Ranked First (%)
Business	50	50
Costs	90	50
Human Resources	10	0
Service	10	0
Laws (China)	10	0
Others	10	0

Source: Interview data

The particular aspect that was most commonly cited as causing 'dissatisfaction' was the Suzhou Industrial Park's relatively high per unit land cost. This affected companies that both bought the leasehold to the property as well as those that were sub-leasing Ready Built Factories. It was found that in 1996, the land cost at the Suzhou Industrial Park was 25 to 40 percent higher than a similar plot across town at the Suzhou New District. Several respondents indicated that they felt that conservancy charges—such as water, gas and electricity charges—were also too high, especially compared to other industrial estates in China. When these respondents were asked if they felt they were getting value for money from the park, all of them retreated by suggesting that they understood that their companies were paying for premium

services. Indeed, these respondents said that they would not consider relocating to another industrial estate in China. The reasons given included the high relocation costs, the availability of a Singaporean operating system, and the assurance of quality infrastructure and utilities at the SIP. In this sense, these respondents simply wished that the costs were lower so that their operating margins would 'look better.' Other 'costs' that some respondents found to be 'unsatisfactory' included having to provide free meals to employees, high building or renovation costs (for their factories), and high expatriate living costs (borne by the company). Certain companies in particular sectors said that they were dissatisfied with the Human Resources for the town. For instance, one company said that getting factory operators was easy but finding supervisors and administrative managers was very difficult. Furthermore, there was 'poaching' practised by tenants within the park, where they would 'steal' employees from their neighbours by offering higher salaries and perks. This drove costs up as companies had to compete to acquire or retain staff, or had to recruit from outside the region.

The qualitative data from the interviews generally indicated that the tenants at the Suzhou Industrial Park were more satisfied than dissatisfied. In other words, the majority of these companies felt that their expectations for locating had been generally met. Most companies were 'willing to pay the (financial) premium' to be located in the Suzhou Industrial Park. It was found that the CSSD's marketing department was aware of that most companies were generally satisfied being located in the estate and attempted to take advantage of this.

'One of our most effective marketing tools is to use the referral system. For instance, when we get a prospective company visiting the park, we will try to set up a meeting with existing tenants. We will make all the appointments, and we will leave once the prospective client walks through the factory gates of the company he (or she) is visiting. We don't tell the existing tenants what to say, we are very confident that we will get a positive referral. We don't even pre-select the companies for the prospective client, we always ask them who they would like to visit. So in this light, a Japanese company might ask to see an existing

Japanese tenant here, and so on. We are confident of our achievements at this park, and so we have nothing to hide.’ (SO 1)

Several respondents reported that they had given the Suzhou Industrial Park very positive referrals in the past. Many respondents had also actively encouraged related companies to locate in the Park, some of which came to fruition. Several respondents in the sample said that they themselves had solicited information from existing tenants before recommending establishing operations here.

‘Our company was interested in locating here as early as 1995. However, we could not be absolutely sure that the Park would work out in the way the two governments promised. So we chose to wait. And after this place got going, we came and visited several companies. They told us about the good and bad aspects, and we concluded that the good overwhelming outweighed the bad, which was high costs. So in that sense, we were influenced by referrals.’ (NA 10)

However, nearly all of them said that they would be more cautious about any advice they gave in the future. This drastic shift in attitude came about directly because of the Singapore government’s announcement of disengagement in the summer of 1999. This issue would form the focus of the next chapter. Yet, the sub-conclusion of this phase was that tenants had responded positively to the Singapore transnational entrepreneurial state’s embedding mechanisms. When most respondents indicated that they were generally more satisfied than dissatisfied with their tenure at the Suzhou Industrial Park, this would indicate that its competitive advantages were mostly actualized. This should have been the springboard for further enhancing the competitive advantages of the Suzhou Industrial Park as a good referral from the existing tenants would generally be perceived in the business community as being highly credible. However, this did not take place, not least because of the upheavals that were about to hit the Suzhou Industrial Park in 1997.

6.6 CONCLUSION

‘It has been a long two years since we started up, but we have now established the most important aspect of any China project: trust and

understanding between partners.’ (Chan Soo Sen, Chief Executive of CSSD, quoted in *Singapore Straits Times* 15 Feb 1996)

During the first two years of the Suzhou Industrial Park’s operations, it was evident that it was successfully ‘taking off.’ In many ways, the Singapore transnational entrepreneurial state’s strategies to enhance the competitiveness of the Suzhou Industrial Park were effective. The project’s geographic, infrastructural and institutional competitive advantages proved to be effective in encouraging companies to locate at the Suzhou Industrial Park. The embedding mechanisms utilized on the China partners—the Beijing government and the local Chinese authority SIPAC—were also generally successful. The primary objective was to enhance the Park’s credibility. However, it was also evident that the embedding mechanisms had a secondary objective, which was to ensure governance and control over the project. Thus, there appeared to be congruence between the Singapore transnational entrepreneurial state’s objectives and its outcomes. In this light, it could be argued that the Singapore transnational entrepreneurial state was an effective entrepreneurial agent in the sense that it managed to successfully identify a particular niche in the global game of industrial production, and subsequently managed to devise and execute a strategy to capture this niche. The evidence suggests that the current tenants (industrial transnational corporations) were responding to the Singapore government’s supply of secondary factors of production. However, for an entrepreneur to be regarded as being completely successful, it would not only have to demonstrate entrepreneurial vision, but the ability to realize financial profitability, and also the ability to adapt to changes in the market. The latter two aspects will be discussed in the next chapter.

¹ Data for the SND was gathered from a SND official (SND 1), while data for Pudong was from the Pudong New Area marketing brochure (Pudong New Area Information Office 1999: 12).

² See Table 7.1 (Chapter Seven) for the breakdown by business sector for all companies located at the Suzhou Industrial Park.

³ 56 companies agreed to participate in the research, offering at least one respondent. However, in 8 of these companies, the research managed to interview a second respondent. Thus, the sub-sample was a total of 64 respondents.

⁴ The research included a sub-sample of eight officials from both the China and Singapore partners. A customized interview schedule was designed for each official (see Chapter Three on methodology).

⁵ This was published as Wang, J.R. *et al.*, (1998) *Explorations of the Initial Adaptations of SIP's experience*, Nanjing: Nanjing University Press, 67pp. (In Mandarin.)

⁶ In fact, as will be shown in later chapters, 'problems' arose when the other areas began to learn from the software transfer, and began offering similar institutions.

⁷ The impact of the Asian Financial Crisis on all the three main players at the Suzhou Industrial Park will be discussed in depth in the next chapter, which covers the period 1997 and 1999.

CHAPTER SEVEN

SHOCKS TO THE SYSTEM

By early 1997, the Singapore transnational entrepreneurial state's strategies to attract industrial transnational corporations to locate at the Suzhou Industrial Park had appeared to be successful. However, from the end of 1997 up until 1999, the project was not only unable meet profit targets but also losing money. This chapter explains why things—from the perspective of the Singapore transnational entrepreneurial state—started to go wrong, and how the Singapore transnational entrepreneurial state utilized its competitive and collaborative strategies to deal with the situation. The two main threats to the project's competitiveness were the Asian Financial Crisis, and the strong competition from another industrial estate in Suzhou.

7.1 *THE ASIAN FINANCIAL CRISIS*

'The Asian economic crisis, as it has developed since 1997, has had disastrous consequences at a number of levels. Most obviously, it has led to bankruptcies, collapsing currency values, falling gross domestic product (GDP) and dramatic declines in the living standards of swathes of working and middle class people in those economies that have been most deeply affected.' (Henderson 1999: 2)

Although China itself was outside the orbit of the Crisis (see Naughton 1999), and Singapore only narrowly survived with its economy intact (see Chua 1999 and Low 1999), the Crisis heavily affected the competitiveness of Suzhou Industrial Park vis-à-vis other industrial estates in China.

THE CRISIS HITS THE COMPANIES

The Asian Financial Crisis¹ began as a 'currency crisis' but soon turned into 'a crisis of the productive economy' (Wade 1998: 1535). Many East and Southeast Asian economies were 'dragged down' by a 'contagion' effect (Chua 1999: 782). As a result, their markets for manufactured products shrank rapidly (Henderson 1999: 2). For many companies located at the Suzhou

Industrial Park, with their production geared less towards the China market—the Park was very much an export-processing zone²—the diminishing Asian and regional market was a significant worry. The first sign of ‘trouble’ could be seen when several of the companies operating at the Park were struggling to stay financially afloat. The four sectors in the global economy that were most heavily affected by the Crisis were the electronics, semiconductors, consumer goods and computer-related products (see Legewie 1999). At the Suzhou Industrial Park, the majority of companies located there were involved in these sectors (see Table 7.1).

TABLE 7.1: ALL COMPANIES LOCATED IN THE SIP CATEGORIZED BY BUSINESS SECTORS³ (1999)

Sector	Percent
Electrical and Electronics	27
Chemical, Pharmaceutical & Healthcare	23
Precision Engineering	17
Supporting Industries	13
Food & Beverage	10
Others	10
Total	100

Source: CSSD (1999c)

This research found that only one company located at the Suzhou Industrial Park ‘went under’ in the last quarter of 1998 specifically because of the Asian Financial Crisis. This company was involved in producing ‘wafers’ in the semiconductors sector.

‘I was the first general manager for *company x*. I was posted to China to acquire the property from the park developers, and I ordered the building of the factory. I was about to hire around 200 workers for our factory in 1997 when suddenly the US HQ told me to halt all operations. The world semiconductor market had dried up, and our HQ projected that operations here [in Suzhou] was no longer viable. In the first quarter of 1998, I was headhunted by *company y*, who were also planning to come to Suzhou. They were involved in a totally different sector, and wanted somebody with local experience. They knew I was not happy sitting in a factory with one security guard and one secretary. Some time in the middle of 1998, *company x*’s US HQ and they told me that they had decided not to proceed with operations in Suzhou. I was ‘retrenched’ as a sign of goodwill, and free to join this new

company. However, in return, I have assisted in trying to find a buyer for the idle factory. It is very difficult because it was custom built to suit our operations. And frankly, it would only suit semiconductor operations.’ (NA 3)⁴

Nearly three quarters of the managers in the sub-sample reported that the Asian Financial Crisis had affected their operations ‘negatively,’ while the rest reported ‘no effect.’ Of those who reported negative effects, two thirds blamed the weak global demand for their products, which was directly caused by the Crisis. Also despite the Asian Financial Crisis, none of them had laid off employees although 15 out of the 56 companies had lowered output levels. They were also not aware of other tenants retrenching any employees. However, many companies had hired fewer employees than they had originally planned.

‘Our company chose to proceed cautiously when we realized the Crisis was not going to be a short-term problem. Our masterplan involved establishing operations in January, and only hiring the bulk of our operators in May, when students in technical school graduated. We were looking for maybe 50 to 75 operators this year. But with the Crisis, head office in America told us to halve output, because they were worried about excess capacity. So we only hired 30 operators. Maybe this was a blessing in disguise, as I could then train them properly. 75 brand-new operators might have been a bit problematic, especially for our first venture in China, from a training and human resource point of view.’ (NA 11)

Some respondents justified this strategy by stating that their companies were still in the process of starting-up or ‘slowly growing;’ several said that they would recommend to their headquarters to recommence their original plans ‘...after the Crisis had blown over.’ This tenants’ ‘sub-optimal’ level of production and employment had ‘disappointed’ the Chinese officials⁵. The Suzhou Industrial Park project was supposed to be a powerful engine that generated employment for the local area. Instead, the most optimistic figure that was offered by one official was 14,000 employees, which was significantly lower than the projected figure of around 40,000 for Phase One alone.

‘I think the employment figure is an interesting issue. You see, we have almost full occupancy here in Phase One, in terms of number of companies taking up leases. But most companies were under-hiring workers. This was something we had a bit of problem explaining to the higher authorities. High tenancy, low employment.’ (CO 1)

‘This was one area we couldn’t do anything about; we couldn’t pressure the companies to hire their original projected staff, we couldn’t expect them to utilize every square inch of their factory if they didn’t want to. And anyway, employment wasn’t our jurisdiction.’ (SO 2)

Therefore, one of the benefits for the China government to collaborate in the venture was not realized. Still, as will be discussed in the following section, the China partner was not in a position to act; it had to wait for the worst to pass.

It was also found that for several companies in the sample, the Suzhou Industrial Park’s relatively high operating costs caused problems.

‘We are going to have a hard time breaking even because of the high land costs here. As we paid quite high for this plot, it would take us a longer time to break even, even though we are actually operating at a pretty good capacity. So although we are producing well, and others are buying our products, it was always going to take a long time to break even. Our HQ knows that, and they are not pressing the short term panic button; they know we are alright, and if the region picks up, we’ll be fine.’ (EU 1)

‘It doesn’t help that this place is so expensive. But what can we do? We paid for a premium site, got premium infrastructure and services, and if it weren’t for the Crisis, I wouldn’t be complaining. We won’t move. We can’t move. That would be suicide. I don’t expect them to lower prices, and so the only thing we can do is to figure out a way we can lower costs on our part to keep going.’ (AS 3)

When asked to be specific, this respondent said that the charge for utilities (water, electricity and gas) and the monthly lease his company was paying to Xinsu⁶ was much higher than other sites in China. However, all the respondents—including the few that were ‘complaining’ about the higher costs of the Suzhou Industrial Park—stressed that they would not relocate. Ironically, the main reasons offered were that none of the other estates could provide the level of quality infrastructure or industrial management service.

Still, in mid-1999, the overall mood at the Suzhou Industrial Park was not completely pessimistic. There were several tenants that reported profits and ambitious expansion plans throughout the Crisis period. Of the 56 companies that were part of this research, 11 of them had already begun expansion. Three companies had already moved into larger premises within the estate. Two of these companies moved from the smallest RBF unit to the largest unit, while the other company moved from a multi-storey RBF to larger stand-alone factories. Four other companies had taken additional units in the RBF estate. Four other companies built extensions or annexes to their existing plants. Interestingly, all 11 of these companies had established 'very conservative or cautious' initial operations, both because they were unsure of the actual operating costs at the Park and the 'mood of the market for their products'. When operations proved to be profitable, they began expansion programmes, some as soon as within six months. Of the 11, five were in mechanical sectors (including motors and light industrial machinery) and three were in the medical-related sector (medical devices and pharmaceutical).

The Crisis had directly reduced the Suzhou Industrial Park's competitiveness because it emphasized how much higher its basic operating costs were compared to other industrial estates in China. However, because of the high fixed costs, the lack of alternative locations, and the perceived temporary nature of the Crisis, nearly all of the tenants said they would not recommend relocating. However, existing tenants were not the Singapore transnational entrepreneurial state's main problem; instead, the most serious problem was finding new tenants.

THE CRISIS HITS THE LANDLORD AND BROKER

The Singapore transnational entrepreneurial state's projections for the Suzhou Industrial Park included a growth rate of about five to eight percent according to one Singaporean official based at the park. Growth—to the Singapore transnational entrepreneurial state—was defined as number of new companies taking up lease at the Park; on the other hand, growth, to the China partner, referred to increasing amounts of foreign direct investment⁷. This

projection was already conservative, considering that China’s national economic growth, which was as high as 11 percent in the late 1980s, and averaged eight to 10 percent in the early 1990s⁸. Between 1994, when the project began operations, and 1997, when the Asian Financial Crisis took hold, most available units in the Park’s Phase One were mostly taken by industrial transnational corporations. However, by 1999, 10 percent of the units for Phase One were unsold. Although the 90 percent occupancy rate had actually met the Singapore transnational entrepreneurial state’s expectations, the ‘type’ of investors was worrying:

‘We hoped that the multinationals would locate large scaled production here. Instead, by 1999, many of the companies could be categorized as being “small and medium” sized investors.’ (SO 1)

This was corroborated by the primary data gathered by this research as well, particularly in terms of land-space occupancy and employment numbers (see Table 7.2).

TABLE 7.2: COMPANIES INCLUDED IN THE RESEARCH, BASED ON SIZE OF FACTORY, NUMBER OF EMPLOYEES AND FIXED CAPITAL INVESTMENT (N=56).

Size	Size of factory	Number of Employees			Fixed Capital Investment	
Small	under 3000 sqm	22	under 20	13	under US\$10m	10
Medium	3000-5000 sqm	24	20-50	30	US\$10-30m	31
Large	5000-10,000 sqm	5	50-100	6	US\$30-50m	10
Very Large	over 10,000 sqm	5	over 100	7	over US\$50m	5
Total		56		56		56

Source: Interview data

Of the 20 other companies located in the Suzhou Industrial Park that were not part of the research’s sample, only four occupied large or very large premises. As the Singapore transnational entrepreneurial state’s main financial profits would have come from the value-added after the sale of industrial property in this park. By 1999, it was clear that the project was not achieving its goals. The income from the property sales was much lower than the investments in infrastructure and the cost of day-to-day operations. The additional income earned from management and service charges were small and considered

supplementary. Although the majority of the ‘large’ and ‘very large’ industrial plots in Phase One had been already occupied, CSSD officials reported that there were almost no new clients seeking such large plots for future phases. Worse still, the overall demand for industrial property, based on ‘prospective inquiries,’ also fell significantly.

‘You can say that business at the office has been slow since 1997. The new companies that started between 1998 and 1999 were those that were signed up before or during the early months of the Crisis. Yes, we have had some business, but definitely not of the size and the scale we got in the early days, and mostly smaller than we hoped for. I would attribute the slowdown to the Crisis itself. You see, the type of multinationals that come here are mostly those that are in the process of expanding operations, and willing to shift some lower end operations here. Under the pressures of the Crisis, there was no logical reason for any company to be expanding.’ (SO 1)

This was part of the reason why Phase Two—originally slated for January 1999—had not been launched on time⁹:

‘In the initial blueprint, which was itself based on the how Phase One was doing, we were supposed to start marketing Phase Two in late 1997. In our line, we work on a two-year lag time, so we wanted to tie up some investors by mid-1998. This was to report that we had secured several investors at the official launch of Phase Two in 1999. But 1998 was a real slow year, and 1999 was not much better. In fact, many of the prospective companies during that period consisted of such small investors that we could fit them into the unsold plots in Phase One.’ (SO 4)

In addition, most respondents from the managerial sub-sample reported that their companies had implemented ‘belt-tightening’ measures by mid-1999. This meant that their expansion plans were placed on hold, or that plans were ‘...revised to fit with the current environment.’ This meant that the companies that might have taken additional factory space at the Suzhou Industrial Park postponed the expansion plans, with a small handful reporting that the postponement was ‘indefinite.’ Unable to sell additional units, the Park’s profitability was severely weakened.

‘I was actually given the go-ahead to acquire additional premises for production in late 1997, early 1998. Right now, the plant only produces

two out of a total out of four hundred components worldwide. HQ wanted to increase the number to six, but when the Crisis came, I was told to hold all activities at the current level. Had I gone ahead with the expansion, I probably would have acquired another floor in this block (RBF). Instead, we hesitated which was probably a good decision, if viewed from a worldwide sense.’ (EU 6)

Still, the Singapore transnational entrepreneurial state tried to improve conditions at the Park for the existing tenants by utilizing economic and social embedding mechanisms. This research found that SIPAC announced reductions in the mandatory contributions to the Provident Fund system at the beginning of 1998, effective April 1998. In effect, the employers’ contribution was reduced from 23 to 20 percent of the employees’ monthly salary. Although the Singaporean bureaucrats and officials refused to confirm that the decision emanated from the Singapore entrepreneurial elite, they were willing to concede that this decision came after ‘...consultation with all parties concerned.’ (SO 1) According to another official, this was a business-related decision that would help companies ‘...without affecting the welfare of workers.’ (CO 1)¹⁰ In reality, this decision did affect employees. While it might appear that the employees’ take-home salary was not reduced, they were in effect getting less in net terms because the employer was contributing less to their provident fund savings. As such, the officials of the Suzhou Industrial Park were keen to stress this was not a ‘pay cut.’ Also, the three percent savings apparently meant a great deal to the employers. When asked, many respondents from the companies included in the sub-sample said that ‘...the measure was not critical, but no doubt helped.’ (NA 4)

This research managed to informally interview a small handful of employees of the companies, who were mainly working as factory operators, about this adjustment to the Provident Fund. The response from all of them was unanimous; they were unhappy but felt it was much better than losing the job altogether. Several were fairly confident that the initial rate would be restored after the Crisis. Some managers interviewed mentioned that they had heard that the Singapore government was negotiating with the China

government for tax concessions to specifically ride out the Crisis. When asked, all the officials and bureaucrats interviewed denied knowledge of this issue¹¹. Still, even if this request was unsuccessful, the ‘gesture’ and the Provident Fund reduction was viewed by tenants that still attempting to be ‘pro-business,’ in turn improving its credibility with industrial transnational corporations.

The Chinese partner—SIPAC—also was keen to maintain its developing relationship with the transnational corporations as well. This could be explained by SIPAC’s fear that the affected companies might pack up and leave, taking away a large number of jobs. Therefore, by not pressuring the companies to meet their original employment targets immediately, they were hoping that once the global economy picked up, the companies would reciprocate. To these officials, the best-case scenario was if the companies eventually begin employing large numbers of people, or expanding their production. As one official said:

‘If they do badly, we do badly, there’s no point in kicking when they are down. We only hope they remember what we did for them, and repay us when times are better.’ (CO 1)

The case of the Asian Financial Crisis demonstrated how the external environment—processes emanating from outside the project—affected the competitiveness of the Suzhou Industrial Park. With the reduced global demand for products, many companies at the Park had to scale down operations and very few were planning to expand. At a wider level, with the Crisis negatively affecting many industrial transnational corporations, their motivation to expand operations was very low. Thus, there were not only fewer prospective companies coming to the Suzhou Industrial Park, expansionist investments in China fell as well. This diminished demand for industrial property at the Suzhou Industrial Park meant the Singapore transnational entrepreneurial state was unable to ‘sell’ new industrial units. As a direct consequence, the project’s profitability fell. Many respondents in the managerial sub-sample said that the Singapore government would have

accepted that the Park's weak financial showing was a result of the Crisis; however these respondents were sure that what really got under the government's skin was the 'problem' brewing across Suzhou.

7.2 *SIBLING RIVALRY*

THE SUZHOU NEW DISTRICT

The growth and development of the Suzhou New District (SND) was identified by most managers interviewed as the main factor that led to the deterioration of the relationship between the Singapore government and the China government. This section explains how the SND, which was run by the local Suzhou authorities, became a very effective competitor in the global game of industrial production¹². The Suzhou New District was located to the west of Suzhou¹³. It was developed in the late 1980s when the Suzhou Municipal Authority was ordered by Beijing to relocate industrial operations out of Suzhou in order to preserve historically important monuments, rivers, canals, parks and gardens¹⁴. This was also to improve the bid in the early 1990s by Beijing and the local Suzhou authorities sought to get UNESCO recognition as a 'World Heritage Site'¹⁵. Although much of the earlier industrial activity in the city was 'light'—textiles, consumer goods and foodstuff production—they were contributing to the pollution in the canals, which in turn was threatening the historic buildings and many gardens. In 1992, the SND was granted the 'economic development zone' status, which permitted the location of foreign businesses. In 1994, it was conferred the 'High-Tech Zone' status, which not only allowed foreign capital, but also had certain additional tax perks for investors that qualified as 'high tech' companies¹⁶.

By 1996, the SND was reporting high growth. In 1995, the number of Taiwan-invested firms reached 1,800 (*Chinese Business Information Network* 6 Feb 1996). By 1998, it had attracted 101 'Hong Kong funded companies,' accounting for 32 percent of the overseas-funded companies in the district

(*China Business Information Network* 1 July 1998). Also, by that time, the SND had attracted many ‘Fortune 500¹⁷ companies’:

‘Over 340 foreign funded enterprises from 30 countries, including MNCs, such as DuPont, Motorola, Siemens, Philips, Sony, Panasonic, Mitsubishi, are investing in SND. 13 of the World Top 100 and 5 of the World Top 5 are investing here. There are 12 projects whose total investment is no less than US\$100 million each.’ (SND 1999: 5)

The utilization of the Suzhou New District as a vehicle of economic growth by the Suzhou Municipal Authority can be explained by its motivations, resources and strategies. The motivations were the same faced by nearly every local authority in China. By the mid-1990s, local and provincial authorities were faced with many new (re-) entrants to the job market as a result of the on-going ‘efficiency and rationalization’ programme undertaken by large Chinese state-owned enterprises (see Nolan and Wang 1999). With local authorities unable to create many new jobs on their own, the solution—one that was both favoured by local authorities and Beijing—was to look to the potential jobs that transnational corporations could generate (see Yang 1997 and Huang 1998). The SND’s first foray into the global game of industrial production was also to capture a niche market. Like other Chinese Special Economic Zones, the Suzhou Municipal Authority had focused on attracting Taiwanese and Hong Kong industrial investors to take advantage of their overseas Chinese connections, which turned out to be highly successful. However, by 1998, the SND turned to attracting the location of larger transnational corporations. This was not entirely unexpected as the Singapore transnational entrepreneurial state was probably realistic enough to accept that some degree of competition was inevitable. For example, the Singaporean and Chinese bureaucrats and officials included in the research often spoke of competing with other industrial estates for investments, particularly the five official Special Economic Zones and Pudong in Shanghai. However, it was the Suzhou New District’s particular manner of competing that was the source of the problems in Suzhou.

Although this research did not cover companies located at the SND, it asked respondents from the SIP about the 'other' park. This turned out to be fruitful as many managers of companies in the SIP had good information about the SND. Most managers constantly gathered information about competitors, collaborators or cohorts as a basic norm of business operations. During the fieldwork, an opportunity was also taken to visit the SND Administration where one official was interviewed. Also, I was given a tour of the park, and was shown an audio-visual presentation that was designed for marketing purposes. In addition, the SND official also provided the research with brochures and publicly available documents.

UNFAIR COMPETITION?

The Singapore transnational entrepreneurial state was particularly upset at two 'tactics' that the Suzhou New District Administrative Committee utilized to attract investors; the first was to 'undercut industrial property prices,' and the second, was a 'smear campaign.' According to the leader of the Singapore entrepreneurial elite Lee Kuan Yew, the Suzhou authorities were playing 'bureaucratic shenanigans.' (*International Herald Tribune* 21 March 1998) Both strategies were designed by SNDAC to '...steal potential investors.' (SO 1) This research found that the SND had significantly lower industrial property prices. It turned out that between 1996 and 1999, the SND's per unit prices were 25 to 40 per cent lower than comparable units over at the SIP¹⁸.

'They [SNDAC] could even afford to give away the land free if they wanted to. The Singaporean developers, on the other hand, had to first buy it from SIPAC, then add on their infrastructure costs, and then their all-important profit-margin, and then re-sell this to us. We even heard that SND was willing to offer almost zero per unit costs if companies were going to take a 25 year lease. You know why? They can sit and collect tax revenues, and more importantly for them, create jobs. After all, that's what they have set out to do. Over here, Singaporeans want profit, not jobs or technology transfer or whatever. And that only comes from selling the property at a premium.' (NA 14)

The second tactic—the so-called ‘smear campaign’— apparently arose from one specific incident. In early 1997, the vice-mayor of Suzhou went to Germany both in his political capacity, and as the Chairman of SND Administration trying to secure foreign investments for his own park. When meeting with business leaders of many enterprises in Hamburg, as a strategy to attract investment to the Suzhou New District, he was reported to have openly ‘discredited’ the Suzhou Industrial Park.

‘He told us that Beijing did not support the Suzhou Industrial Park in any special way. He said that the President and the Premier supported every industrial estate in the same way, and no one had preferential treatment. Therefore, the Suzhou Industrial Park was nothing special. Coming to the Suzhou New District or the Suzhou Industrial Park or any other area would be just the same. In fact, the Suzhou New District had even better tax incentives than many other parks, including the Suzhou Industrial Park.’ (HG¹⁹)

Germany’s Honorary Consul-General of the Consulate-General to the Republic of Singapore immediately reported this to the Singapore government, asking for clarification. Upon receiving this news, the Singapore entrepreneurial elite was reportedly ‘...incensed.’ (SO 2) Furthermore, as will be discussed in the next section, news of this incident and the Park’s poor financial performance broke in Singapore, giving the political opposition parties an opportunity to gain some political capital. Although there had been ‘rumblings’ that the SNDAC’s marketing department was playing dirty to steal investors, this incident in Hamburg was ‘concrete proof.’ (SO 1) Ultimately, this was the straw that broke the proverbial camel’s back.

When asked to comment on this incident, the respondent from the Suzhou New District Administrative Committee said:

‘Certain mistakes had been made by certain people, especially those who have political rather than business capacity. But one small incident was really blown out of proportion. I mean, the SND and the SIP are like brothers, both born from the same mother: Suzhou. And as you know, sometimes brothers fight. But in the end, things will always work out between them. You know what people say about the two estates? They are the two wings of one bird; the bird is Suzhou city, and Suzhou will only fly when both wings flap together.’ (SND 1)

The Singapore transnational entrepreneurial state could not claim to be completely unaware of the Suzhou New District. The Suzhou Municipal Authorities offered the Singapore elite the option of developing the Suzhou Industrial Park either inside or beside the New District in 1992. The offer was turned down because the Singapore party felt that ‘...it preferred a clean slate rather than an already built-up area to work from.’ (SO 3) Thus when the elite chose to build the Suzhou Industrial Park on the other side of town in 1994, it dismissed the Suzhou New District as a serious competitor for investors in the global game of industrial production. According to the Singapore officials, between 1994 and 1996, they perceived that there would be a tacit ‘division of labour in Suzhou between the two parks.’ The ‘up-market’ companies—such as high technology transnational corporations that needed high quality infrastructure—would go to the SIP, while the ‘down-market’ companies—such as low value-added assembly and manufacturing, mostly indigenous Chinese companies or overseas Chinese joint ventures (from Hong Kong or Taiwan)—would go to SND.

‘Its like buying a car you see. Some people would pay for a Mercedes Benz [premium car], while others would only pay for a Lada [budget car]. In the end, its still four wheels to bring you around, but different people will want different things from each car. And I think its good to have differentiation of products, and this gives the consumer choice!’ (SO 5²⁰)

Apparently, no one body or agency co-ordinated this ‘distribution.’ Instead, Singaporean officials argued that ‘market forces simply directed where the various companies would locate.’ (SO 2) In other words, companies had to decide whether to pay the higher ‘premiums’ to locate at the SIP to benefit from the infrastructure and the administrative system, or choose the low cost but no-frills option of the SND. Before the Asian Financial Crisis, the SND Administration was probably willing to accept the role of servicing lower-value added transnational corporations. However, after 1997, the situation was different. The Singapore entrepreneurial elite had misjudged several important elements. Firstly, it underestimated the learning capabilities of the SND,

assuming that the SND would always be only interested in ‘picking up scraps that fell off the SIP’s table.’ (SO 3) Secondly, the Singapore transnational entrepreneurial state was ‘unable’ to respond to changing external circumstances, including the impact of the Asian Financial Crisis. These elements combined to reduce the SIP’s competitiveness, and in relative terms, make the SND appear more competitive.

The Suzhou New District Administrative Committee’s learning capabilities were very evident. The Suzhou New District had many features that strongly resembled the Suzhou Industrial Park’s strongest competitive advantages, particularly administrative efficiency and creating a ‘pro-business’ environment. For example, the SND prospectus highlights to potential investors that it is operates under the principle of the ‘small government’ and that ‘priority is always given to investors.’ (SND 1999: 1) Small government was defined by the SND as:

‘The district is concentrating its efforts on creating a new governmental structure and corresponding rules and regulations under the principle of small government. With the aim to serve, administrate, guide and co-ordinate the government’s authority mainly covers planning, land, finance, taxation, project approval, industry and commerce, in addition to providing economic administration similar to that of a municipal government.’ (ibid.)

SNDAC thus claimed to give the SND the same ‘one-stop’ capability as the SIP. This was achieved not by reducing the size of the local state bureaucracy, and by making each office in the administration more efficient and capable. Instead, SNDAC simply created another office to specifically ‘do the running around for the investor.’ (SND 1) This office was staffed by young, highly well-educated bureaucrats who often spoke European or Japanese languages but were familiar with the Chinese bureaucratic system. This ultimately meant that while the paperwork had to go through the local state bureaucracy, the investors themselves did not have to deal with the bureaucracy. Based on information gathered from other scholars in the field²¹, such a pro-active administrative office did not exist in the many other economic development

zones in China. Instead, even the established zones were reported to be still rife with inefficiency, corruption and red-tape. Foreign investors had earlier put up with these practices by rationalizing that the savings made in terms of factor costs outweighed the obstacles brought about by dealing with the Chinese bureaucracy (Park 1997: 35-6). In this case, the Suzhou New District had learnt from the Suzhou Industrial Park, made the adaptations quickly and reaped the benefits. The SND's learning capabilities were also evident in the marketing brochures and other use of media, such as the audio-visual presentation, that were specifically aimed at attracting foreign investors. Also, unlike many other economic development zones, the SND made expatriate housing²² and the existence of ready-built factories crucial components of their marketing strategy. In simple terms, the SND had looked over the fence, figured out what made the SIP attractive to industrial transnational corporations, and reproduced it. To cap it off, as discussed earlier, the SND could offer these competitive advantages at a lower price.

As an entrepreneurial agent, the Singapore transnational entrepreneurial state's showed that it was unable to react to changing external conditions. By late 1997, it had no contingency plans for the Asian Financial Crisis. The Crisis had caused a slowdown of transnational corporations' demand for industrial property in China. This meant that with fewer potential foreign investors, the competition from other zones and industrial estates for these investors intensified significantly. Even more significantly, many of the prospective investors appeared more concerned about the costs rather than quality of the factors of production. In this new environment, the Suzhou New District had emerged as a strong player in the China segment of the global game of industrial production. It cornered a particular niche for being a 'good' site for industrial location that was not one of the five nationally-designated Special Economic Zones, not in the core cities of Beijing or Shanghai, and of course, not run by Singaporeans. It appeared to be well-run, efficient and effective as its competitive advantage. More importantly, it could offer industrial transnational corporations much lower production costs.

The Singapore transnational entrepreneurial state's Suzhou Industrial Park, on the other hand, was unable (or unwilling) to slash production costs to compete.

'We faced a dilemma. Should we lower the property prices to match the other estates in China? If we did, we would be operating at a loss. After all, we acquired the land from the China government in a financial transaction and at almost market prices at the time. So you could say that there was already a base cost for us. And then we put in the value-added, which is the infrastructure, communications and so on. Now selling the properties at a loss might not sound like such a crazy idea; after all, if we managed to get tenants, then we might make it back from management or service charges. But that would be in the long term. However, the real reason why we didn't slash is that we didn't want our park to resemble the others. We couldn't allow investors to think that if our costs were the same as the others, then what they would be getting [in terms of infrastructure and so on] would be the same as the others. The SIP is a premium site, so we made a decision to stick by our prices. And anyway, it wasn't a pure matter of mathematics. There was a lot else involved, as you well know.' (SO 2)

This research attempted to ascertain exactly how many companies had either been lured away from the SIP to the SND, or had defected to the SND from the SIP. The SIP and SND officials were asked, along with the research's managerial sub-sample. The research found that no companies had been lured away or had 'defected' to the SND²³. Many respondents did say that they understood why some transnational corporations would be impressed with the SND—for the administration's 'professionalism' and more importantly with its cost structures'—and they added that they would not hesitate to recommend it to other companies. Yet, they would not however recommend their own company to move across town, for reasons such as requiring the SIP's quality infrastructure, and high relocation costs.

'From what I see, many of the multinationals over at the SND located there because (1), they did not need the Singapore connection, and (2) they were much more cost conscious than us. Over at the SND, many of the multinationals there are joint-ventures, unlike over here. As a JV, they already have means to deal with the Chinese, by using their local partner! For the others that are wholly foreign owned enterprises, they very clearly use the local, Hong Kong or Taiwanese connection, installing local [ethnic Chinese/Chinese national] managers very

quickly. So I would conclude that we are here and want to stay here, because we need the Singapore connection. If not the Singapore government directly, then the Singapore system that our company is used to.' (NA 26)

7.3 *ARROWS FLY*

'Right now, the energy is divided between two industrial estates. That's wasting time, energy and causing too much friction.' (Lee Kuan Yew, quoted in *Singapore Business Times* 5 Dec 1997)

The emergence of the Suzhou New District created problems for the Singapore transnational entrepreneurial state. In December 1997, Lee arrived in Suzhou for what should have been a routine visit. Instead, he began berating officials in Suzhou ('SM Lee airs frustrations over Suzhou project,' *Singapore Business Times* 5 Dec 1997). Even though there were rumours of problems at the Park—mainly information filtered back to Singapore through the fairly large body of Singaporeans who were working as expatriates in Suzhou—Lee's offensive officially signalled that all was not well at the Suzhou Industrial Park.

FRUSTRATIONS

Due to the high profile of the Suzhou Industrial Park in Singapore itself, largely due to the support the pro-government media offered, the public's expectations of its success and profitability were raised during the 'take-off' phase between 1994 and 1996. However, by late 1997, when news that the Park's growth was distinctively much slower filtered back to Singapore, the opposition political parties soon began questioning the wisdom of the state's China investments²⁴. In 1997, even though there were only three members of parliament from opposition political parties, they managed to force the ruling regime's hand by tabling questions in parliament about the so-called 'Suzhou fiasco.' At the beginning of 1998, almost three year after the Park's ground breaking ceremony, another key member of the Singapore entrepreneurial elite, Deputy Prime Minister Lee Hsien Loong (Lee Kuan Yew's eldest son), was forced on the defensive when opposition members of

parliament wanted to know more about the above-mentioned 'Hamburg' incident:

'We were astonished to learn that the vice-mayor of Suzhou had gone to Hamburg, Germany and told the special commissioner who is responsible for German-Singapore-China joint projects: "You should not go in with Singapore, come in alone, we don't need Singapore. President Jiang Zemin does not support Suzhou Industrial Park."' (Singapore Business Times 15 Jan 1998)

During this session of parliament, members of the Singapore entrepreneurial elite also had to answer questions by the opposition members of parliament on whether the SIP was losing money and whether the China government had abandoned the project. The objective of this line of questioning was not so much for the desire to get an accurate picture of events in Suzhou but rather an opportunity for the often-subdued opposition members of parliament to earn some political capital by taking shots at the regime. In reply to a specific question about how much money had been spent at the SIP, the *Singapore Business Times* reported:

'He [Lee Hsien Loong] said the developer, China Singapore Suzhou Industrial Park Development Company (CSSD), believes that the four-year old SIP can become profitable in the medium term, that is, five to six years from the start. He disclosed that Singapore statutory boards and government-linked companies have so far invested some US\$65.5 million (S\$114 million) in equity and loans while other Singapore-registered companies have put in US\$65.5 million. Non-Singaporean multinationals which are partners of the Singapore consortium, Singapore Suzhou Township Development Private Ltd, have put in an additional US\$24.22 million. To-date, the SIP has attracted 99 projects with investment commitments of US\$2.7 billion, of which 80 are industrial projects worth US\$2.1 billion. The average size of the projects at US\$27 million each was the highest in China and 44 were already in production with another 22 under construction. (Singapore Business Times 15 Jan 1998)

In the same session, Lee Hsien Loong disclosed that the Park's progress was being affected by the 'aggressive promotion' of the Suzhou New District. He assured parliament that the problems were being dealt with at the highest levels, national as well as municipal.

‘We are in contact with them (the Chinese authorities). We have not negotiated the issues in further detail. We are now studying the problem in order to have a considered, mature response which we will convey to the Chinese side as our view of how to deal with this problem and we expect the Chinese side to study that and give us their response in due course.’ (*Singapore Business Times* 15 Jan 1998)

Even more perplexing—from the perspective of the elite at the time—was why Beijing was unable to ‘control’ a relatively small local government. At the top-level government-to-government relationship, the objectives and motivations were fairly clear: both governments would give their full economic, social and political backing to the Suzhou Industrial Park. At the local or municipal level, it was quite evident that the Suzhou Municipal Authority, which was in charge of the Suzhou New District Administrative Committee, did not share the same objectives and motivations with the top leadership in Beijing. For instance, Beijing was willing to give its full backing to the Singapore transnational entrepreneurial state’s project, mainly because it would directly benefit from this, both economically and diplomatically. However, the priorities of the Suzhou Municipal Authorities were rather different; it did not have to concern itself with forging strong diplomatic ties with the Singapore government, nor did it feel that it directly benefited from the presence of the Suzhou Industrial Park. This negatively affected the collaboration between the sub-groups within the Chinese partner. This would in turn weaken the party’s collaboration with other partners. In the words of a Singaporean official: ‘Its no good if the people upstairs agree if those downstairs cannot agree.’ (SO 1)

THE REAL GULF

As discussed in the theoretical review in Chapter One, collaboration is a multifaceted system of interactions. Critical to the outcome of collaboration include the complementarity of the project, the levels of embeddedness (and autonomy), not just between the two parties, but within each party as well. In the case of the Suzhou project, the case of the Suzhou New District’s emergence could be explained by the Suzhou Municipal Authority’s high degree of autonomy from the Singapore transnational entrepreneurial state.

This can be understood through examining the motivations, resources and strategies of the Suzhou Municipal Authority with regards to the Suzhou Industrial Park. The Suzhou Municipal Authority had little motivation to see the Suzhou Industrial Park succeed economically, especially not at the expense of its own Suzhou New District. To the Suzhou Municipal Authority, the Suzhou Industrial Park only brought in indirect benefits. Tax revenues were remitted by SIPAC directly to Beijing, by-passing downtown Suzhou. Thus, the SMA could realistically claim that the SIP only created employment for the local population. Yet, these benefits—however important—were indirect. Furthermore, the Singapore transnational entrepreneurial state had not fostered any social relationships with Suzhou. In fact, by rejecting the Municipality's offer to situate the industrial park in its New District back in 1992, the Singapore government probably marginalized the Municipality.

Between 1994 and 1996, the relationship between the main organizations in the SIP and the Suzhou Municipal Authorities was more 'business-like' than social, as explained by a SIPAC official:

'We do business with them [Suzhou government]. If we need anything from the Suzhou government, we pay for it. For example, we pay them for electricity, water and even the public bus services. We are not obliged to do anything for them, nor are we obligated. I think this is a good way of coexisting.' (CO 2)

This meant, as far as the social dynamics between both sides, there was little reciprocity. An example offered by a local Suzhou academic researcher drove home this point rather clearly:

'In summer 1997, Suzhou was hit by floods. The whole SIP was landfilled by three feet (0.9 metres), and therefore completely escaped flooding. However, downtown Suzhou and the SND were quite seriously affected by the floods, with problems such as factories unable to operate because workers could not get to work, or that the flood water made operating the machines impossible. From what I gathered, rather than offer sympathy or help to the SND, the SIP used this incident as a case to prove their superiority. Of course this upset the Suzhou Mayor and the SND. This only strengthened the Suzhou government's perception that the SIP—and I mean both the

Singaporeans and the Chinese officials administering the park—were simply arrogant.’ (SA 1)

While this anecdote was only one observer’s interpretation, it illustrated the weak social relationship between the administrators of the two parks, and by extension, the relationship between the main organizations of the SIP and the Suzhou Municipal Authority. The Suzhou Municipal Authority and the SND Administration had no economic reasons or social motivation to support the Suzhou Industrial Park, which was for all intents and purposes, a competitor. In this sense, the Suzhou Municipal Authority was hardly embedded to the Singapore entrepreneurial state; its high level of autonomy only served to strengthen its resolve to pursue on its own objectives and motivations.

This was no consolation to the key members of the Singapore entrepreneurial elite. During the first half of 1998, they regularly complained in public not only about the SMA’s ‘undercutting’ or ‘cloning’ but also about the ‘smearing’ strategies. The ‘outbursts’ were reported not just in Singapore but in several international newspapers and magazines as well²⁵. In January 1998, it was reported that Lee Kuan Yew took the opportunity of his visit to Beijing to raise his dissatisfaction with the Suzhou Industrial Park project with President Jiang Zemin. Lee was unhappy with ‘...the attitude of Suzhou authorities who were felt to be dividing their support between the SIP and a project of their own.’ (*China Economic Review* 23 Jan 1998) Lee was reported to have threatened to withdraw Singapore’s financial support for the project. In the same report, Jiang assured Lee that China was committed to the SIP and arranged for a ministerial meeting to take place in April 1998 in order to resolve the matter (*ibid.*). In the context of the Singapore entrepreneurial elite’s strategy, it was utilizing political and social mechanisms on the China partner. Lee had ‘called in’ his personal relationship with the top leaders in Beijing over this problem at the SIP.

7.4 BEIJING ACTS

It might appear incredible that the leader of a nation-state with a population of around three million would have the ability to reprimand or threaten the China government. More surprising then was that Beijing's response was swift and quick to give the Suzhou Municipal Authority the metaphorical slap on the wrist.

PACIFICATION

In March 1998, Chen Deming was installed as the new mayor of Suzhou²⁶. His first statement with regards to the SIP-SND 'rivalry' was that the Suzhou Industrial Park was 'the priorities of all priorities,' (*Singapore Straits Times* 10 Mar 1998) repeating the phrase used by President Jiang in 1995.

'We will make it the most important project in the whole of Suzhou, because what is most important to the country is, of course, most important to Suzhou. We hope to ensure that it (SIP) would break even this year. After three years of profits, we will float it on the stock market. We will definitely follow Jiang's principle which is to steam on resolutely ahead with this project. As Mr Jiang has said, there will be no backsliding, no failure, and we will co-operate to the end and work together for success.' (*Singapore Straits Times* 10 Mar 1998)

It also emerged that in May 1998, Premier Zhu gave his personal backing for the Suzhou Industrial Park (*Singapore Straits Times* 29 May 1998). Thus, in the final quarter of 1998, the China government took several measures to highlight its support of the Suzhou Industrial Park. The *People's Daily*—China's main national newspaper—gave the Park front page coverage, reporting that the Suzhou Industrial Park had very quickly become the fourth largest zone in China for attracting foreign investments because of the successful of transfer of Singapore's experience. It stated that the SIP's administrative system was 'streamlined, co-ordinated and highly efficient, requiring two-third fewer administrative staff compared to similar zones' (*People's Daily* 22 Oct 1998)²⁷. In November 1998, the SIP was invited to participate in a China State Council exhibition in Beijing celebrating 20 years of foreign investment in China (*Singapore Straits Times* 27 Nov 1998). In the

exhibition, the SIP was allocated a booth, alongside 46 other kiosks assigned to the country's 21 provinces, five autonomous regions, four municipalities, five Special Economic Zones, three cities with sub-provincial status, with eight remaining kiosks assigned to 20 ministries and bureaus. In the report, being allocated such a booth 'highlights the importance which the Chinese central government accords the project.' (*Singapore Straits Times* 27 Nov 1998)

In December 1998, *Xinhua*—the Beijing government's official news agency—released a report that once again showed Beijing's support of the Suzhou Industrial Park. It read:

'In the SIP, the relationship between government and business is not one between the regulator and those who are regulated, but is instead a relationship between a service provider and its clients. It is also a special development zone because it is the only one in the country at present that draws on foreign economic and public administrative experience. Through strict laws and regulations, and drawing on Singapore experience of honest and clean government, not a single civil servant in the park's administrative committee has broken the law or committed a crime. This has earned the committee the high acclaim of the Central Commission for Discipline Inspection.' (Quoted in the *Singapore Straits Times* 11 Dec 1998)

As another gesture from Beijing, the SIP was given exemption in January 1999 from a new national tax on foreign investments. The new tax was to provide fairer income distribution between the development zones and the rest of the country where the new tax rule terminates tax refunds given by the central government to local administrations of such zones. Previously, local governments in these zones were allowed to retain (and not remit to Beijing) 100 percent of their tax collections for ten years. Originally, Beijing had designed for these tax revenues to be used by the local authorities for their own local development. Thus, Beijing was trying to appease other regions that did not have foreign investments. The new tax system was to reduce the 'rebate' by 25 percent each year until zero, which effectively meant that by the fifth year, local authorities were expected to hand over 100 percent of tax revenues to Beijing. However, the Suzhou Industrial Park would receive a special

concession, where a five-year grace was given at 20 percent per year (*Singapore Straits Times* 9 Jan 1999). Publicly, the China government went on record to say that the concession was given to the Suzhou Industrial Park because the development was launched late compared to other zones (*ibid.*). The SIP was launched in 1994 while the other SEZs had been in existence since 1979 and most other development zones took off in the mid-1980s.

Beijing's 'conciliatory' gestures were an attempt to pacify its partner—the Singapore transnational entrepreneurial state—by utilizing economic and social mechanisms. As will be shown in the next chapter, right up to the beginning of 1999, there was no progress in resolving the 'rivalry' between the two estates in Suzhou. The reason for this was not just that the Suzhou Municipal Authority was autonomous from the Singapore transnational entrepreneurial state, but was also autonomous from Beijing as well.

SUZHOU'S AUTONOMY

Between 1997 and 1999, the Singapore transnational entrepreneurial state expected Beijing to effectively deal with the Suzhou Municipal Authority. However, the Singapore entrepreneurial elite misjudged the nature of Chinese politics in the late 1990s. Unlike earlier periods, Beijing did not have the high level of control over the various regional and provincial authorities (see Yang 1997). The commonly cited reasons for this change in governance include the new strategic relationships from centre to the periphery, and also economic autonomy of the regions. The former explanation is based on the 'reinvention' of the Chinese communist party with the passing of the old guard, which began with the death of Mao Tse Tung but intensified during the final phase of Deng Xiaoping's rule (see Zheng 1999, Zhong 1996, and Dittmer and Wu 1995). In brief, the new generation of leaders 'traded' power for autonomy because it was unable to command total control of the provinces and regions due to a lack of political and economic resources (Zheng 1999: 1160-1). While this might sound like a contradiction in terms, in actual fact, they exchanged autonomy in certain spheres—particularly in the economic and political sphere—for allegiance (Huang 1996: 655). Upon

receiving autonomy, regional and provincial governments began their own power-building programmes. For some traditionally powerful regions—such as the south China regions bordering Hong Kong, Macau and Taiwan—these authorities took advantage of Beijing’s Special Economic Zone policies to become economically and politically more powerful than in the past (Wu 1999 and Ma 1999). This created mini-entrepreneurial states—more accurately, provincial governments with entrepreneurial motivations—each competing with each other and other East Asian states (and other regions) for investment²⁸ (see Breslin 1996, and Duckett 1998). The Suzhou Municipal Authority was no exception.

During the period between 1997 and 1999, although the Suzhou Municipal Authority had publicly acknowledged that the Suzhou Industrial Park was more ‘important,’ it never stated that it would stop promoting its own Suzhou New District. Chen Deming, the Mayor of Suzhou, when asked about the ‘problems’ between the two parks, said that there ought to be better co-ordination over the marketing of the two parks, particularly with the discrepancy over unit land prices (*Singapore Straits Times* 10 Mar 1998). To the Singapore transnational entrepreneurial state, this was outright defiance. Some respondents in this research said they knew that key leaders of the Singapore entrepreneurial elite had specifically asked Beijing to close down the Suzhou New District completely. Other respondents said that the Singapore side proposed that all new investments should go to the Suzhou Industrial Park; only when it was full should the Suzhou New District be utilized again. If these rumours were true, such proposals could not have endeared the Singapore party to the Suzhou Municipal Authority. As an indicator of its defiance, Mayor Chen regularly reminded the international media that the Suzhou Municipal Authority had offered the New District to the Singapore entrepreneurial elite when the feasibility study of the Suzhou Industrial Park was done in 1992, but was rejected. He criticized the Singapore government for unduly worrying over the ‘small’ Suzhou New District, which—in his words—was not built to the SIP’s ‘...high international

standard.’ (*Far Eastern Economic Review* 8 July 1999). He said that competition was not just from SND, but also from neighbouring zones in Wuxi, Kunshan and of course, Shanghai.

Furthermore, the Suzhou Municipal Authority frequently cited official state statistics to demonstrate that the Suzhou Industrial Park’s was always doing much better than the Suzhou New District. For the first half of 1998, the Suzhou Industrial Park reported its largest increases in new investments. Although the SIP had only secured US\$45.45 million in new investments pledges for the first quarter of 1998 (*Singapore Business Times* 30 Apr 1998), by the end of June, the total for the first half of the year surged to US\$495 million (*Singapore Business Times* 8 July 1998). By September 1998, it had secured over US\$1.1 billion in new investments (*Singapore Business Times* 27 Oct 1998), surpassing the original projected target of US\$1 billion for the entire year²⁹. This figure was even more striking if compared to the revised target—that took into account of the Asian Financial Crisis—of US\$800 million. Around that time, it was also announced that the tax revenues from the Suzhou Industrial Park peaked at RMB 400 million (US\$50 million), an increase of 79 percent over the previous year (*Singapore Straits Times* 24 May 1999). Rather than being ‘good news’, leaders of the Singapore entrepreneurial elite were ambivalent about these figures. On the one hand, the elite could take heart that investors were still taking up properties at the Suzhou Industrial Park, and more importantly, pumping in large amounts of foreign direct investment. This would assist the marketing and public relations strategy of the CSSD, which still had many industrial units to sell or lease, by pointing out that certain investors still showed confidence and trust in the Park. However, on the other hand, the investment figures for 1998 did not really reflect the investors’ sentiments for the year itself. Instead, the majority of these projects were actually committed either in late 1996 or 1997. There is a time lag on the announcement of investment figures, mainly because the investors and the authorities have to ensure that the paperwork and accounting procedures were completed. Furthermore, for 1998, rather than have many new projects for the

Suzhou Industrial Park, it attracted a small handful of ‘massive’ projects, such as Nokia’s US\$100 million plant (*Singapore Straits Times* 29 Oct 1998), Glaxo-Wellcome’s US\$100 million plant (*China Britain Trade Review* 1 Feb 1999), and Andrew Telecom’s US\$120 million plant (*Singapore Straits Times* 24 Mar 1999). Park officials reported that these investments were the exceptions rather than the norm. However, these figures were utilized by the Suzhou Municipal Authorities to demonstrate that ‘all was well at the SIP.’ Several members of the Singapore entrepreneurial elite felt that ‘...salt was being rubbed into their wounds.’ (SO 2) Finally, despite the high tax revenues, none of it would benefit the Singapore economy, as all of it went to the Chinese partner.

7.5 CONCLUSIONS

The ‘adjustment’ phase of the Suzhou Industrial Park was difficult to the transnational entrepreneurial state. The Asian Financial Crisis caused a change in the external environment that affected the Suzhou Industrial Park’s competitiveness vis-à-vis other industrial estates competing for foreign investors. One such competitor was the Suzhou New District. Thus, the pressure was on the Singapore transnational entrepreneurial state to maintain its competitive niche to maintain or enhance the project’s profitability. As discussed earlier, it could not or would not compete on the basis of price. Instead, it attempted to utilize its embedding mechanisms on the China government to keep the Suzhou Municipal Authority under ‘control’, even though it could even be argued that the SND had not actually ‘stolen’ any clients from the SIP. This strategy was not effective because of the local Suzhou authority’s high degree of autonomy both from the Singapore and Beijing governments. Therefore, the conclusion that can be drawn from this period is that the Suzhou Industrial Park project lost its competitive edge because it could not maintain its competitive advantages in the changed environment. Furthermore, the Singapore transnational entrepreneurial state’s solutions—requiring the collaboration of the Beijing government—were mostly not effective. This led to the prospect of poor profitability for the

Suzhou Industrial Park project, and greatly contributed to the Singapore transnational entrepreneurial state's decision to disengage.

¹ The Asian Financial Crisis has had many explanations, including the debt burden theory (see Wade 1998), the 'moral hazard' theory—also known as 'crony capitalism' theory—(see Pempel 1999b), and the weak financial governance perspective—also known as the 'soft-budget constraints' theory (see Brownbridge and Kirkpatrick 1999).

² See Table 6.2 (Chapter Six) for the 'destination of products' of the companies included in this research.

³ Also see Table 6.3 (Chapter Six), for the breakdown of companies included in this research by business sector.

⁴ As of September 1999, the factory was still unoccupied. CSSD has attempted to assist *company x* in selling the lease, but has not been able to find takers.

⁵ This was indicated by respondents CO 1 and CO 2.

⁶ See Chapter Five for information about Xinsu, which was the name of the Jurong Town Corporation International's mini-estate of Ready Built Factories within the Suzhou Industrial Park.

⁷ For cumulative FDI at the Suzhou Industrial Park, see Table 1.2 in Chapter One, for figures reported in the press.

⁸ In 1997, China's GDP reached US\$900.867 billion (7th in the world), 5.92 times that when the country began implementing reform and open policies. Between 1979 and 1997, the national economy grew at an average of 9.1 percent (Information Office of the State Council of the People's Republic of China 1999: 1)

⁹ The other main reason was the hold-up over the future 'leadership' of the Park (see Chapter Eight). By September 1999, work on a 'modified' Phase Two had begun. However, the details behind this are taken up in the following chapter.

¹⁰ In the same report, it was announced that the relevant parties (employers and Provident Fund officials) would meet regularly to review further adjustments to the PF system (*Singapore Straits Times* 14 Feb 1998). It should be noted that such measures were adopted by the Singapore government when Singapore's economy faced a recession in the mid-1980s, and again in 1997 during the height of the Crisis.

¹¹ The tax changes—involving reduction of certain preferences and duties—that were introduced in January 1999 had been announced as early as 1995, and were designed to harmonize the tax system between Special Zones and other 'non-zone' areas (see *Singapore Straits Times* 9 Jan 1999).

¹² See *Singapore Straits Times* 'Suzhou Park plagued by rivalry,' 14 May 1999.

¹³ The Suzhou Industrial Park was located to the east of Suzhou city. This research learnt that the Suzhou Municipal Authorities had chosen not to develop the New District to the east (on the current SIP site) because it was being used as farmland. This explanation could not be corroborated.

¹⁴ 'Scenic Suzhou city orders all factories to move out of town,' (*China Business Information Network* 17 June 1996).

¹⁵ The Suzhou Gardens and Canals were officially awarded UNESCO's World Heritage Site status in 1995. See UNESCO Report (1999) and website (<http://www.unesco.org/sites/china/index.html>).

¹⁶ Unless attributed, the information in this section was gathered from an official employed by the SND interviewed in Suzhou (SND 1).

¹⁷ *Fortune* magazine publishes an annual list of the 500 largest corporations in the world, based on various criteria. See Sklair (2001) for an analysis of this exercise.

¹⁸ According to one respondent, the average land price in the SIP was US\$50-70 per square metre, compared to US\$80-100 per sqm in Pudong (Shanghai), and US\$30-40 per sqm in SND

(CO 2). The research was unable to verify these figures, as all the respondents declined to supply actual figures, stating that only potential clients were privy to such information.

¹⁹ This research managed to confirm the events of 'Hamburg' incident. The 'special commissioner' was the Honorary Consul-General (HG) of the Consulate-General of the Republic of Singapore. An interview with this respondent was conducted on 4 Sep 1997 in Hamburg, Germany where he is based.

²⁰ It is important to note that this interview took place in 1998, before the Singapore government announced the disengagement.

²¹ During the period of the research, I attended an international conference of Urban Sociology in Shanghai. The opportunity was taken to compare notes with fellow scholars and to share capsules from other economic development zones in China from them.

²² It was interesting that several respondents in the research were staying in the Suzhou New District even though they worked across town. One of the most common reasons given for this was that the rents were significantly lower, even though the daily trek across town was a major problem.

²³ It was highly unlikely that any of the respondents would be unwilling to offer the truth. For example, the SIP's officials would in fact dearly like to cite a specific case where they lost clients to the SND; however, they could not supply such evidence at all.

²⁴ See for example, 'Chee and Jeya press for change' (*Singapore Straits Times* 1 Apr 99). In addition, opposition parties and social critics resort to other means of information dissemination, including the use of the Internet. For example, see social critic Tessensohn (1999), who titled his opinion piece 'Why not transform Suzhou into a high tech theme park?' (see 'other' information sources in the Bibliography and References section).

²⁵ Newspapers and journals that did not originate from Singapore or China that covered the Suzhou Industrial Park 'problems' included the *International Herald Tribune*, *The Financial Times* (UK), the *South China Morning Post* (Hong Kong), *Forbes*, *Fortune*, *Asiaweek* and the *Far Eastern Economic Review* (see Bibliography for a complete list).

²⁶ Chinese officials of the SIP interviewed could not be sure whether the change of leadership in March 1998 at the Suzhou Municipal Authority was in any way related to events at the Park itself.

²⁷ The *Singapore Straits Times* pounced on this, placing the *People's Daily* report on its own front page (*Singapore Straits Times* 22 Oct 1998). This could be understood as a measure to pacify the growing restlessness among the Singapore population over the SIP. This 'popular unrest' will be discussed in greater detail in the next chapter.

²⁸ Breslin, who analyzes the China government as a 'dysfunctional developmental state' makes an interesting point that it is not always entirely clear whether economics or politics are in command, or whether the two issues are even separate in contemporary China (1996: 690) This has often given rise to murky plans and policies, and even murkier implementation strategies.

²⁹ The official 'new investments' figure for the year Jan-Dec 1998 was set at US\$1.2 billion (*Singapore Business Times* 3 Feb 1999).

CHAPTER EIGHT

DISENGAGEMENT

The focus of this chapter is to explain why and how the Singapore transnational entrepreneurial state decided to disengage from the Suzhou Industrial Park project. The chapter begins with the details of the disengagement itself, followed by an analysis of how the Singapore transnational entrepreneurial state utilized the competitive and collaborative strategies during the disengagement process.

8.1 *DISENGAGEMENT*

‘The Singapore Government will hand over control of the Suzhou Industrial Park project to the Chinese Government in 18 months’ time under a framework unveiled yesterday. Singapore will cut its stake in the massive project to 35 percent from 65 percent and hand over management of the park on Jan 1, 2001.’ (*Singapore Straits Times* 29 June 1999)

This section deals with the events immediately before and after the Singapore transnational entrepreneurial state formally announced that it would disengage from the Suzhou Industrial Park project. The information for this was gathered from secondary sources—such as newspaper and other press/media reports—and from respondents in Suzhou¹. The term ‘disengagement’ was never used by the Singapore government; however for this research it is the most appropriate concept to explain the situation. Here, disengagement is defined as the Singapore transnational entrepreneurial state’s strategy to relinquish control of the project. Officially, the Singapore consortium would still be involved in the project after 2001, but only as a minority shareholder. However, as this section will discuss, at another level, the Singapore transnational entrepreneurial state was ending the collaboration with the China government. Also, disengagement is different from ‘disembedding.’ Indeed, the disengagement strategy was an attempt to increase embeddedness with certain players.

In the first quarter of 1999, the Singapore transnational entrepreneurial state was still hoping Beijing could intervene to put the Suzhou Industrial Park project back on track. In February 1999, it submitted a detailed but confidential proposal to Beijing that would resolve conflicts over their joint venture of the Suzhou Industrial Park:

‘In Singapore’s view, this proposal best serves the key interests of investors, and maintains the good bilateral relations between China and Singapore. The Singapore side looks forward to a positive Chinese response to this proposal.’ (Lim Neo Chian, CEO of CSSD, quoted in *Singapore Straits Times* 10 Mar 1999)

Although the CEO of CSSD refused to give any details of this proposal, the same newspaper report stated that the Singapore partner made a request to Beijing to have the Suzhou New District closed or suspended:

‘But the Chinese side [Beijing] has explained to the Singapore side that it is very difficult for them to close or suspend SND.’ (Lim Neo Chian, CEO of CSSD, quoted in *Singapore Straits Times* 10 Mar 1999)

As discussed in the previous chapter, the leaders of the Singapore entrepreneurial elite were unhappy about the ‘unfair’ competition from the Suzhou New District, particularly the latter’s ability to price itself below the Suzhou Industrial Park. This directly affected the SIP’s competitiveness, which was the Singapore transnational entrepreneurial state’s sole means of generating an income from the project. The response from the Suzhou Municipal Authority was swift. Suzhou Mayor Chen Deming told *Lianhe Zaobao*²:

‘...the SND should be allowed to continue to grow as its development had already been underway for some time. It was more important for both parties to come up with a good way to allow the two industrial parks to co-exist.’ (Chen Deming, Mayor of Suzhou, quoted in *Lianhe Zaobao* 15 Mar 1999)

Thus, the Suzhou Municipal Authority was not going to back down. Already, throughout 1998, it was clear that Beijing had not been able or chose not to deal with the Suzhou authorities in the manner that the leaders of the

Singapore entrepreneurial elite had hoped. Indeed, the Suzhou Municipal Authorities had developed the confidence to assert its own interests by positioning the Suzhou New District to compete alongside the Suzhou Industrial Park for foreign investors in the global game of industrial production.

By the beginning of May 1999, the uncertainty surrounding the Suzhou Industrial Park's future was causing financial problems for the CSSD. This filtered out to the public—via the local Chinese and foreign media—as if the CSSD had ‘...defaulted on its payment’ (*Singapore Straits Times* 10 May 1999). This was damaging the Singapore entrepreneurial elite's credibility, already beleaguered by rumours that the Suzhou Industrial Park was in deep financial trouble. While the political opposition parties in Singapore were quick to pounce on this information³, the credibility of the elite was being eroded especially in the eyes of ordinary Singaporeans who were used to the government being effective and efficient in economic matters. However, to counter this ‘blow,’ the CSSD issued an official statement explaining that the Singaporean consortium—which owned 65 percent share-holding in the project—had chosen not to repay an instalment on its capital loan estimated at around US\$10 million. It instead asked for an extension until the future of the Park was determined. The statement said that the shareholders felt that there were too many uncertainties surrounding the Park, and would act when the ‘negotiations’ were concluded and the future of the Park determined. The request for an extension—which was approved—was confirmed by the creditor banks⁴.

The first indication of a step forward came in June 1999, when Senior Minister Lee—a key figure in the Singapore entrepreneurial elite—openly said that the Singapore partner was proposing to complete just the first segment of the Suzhou Industrial Park and hand over the rest of the development to its Chinese counterpart (see *Singapore Straits Times* 6 Jun 1999, and *Singapore Business Times* 10 June 1999).

‘Obviously we are not happy because we are not getting the kind of attention we were assured we would get—special attention. Indeed what we are getting now is competition. So I think the problem has to be sorted out. So that it can be done as an example of what the whole sector could have been if we had completed it. But having completed the sector, we will say: ‘Now you do it; you compete with your own rather than we compete with them. And we will help you do it as best as you can. But you will do it.’ (Lee Kuan Yew, quoted in *Singapore Business Times* 10 June 1999)

In June 1999, there was an official announcement that the Singapore partner would hand over the Suzhou Industrial Park on 1 Jan 2001 to the Chinese partners (*Singapore Straits Times* 29 June 1999). The Singapore side would undertake the completion of Phase One—the first eight square kilometres originally scheduled for completion in 1999—before reducing its stake in the project to 35 percent while the Chinese consortium would correspondingly increase its stake to 65 percent⁵. Therefore, after 2001, the Singapore transnational entrepreneurial state was planning to relinquish control of CSSD and the project. A Memorandum of Understanding was signed by the Singapore Permanent Secretary of the Ministry of Trade and Industry and a party secretary of the Jiangsu government. Also included in the agreement was that the Singapore partner would officially continue its ‘software transfer’ programme until 2001 training Chinese officials in Singapore through attachment and relevant training courses. Finally, to proceed with development of further phases of the Suzhou Industrial Park, an additional US\$100 million was required to meet operating and development costs:

‘Both sides view that CSSD should plan and work to significantly enhance its financial performance. They will assist CSSD to achieve this turnaround as soon as possible. Meanwhile, CSSD requires a new loan of US\$100 million to meet its operational needs. For this purpose, both consortiums will guarantee their share of the additional loan in accordance with their relative share-holding in CSSD. Beyond this commitment, it is up to SSTD and CSIPC to independently decide whether to inject new funds or to guarantee new loans depending on the financial performance of CSSD.’ (CSSD, MOU, 28 June 1999, paragraph 11)

Further details were reported:

‘It is understood that Singapore had wanted the Chinese to suspend the marketing of the SND for five years, so that full attention could be given by both sides to accelerating the SIP’s development. But the Chinese refused. As a result, both countries have agreed to the new course of action. The agreement specified that the Suzhou municipal government would now respect SIP’s priority status by recommending all suitable projects to the park. The Suzhou Mayor will chair regular meetings to avoid disorderly competition between the two parks for the same project so as not to confuse potential investors.’ (*Singapore Straits Times* 29 June 1999)

Therefore, with this Memorandum of Understanding, the Singapore transnational entrepreneurial state’s objectives had been redefined as the project was not competitive vis-à-vis other industrial estates in China. The elite therefore decided to minimize its financial losses through selling its 30 percent of the shares to the Chinese partner. Yet, the Singapore transnational entrepreneurial state felt it should not appear to ‘...wash its hands of this project and abandon its partners.’ (SO1) This would have a negative effect on the Singapore transnational entrepreneurial state’s wider credibility, especially with many other on-going ventures in the ‘Regionalization’ project. Thus, after the ‘official’ disengagement announcement, the Singapore transnational entrepreneurial state began its own ‘disengagement strategy’ immediately.

CRISIS OF CREDIBILITY

With the disengagement, the Singapore transnational entrepreneurial state was concerned about a loss of ‘credibility.’ Credibility is an important social mechanism that acts to encourage players to enter into ventures or to collaborate. This research sought to find out if the Singapore transnational entrepreneurial state’s credibility was affected by the disengagement, by interviewing respondents from the companies included in the sample (see Table 8.1).

TABLE 8.1: RESPONDENTS' VIEWS OF THE DISENGAGEMENT BY PERCENTAGE
(N=64)

Factor	Agree	Don't Know	Disagree
A good business decision for Singapore	10	80	10
Improved Singapore government's credibility	10	10	80
Sympathy for the Singapore government	20	50	30

Source: Interview Data

When probed, some respondents reported:

'I feel the Singapore government took the easy way out. It was more concerned about short term profits, and took the first available opportunity to cut losses and get some money back. Withdrawal does not place the Singapore government in a favourable light; they resemble opportunists rather than true entrepreneurs. Such a hasty withdrawal by the Singapore government certainly weakens any claims to being a trusted brand name as a regional economic player.' (EU 10)

'Investments in infrastructure never make quick profits. That's a given. So why did the Singapore government pull out so quickly, especially after an extra-ordinary event like the Asian Financial Crisis? It must indicate that something is very wrong with the long-term potential of the Suzhou Industrial Park. That is not comforting news to us. We are here on the assumption that this park has a long term future.' (NA 15)

'The Singapore government gives the impression that they are quitting because they cannot handle one small little local authority [the Suzhou Municipal Authority]. That's essentially what we hear around here. How can that be? What happened to its support from Beijing? It cannot be because of the Suzhou New District alone. There must be something else fundamentally wrong about this park. They should be totally honest and tell us what this is. It's like buying a house from an agent who is quite obviously shying away from telling you the whole truth.' (NA 3)

'The Singapore government has to make its own forecasts and predictions. And we have to make ours. They don't see a future here, that's their problem. We do. And if this place gets going after pulling out of the [Asian Financial] Crisis, they [the Singapore government] will lose out, won't they?' (EU 5)

'I can tell you that the word has been going round, not just here in Suzhou or China, but around the world, that the Singapore government is losing it. This "I quit" attitude has not gone down well, and indeed surprised a lot of business people. They [the Singapore government] should have stayed and solved whatever problems there were. This

could come back to haunt them, not just in China, but probably even in Singapore too.’ (NA 7)

These views generally indicated that these respondents were questioning the economic and political credibility of the Singapore transnational entrepreneurial state. The general feeling among managers of industrial transnational corporations was that the Singapore government ‘abandoned’ the project.

Thus, the agenda during the disengagement phase was more than a financial damage limitation exercise; it was a strategy by the Singapore transnational entrepreneurial state to retain its important relationships with its partners for the future, even though by 2001 the Park would be of minor financial interest to Singapore. Even though there were no formal legal contracts between the Singapore government and the companies at the Park, it had social obligations. Many of these companies were economically and socially tied either to Singapore or the Singapore government. For instance, in addition to the Singaporean companies located in the Suzhou Industrial Park, there were many transnational corporations that had regional headquarters or other operations in Singapore. Also, it was still in the Singapore government’s interest to ensure that the project did not incur future large losses or debts, as its 35 percent minority share-holding might still negatively affect Singapore’s economy. Finally, there was the issue of pride and reputation. The leaders of the Singapore elite probably did not want to portray itself as being sloppy, incompetent and easily distracted, especially as it was still participating in the global game of industrial production, from supplying factors of production in Singapore and in other regional industrial parks in Asia. Therefore, there were both social and economic reasons to ensure that the Suzhou Industrial Park project remained afloat even after the Singapore government’s disengagement. As the following sections will discuss, the Singapore transnational entrepreneurial state had formal and informal disengagement strategies.

8.2 *DISENGAGEMENT STRATEGIES*

FORMAL STRATEGIES

The formal disengagement strategies mostly reflected the Singapore entrepreneurial elite's own personal views. Since the most important objective of disengagement, as far as the leaders of the Singapore entrepreneurial elite was concerned, was to retain the tenants' trust and confidence in the Suzhou Industrial Park, the elite directed the Singapore transnational entrepreneurial state to utilize economic and social mechanisms. The disengagement strategy's main thrust was to convince the tenants that the Singapore government's decision to disengage would not be economically detrimental to tenants. This was achieved through insisting that it was not 'abandoning' the project. Singaporean officials pointed out that the Singapore government, firstly, still retained a 35 percent stake in the project and secondly, had promised to assist the CSSD after 2001 in marketing and in financing part of the project if requested. Finally, it wanted to demonstrate that it expected the Park to become profitable in the future. Lee Hsien Loong, a key member of the elite and son of Lee Kuan Yew, was quoted as having said:

'Shall we then assume that what we have committed is lost? No I never assumed that. I'll continue fighting and try to get back as much as possible.' (Lee, quoted in *Singapore Straits Times* 17 Sep 1999)

This comment was probably meant to indicate to tenants that the Singapore government was still interested in seeing the Park become profitable, not just because their reputation rested on it, but more so because they wanted to get some money back.

Another economic mechanism utilized to retain trust was the intensification of the 'software transfer' programme. This programme had been favourably received in Suzhou and China (see Chapter Six). Leaders in Beijing were also satisfied with SIPAC, as they had seen how 'lean and efficient' the organization was, especially in comparison with similar authorities of other industrial parks and economic development zones in China (*Singapore Straits Times* 11 Dec 1998). Therefore, when the Singapore

transnational entrepreneurial state wanted more Chinese officials to participate in the 'software transfer', it was a strategy to assure the existing investors that the Singapore 'operating system' at the Suzhou Industrial Park would remain regardless of the presence of Singapore transnational entrepreneurial state itself.

Finally, to retain the trust of industrial transnational corporations, the Singapore transnational entrepreneurial state reiterated the competitive advantages of the Suzhou Industrial Park. The strongest advantage was still in the government-to-government relationship, which indicated that the Suzhou Industrial Park was still a high priority of the Beijing government. This in turn could be seen as an indication that the Park would not be allowed to fail for fear of a dramatic loss of face, not so much by the Suzhou officials, but by the top leadership in Beijing, including President Zhu and Premier Jiang of China, who both personally backed the Park. Another aspect was the support of the local community in Suzhou. The Singapore transnational entrepreneurial state believed that the Suzhou Industrial Park had brought 'real' benefits to local employees, creating new possibilities (such as self-financed home ownership) and enhancing their quality of life. The local Suzhou employees at the Suzhou Industrial Park held 'Singapore' in high regard and many believed that their lives had improved considerably from its presence⁶. Being aware of the overall public support, the Singapore transnational entrepreneurial state hoped to utilize some of this support in attempting to demonstrate its level of embeddedness to the project.

This research also found that the Singapore transnational entrepreneurial state also utilized social mechanisms in the disengagement strategy to retain trust. Upon the announcement of the disengagement, officials of the CSSD were sent to meet with the companies located in the Park. Their objective was not just to explain the Singapore party's reasons for disengagement, or the terms and conditions of the MOU, but also to give this exercise a personal touch.

‘Yes, they came. Explained the MOU, the future, and then allowed us to ask whatever we wanted. They tried to see every GM, but a lot of them are away now for their summer holidays⁷.’ (AS 3)

‘They came to ask us about our concerns, saying that they would transmit the feedback and incorporate our concerns as part of the software transfer. They tried to be professional, but many of them [officers] had become our personal friends. So that officer who came to see me actually apologised about the disengagement. It was a nice touch, but as he would be the first to admit, the gesture was quite meaningless in the world of hard-nosed business decisions.’ (EU 2)

However, it was interesting that in addition to explaining the ‘Singapore government’s line’ on the disengagement, these officials and employees of the project utilized informal strategies to retain the trust of the tenants.

INFORMAL STRATEGIES

While the Singapore entrepreneurial elite had its formal strategy of retaining confidence and trust in the Suzhou Industrial Park, there was an informal strategy emerging from ‘bottom up.’ This informal strategy had the effect of improving social dynamics in rather difficult times. As discussed in the opening chapter, the Singapore transnational entrepreneurial state was a specific coalition of individuals who had an interest in the Singapore government’s ‘regionalization’ programme. This elite—because of its economic, political and social resources—dominated and controlled various arms of the state, effectively directing the latter in certain strategic directions. As such, many of the Singaporean officials working at the Suzhou Industrial Park were not members of the Singapore entrepreneurial elite but were employees of the state. Although these Singaporean officials appeared to be loyal to the elite—as witnessed by their commitment to the project—they had some autonomy. As such, they were found to be ‘selectively’ critical of the elite.

All the Singaporean officials interviewed in Suzhou as part of this study said that they were ‘...not the Singapore government.’ They stressed that they were employees and that their commitment to the project was from a professional rather than nationalistic standpoint.

‘Am I here to help Singapore? Well, no. I am here to do well for myself. If I do well, then Singapore benefits, I guess. But I am not doing this FOR Singapore. I mean, I approach my job as if it were any other job for any other employer. If this means coaching the China football team—and we have to face the Singapore team—I’d coach to win. Same is true here.’ (SO 2)

‘I am here as an employee. The company may belong to the government, but I am here to earn a living. Being here and working hard is totally different from us doing NS⁸, right? NS was duty, obligation and for the country. This is totally commercial. I mean, if there were no money in this, forget it. But don’t get me wrong, I am not just here for the money. In order to earn this money, I got to give something back right?’ (SO 4)

This relative distance and psychological autonomy allowed these officials to step back from their appointments as officials acting on behalf of the Singapore government when necessary. This allowed some of them who were included in the research to criticize ‘the Singapore government.’

‘There were too many agendas in the SIP. Political agendas, business agendas, personal agendas...sometimes these don’t fit with each other. I am glad the government has made a decision to take a lower profile in the future because then we can concentrate specifically on making money, not some politician happy.’ (SO 2)

‘The people upstairs made too many mistakes. We came in with pots of money, thinking that we can afford to pay for the best—the best water treatment plant, the most up to date power substation, and all the rest of the frills. We could have been more prudent, then we wouldn’t have this big red figure in our P and L [profit and loss]...but what to do? For a project where PMs [Prime ministers] and Presidents are involved, we had to go big and splash out. I think from now onwards, business decisions will prevail. No grandiose plans to showcase Singapore’s industrial success or whatever, just simple business common sense.’ (SO 1)

These employees of the Singapore transnational entrepreneurial state also transmitted some of these views to the investors during the ‘clear-the-air sessions’ and also during marketing presentations to prospective investors. For the latter, three other points were frequently raised to potential investors: firstly, that ‘less government was actually better for the park,’ which directly

contradicted the 'government-to-government' aspect of the Suzhou Industrial Park.

'We would say that less day-to-day interference by politicians means more space for effective business. This is not just common knowledge among businessmen, but this is something many would hope for. But at the same time, we have G-to-G [government-to-government] support, both morally and financially. Meaning: the G-to-G gives us the best possible environment and support, while in the day to day, we get on with what we do best, business not politics.' (SO 2)

A second interesting viewpoint was 'with China in charge, the future would be even brighter.'

'Now with the Chinese in charge, do you think they dare let this place fail? You know the Chinese just cannot bear to lose face. So, if this place closes down in five years, then the Singaporeans would say to the rest of the world that the Chinese really are no good at this industrial park game, only Singaporeans are good. Do you think Beijing would let this happen? Do you even think that the Suzhou Mayor, who's got to run this place after 2001 will let Singapore win? No way. In either case, who wins? Investors win. The Chinese will go out of their way to make sure this place succeeds, and maybe aim to better the Singaporeans.' (SO 2)

The third viewpoint addressed the Suzhou Industrial Park's relationship with the Suzhou New District.

'We've heard that the two Parks are going to come under one body from 2001 onwards would mean more benefits for everyone. Pricing of units can be better co-ordinated. The two parks could even share more things, such as information, and cut down on wastages such as competition. It could even be possible that when companies currently in one park want to expand, they could locate extra production at the other park. The co-ordinating body could do specialized zones over the two parks, for example, invest heavily in a chemical cluster over here [SIP], or a food processing area over there [SND] and so on. Everybody wins.' (SO 4)

While such views from the employees of the Singapore transnational entrepreneurial state might appear to resemble psychological 'coping strategies,' they did need some 'sensible' answers to present to potential investors, where the most commonly raised questions by potential investors

were, predictably, focused on the future effect of the Singapore government's disengagement. These officials reported that providing the 'official line'—the Singapore transnational entrepreneurial state's formal disengagement strategies—often failed to satisfy potential investors. Thus, by offering the 'new lack of politics,' 'the China in charge,' and the 'better co-ordination between two parks,' they hoped to increase the level of confidence and trust for potential investors of the Suzhou Industrial Park.

'Whether or not the investor believes us is of course an entirely different matter. These are our views. I personally believe them, but I do not have a crystal ball. 2001 is two years away, and anything can happen between now and then. But based on the information I have, this is how I see things unfolding. But this is China, you never can tell what's around the corner. Just take this Taiwan thing [Taiwan's claims of national sovereignty]. It could turn nasty and poof everything we've built goes down the drain.' (SO 4)

'If you have not worked in China before, you will believe the media... about like how Singapore got cheated, and so on. But if you know China, the perception will be different. The basics are still here. There will be not much impact [of disengagement]. Of course, its bad publicity and might worry people like the common man back home [in Singapore]. But businessmen don't automatically believe these stories. They have much better ways of gathering more accurate information and assessing places. You can't judge this place today. You have to come back in five or ten years time.' (SO 3)

Indeed, as the following section demonstrates, the existing tenants already began making contingency plans.

8.3 REACTIONS TO DISENGAGEMENT

'On June 28, Singapore and Chinese officials struggled before an audience to explain an agreement that transferred majority ownership of a huge industrial park in China to state-owned mainland developers. A Singapore investor with operations in the park stood up and asked a basic question. When he didn't get an answer that satisfied, he doggedly asked it again: "What happened? What happened in Suzhou?"' (*Far Eastern Economic Review* 8 July 1999)

Reports of such 'stunned' responses from tenants at the Suzhou Industrial Park were probably exaggerated⁹. Still, the following section examines the reaction

of the respective partners in the project, namely the transnational corporations, and the Chinese partner. Reactions from parties not immediately within the collaborative circle—such as the Suzhou authorities and other interested academics—will also be discussed here.

TENANTS' VIEW

The overall view from the tenants about the disengagement could be summarized in one phrase: 'We're concerned, but we have to continue to get the job done.' Nearly all the respondents felt that their own operations would not be affected, or affected significantly. However, nearly all of them felt that the disengagement might have a negative effect on potential investors (see Table 8.2)

TABLE: 8.2: RESPONDENTS' VIEWS OF THE IMPACT OF DISENGAGEMENT (PERCENT) (N=64)

	Negative	Negligible	Positive
Affect Your company	25	60	15
Affect potential investors	80	20	0
Affected Singapore's future credibility	40	60	0
Affected China's future credibility	60	40	0

Source: Interview Data

The relative lack of concern by the respondents from transnational corporations was probably because they had become established at the Suzhou Industrial Park, and required little else from the Singapore government. The responses from Singaporean companies, which were slightly different, would be discussed in the next chapter as a special case.

'If you came to the SIP solely because of the Singapore government, then you shouldn't be here at all. The Singapore government's presence should be one of many factors, but not the overriding factor. Over-reliance on this factor makes bad business sense. We're here because of the trickle down effect that the Singapore government brought—the infrastructure, the system and employment conditions. But once we are here, whether we make money or not, we cannot blame the Singapore government! Once we are up and running, our fate is in our hands. If we go bust, we cannot blame the Singapore government.' (NA 4)

'I admit we needed the Singapore government around during our development stage, but not now. We are established and we are considering expanding, regardless of who is in charge. We stay out of the politics, and stick to business. And business in China is good.' (NA 3)

'[With the disengagement], we're concerned about the future of this park, but then again, like any good business, we're always concerned about the future. There was some concern from headquarters, not so much about the Singapore government's presence in the future, but whether their protracted bad relations with Suzhou itself might cause us some problems down the line. My own reading is that if Suzhou was in charge, then this problem should disappear.' (AS 3)

'We have seven plants in all of China. The other six don't have the Singapore government anyway, so for us, this [disengagement] is minor. Even without them [Singaporeans], the infrastructure and system should remain. Its working well, and why should they change a good thing?' (EU 11)

'We are definitely worried about the issue [disengagement]. But what can we do? We have invested very heavily in this plant, and it would cost too much to relocate now. Maybe five or ten years down the road, we will have a review of operations here; and if things are not conducive, we will move.' (AS 8)

'We take the position that we were already privileged to benefit from the earlier presence of Singapore government, which was extremely instrumental in aiding our smooth start-up in China. We came here because we were promised a smooth entry to China; we've got that now. Since then, the last two years have been fantastic for us. So the next step is to expand. In that regards, the presence of the Singapore government is not a factor. The main factor is our business strategy from here on end.' (EU 2)

'If the China government want to retain their customers, they have to maintain this standard at least, if not do better. Even giving us the treatment that you get at an average zone would be bad for us. But the Chinese are not stupid, and they are also good businessmen. So I expect this place to do alright.' (EU 7)

The most likely reason for the transnational corporations' overall lack of visible concern was their status as key players in the global game of industrial production. Within the game, they were the prime movers. Should conditions deteriorate, they have the resources to uproot and relocate to a more conducive environment. Furthermore, few senior executives of transnational corporations would ever admit that they were dependent on any government. This would

probably be perceived as corporate weakness, and could be seized upon by rival competitors to gain an advantage. As mentioned before, transnational corporations do not concern themselves with 'local' issues such as employment and technological development; their main objective is realizing profits for their shareholders. Therefore, should they decide to 'move' or 'leave,' they do not have any social obligations to the host government or community.

'As long as we make money and business is good, we don't care who we pay our rent to.' (NA 3)

CHINA'S REACTIONS

In this section, 'Chinese officials' referred to politicians, bureaucrats or officials within any one of the Chinese partner's sub-groups. This included members of the China government, Jiangsu provincial government, SIPAC and the Chinese financial consortium. Excluded, for the moment, are those affiliated with the Suzhou Municipal Authority. With the announcement of the Singapore government's disengagement, Beijing chose to remain silent. Between July and December 1999, Beijing was more occupied with issues of admission to the World Trade Organization (see *Far Eastern Economic Review* 25 Nov 1999, and also Strange 1998: 35-7) and trying to contain a religious cult known as 'Falun Gong' (see *Time* 9 August 1999). However, equally possible was the fact that Beijing chose to distance itself from the disengagement announcement, especially when it was very probable that it was unable to influence the Suzhou Municipal Authority in favour of the Singapore entrepreneurial elite's wishes. It was equally clear that—as a strategic imperative—inter-governmental relations between Singapore and Beijing remained 'healthy,' which would in part explain why the Singapore entrepreneurial elite opted not to directly deal with Beijing over the details of disengagement¹⁰. Instead, the Jiangsu provincial government became the main point of contact for the Chinese partnership.

'A Chinese official apologised for failure to make more money and predicts bigger earnings for township in future. Likening the venture

between the Singapore and Chinese governments to a marriage, he pledged that there would be no divorce. He described the problems between Singapore and local officials over the SIP as “nothing significant,” adding that problems were normal at the initial stage of a large project.’ (*Singapore Straits Times* 14 Sep 1999)

The official in the quotation was Chen Huanyou, the Jiangsu Provincial Party Secretary. In the same report, Chen was quoted as saying that ties between Singapore and Jiangsu had a sound foundation. This was probably true, since it did not include the Suzhou Municipal Authority. Respondents from the Chinese side all generally indicated that they deeply regretted the turn of events, but looked forward to the future as a great challenge.

‘I am sure that there could have been other alternatives. The Suzhou Industrial Park will turn the corner once this Crisis is over, and it will make real money very quickly. We have the foundation for out-competing any industrial zone in China, except maybe Beijing and Shanghai. But it is sad that the Singapore government is impatient, and let some minor irritations affect its decision.’ (CO 1)

‘I feel that maybe the Singapore government made the wrong decision. The future for this park is very healthy. They should convince the consortium that roughing out the hard times is in everybody’s best interests. I don’t know why they think that the current difficult times will carry on. It won’t. Take a good hard look at the whole of China; you think that we had a hard time? Go visit any other industrial park since 1997, and show me one park that has done relatively better. You won’t find one.’ (CO 2)

‘Even though we regret that Singaporeans are reducing their interest in the project, we have total confidence in that we can maintain the high standards that the investors in the Suzhou Industrial Park have come to expect. We are proud to say that we are by far the most progressive administrative committee in China. Officials from other zones come to us for guidance and advice. No one need worry about any changes. You do not change something that works.’ (CO 3)

Thus, all the respondents from the Chinese partner sounded optimistic about the future. They believed that they, as an organization, had acquired competitive advantages such as having been trained by Singaporeans, and had established a reputation over the past few years as being efficient and effective industrial administrators (see Chapter Six). These competitive advantages were important to transnational corporations and would therefore stand SIPAC in

good stead for the future. However, in reality, based on the views gathered from the transnational corporations, the Chinese partners' outlook might be slightly too optimistic. After all, many existing tenants appeared to hold the view that potential investors would be hesitant to locate in the Suzhou Industrial Park at the point when the Singapore transnational entrepreneurial state was disengaging. These respondents predicted that many potential investors might adopt a 'wait-and-see' attitude, particularly considering the business community's general mood of caution after the Asian Financial Crisis¹¹. The Chinese officials, however, were already prepared for this.

'Its early days, but I have a strong feeling that we will be able to get investors in. In the past, the focus was on getting companies that had a previous relationship with the Singapore government. Maybe—I stress maybe—we can now focus on companies that have a good relationship with China. Maybe we can get the Volkswagens or General Motors¹² to come. We will definitely try.' (CO 2)

'This place has just so much potential. Our combination of service and facilities is probably the best in China. We just need to get the investors to come and have a look. We need to get information to them. Once they are here, I'm sure they will be impressed.' (CO 3)

On the issue of inter-estate rivalry, these officials were confident that things would get better.

'I think everybody knew that the main problem was that the Singaporeans did not give the SND enough face. If we are in charge, we will work harder at building bridges with the SND, and probably with other regional industrial estates as well. We need to work together as a family. The most pressing issue is to make sure that everybody wins.' (CO 1)

8.4 'SINGAPOREAN' COMPETITIVE ADVANTAGES?

Even though the announcement of the disengagement reflected the Singapore transnational entrepreneurial state's lack of optimism about the future economic prospects of the Suzhou Industrial Park, it also suggested that as an entrepreneurial agent in China, it was less than effective. As discussed in earlier chapters, the Singapore transnational entrepreneurial state believed that it had competitive advantages in the China economy, including a shared

ethnicity, understanding Chinese business practices such as *guanxi*¹³. Based on data gathered for this research as well as in the findings from another survey¹⁴, Singaporeans—including the Singapore transnational entrepreneurial state—appeared not to actualize these competitive advantages. This research asked all the respondents to assess the Singapore government’s record in China based on the Suzhou Industrial Park project. The question posed was: ‘How good was the Singapore government in doing business in China?’¹⁵ On the whole, most respondents gave the Singapore government a ‘poor’ grade, or declined to comment (see Table 8.3).

TABLE 8.3: RESPONSES TO ‘HOW GOOD WAS THE SINGAPORE GOVERNMENT IN DOING BUSINESS IN CHINA?’ (N=103)

	Good	Average	Poor	Don’t Know/ Decline to Comment
Percentage	5	5	40	50

Source: Interview Data

When probed, many respondents identified two indicators that demonstrated the Singapore transnational entrepreneurial state’s lack of competency in China: firstly, the leaders of the Singapore entrepreneurial elite did not understand the nature of the internal political system in China, and secondly, they underestimated the strong social basis that underpinned all relationships—regardless of whether they were economic or political—in China.

POLITICAL NAIVITY

On the issue of politics in China, an analyst in the consulting industry from Pricewaterhouse Coopers’ C.W. Chey assessed the SIP’s problems as emanating from: ‘[The Singapore government] misjudged the ability of the local authorities to ignore orders from Beijing.’ (*Singapore Business Times* 18 Sep 1999) This was also admitted by one key member of the Singapore entrepreneurial elite:

‘...I think we underestimated the length of the chain of command between the centre and the locals, and the extent to which the locals

have latitude.’ (Lee Hsien Loong, Deputy Prime Minister of Singapore, quoted in *Singapore Straits Times* 10 July 1999)

In essence, the Singapore entrepreneurial elite could not cope with the ‘centre-versus-regional’ politics that have emerged in China since the 1979 economic reform (Breslin 1996: 365). While the centre (Beijing) kept a tight rein over certain aspects of society, it had ceded control on many other aspects. In Suzhou’s case, it was fairly evident that Beijing had limited influence over the city’s political and economic decision-making. Also, the nature of centre-region relationships was certainly more two-way rather than top-down (also see Duckett 1998), whereas politics in Singapore was generally ‘top-down’ (see Chua 1999).

‘They [the Singapore entrepreneurial elite] assumed that the China government functioned in exactly the same way as the Singapore government. They might have accepted that it might have been bigger, but they probably expected Beijing to be organized along the same lines. To Singaporeans, if the top said “Jump,” the bottom would say “how many times?” This is not how things work in China.’ (NA 24)

‘I think that the Singapore government made the serious mistake of only dealing with Beijing. You can see that whenever there is a problem, Singaporeans go to Beijing. But if the problem is a Suzhou problem, you ought to deal directly with the Suzhou Mayor. Beijing talks loudly but does not act very much at local level. You want anything done, you do it at the local level. In fact, Suzhou is at least a couple of layers removed from Beijing. Suzhou Mayor reports to the Jiangsu Governor before anything gets to Beijing.’ (EU 3)

Some respondents—particularly those that were fluent in Mandarin—identified that the Singapore government’s greatest mistake was to misunderstand China’s *guo qing*. Translated literally, the term means ‘nation’s sentiments.’ Thus, some respondents said that the Singapore government did not realize how important *guo qing* was to the Chinese, and often took actions that ‘hurt’ China’s *guo qing*.

‘Let’s take the software transfer: the Singaporeans came in here and told everyone that what they were doing was all wrong, and they had to learn the right way. This was a direct accusation that the Chinese way was backward. This couldn’t have gone down well with the Chinese.’ (NA 23)

‘Sometimes, the Singaporeans want things changed, and changed quickly. For example, they feel that a particular department did not require 10 people to do a certain job, so they should cut four employees. This is not the Chinese way of doing things. To even suggest this was to insult the four that were to be cut.’ (NA 9)

‘I remember a particular incident when the Singaporeans wanted the Jiangsu officials to sign a MOU or contract regarding when the Shanghai-Nanjing highway would be completed, and exactly how many access roads the SIP would get to the highway. The Jiangsu official just told him [Singaporean delegate] not to worry, everything would be sorted out when the time came. However, the Singapore side persisted, and although the Chinese gave them this contract, the damage had been done.’ (NA 17)

Therefore, according to these respondents¹⁶, the problem boiled down to the Singapore government’s ‘arrogance.’ This arrogance, they explained, was not a serious issue when there were no extraneous problems, but under unfavourable conditions—such as during poor economic conditions caused by the Asian Financial Crisis—these issues would surface. When asked about *guo qing*, the Singaporean officials had quite a different view of the problem.

‘*Guo qing* can be translated into: “We can’t change.” It’s just a lousy excuse for not taking that extra step to catch up with the rest of the world. The problem—the real problem—is that they are not interested in becoming more professional, or more efficient. They want the best of both worlds. Come on, you can’t have your cake and eat it.’ (SO 1)

‘Yes I have heard that many Chinese say that Singaporeans don’t understand China’s *guo qing*. Personally, I fully understand how it works. It says you can’t cut jobs, make people work harder and faster, and be more efficient, simply because that’s how it always has been. But to me, if the *guo qing* hinders modernization, then there is something wrong with them not us!’ (SO 3)

Most respondents felt not only were the leaders of the Singapore entrepreneurial elite naive about Chinese politics, but also failed to understand how important the social basis of all relationships in China. They felt that personal relationships, both real and metaphorical, were absolutely essential in order to ‘get ahead in China.’

SOCIAL NAIVITY

‘Its not just about *guanxi*, but being sociable and close to everyone you do business with in China is very very important. I’ve been in China for close to 10 years with a variety of different multinationals, and the reason why they want me to run this plant is because I know how to develop good relations with the Chinese wherever I go. Now, would it have been so impossible for the Singapore government to give the local Suzhou leaders some face? The Suzhou people were always trying to be supportive, but I did not see the Singaporeans give anything back. So I can understand why there were problems of communication at the ground level.’ (NA 15)

According to most respondents, the lack of reciprocity was the key strategic ‘mistake’ made by the Singapore entrepreneurial elite. Although reciprocity was carefully cultivated with the China government (in Beijing) and with industrial transnational corporations, at no time did the elite ever demonstrate that it was interested in developing reciprocity with the local Suzhou authorities.

‘I think the Singaporeans over here are quite out of touch with the new reality of doing business in China. We have heard that they distanced themselves from the Suzhou side because of their fear of *guanxi*. But in reality, this *guanxi* thing was not about personal favours or corruption. It was about having good social ties. In this context, by not even being interested in being friendly with the local authorities was certainly a snub and caused them to lose face. The Suzhou people would therefore see the Singaporeans as high and mighty, and they don’t really care for them much.’ (EU 1)

‘The problem with China is that even though the economy is developing fast. There is much talk that *guanxi* is losing its grip. I am not so sure; I think deep down, it matters. I suspect that when it suits the Chinese, they drop *guanxi*, especially if they stood to gain. However, when they want to, they will use *guanxi*. It is my own view that no matter what goes on, whether these Chinese managers get Harvard MBAs [Master of Business Administration], or even after 100 years, I don’t see *guanxi* disappearing.’ (NA 3)

‘Doing business in China is more than just about having *guanxi*. Its being sensitive to local conditions. We have operations in five continents, and even though our logo is the same, operations vary. Why? Because we believe that to be effective, we must adapt and maximize the local conditions. As they say, when in Rome, do as the Romans do. The Singaporeans tried to bring Singapore to China. They talked about software transfer. Don’t they know that for software to be

transferable, the hardware must be compatible? You can't run Apple [software] programmes on IBM! It was like doing a blood transfusion of two different blood types. Appeared to work for a short while, and then failed miserably later.' (NA 11)

The Singapore transnational entrepreneurial state's social distance from the Suzhou Municipal Authority contrasts directly with the close ties it had with Beijing. However, for local projects, embeddedness with Beijing would not always guarantee success at the so-called 'ground level.'

'From the ground level, the Suzhou Mayor sees the Singaporeans as only interested in dealing with Beijing, whereas Beijing does not have that much influence here. Sometimes I get the feeling that they only turn to Beijing when they need something; otherwise, they much prefer Beijing to leave them alone.' (SG 2)

It was also interesting to discover the Suzhou Municipal Authority's assessment of the Singapore transnational entrepreneurial state. Upon the announcement of the disengagement, the Suzhou Mayor, Chen Deming, told the press that 'Singapore investors should be cautious in future tie-ups.' (*Singapore Business Times* 29 June 1999) He went on to say that Singapore and China resolved their differences over the Suzhou Industrial Park showed that there was a 'cultural divide' between the two:

'In our co-operation in the past five years, that we have to use an MOU [memorandum of understanding] to solve our problems is because of the cultural differences in the two countries, and the different understanding of the items in the documents.' (Chen Deming, Mayor of Suzhou, quoted in *Singapore Business Times* 29 June 1999)

Thus, at one level, Chen was suggesting the obvious: that Singapore's legalistic and 'by-the-book' approach—hence its frequent use of MOUs and contracts—was not common practice in China. At another level, he was criticising the Singapore party's lack of reciprocity, particularly towards the Suzhou Municipal Authority. Some respondents commented on this issue:

'Singaporeans like to stick to the rules, even when the rules don't work anymore. I think this is what upset many Chinese people, because they felt the Singaporeans could have put the book down and talked to us. They could have tried to be more understanding of our problems. That

way, the Chinese would certainly have been more understanding of your problems.’ (CO 2)

‘Another thing Singaporeans don’t understand is the importance of face to Chinese people, especially Chinese leaders. If you appear to slight them in any way, you have immediately made an enemy. Sometimes, the Singaporeans acted as if the Suzhou Municipal Authority simply did not exist, going straight to Beijing for everything. This must have upset the Suzhou Mayor deeply.’ (SA 1)

Thus, the Suzhou Mayor’s statement that there was a cultural divide between the two parties was an implicit criticism of the leaders of the Singapore entrepreneurial elite. Earlier in the history of this project, the elite had regularly said that it could perform the role of being the gateway for ‘Western’ investors into China. Its claim of expertise and competency in doing business in China were based on its claimed ethnic affinity, and its claimed competence with Chinese business practices. However, by late 1999, most observers felt that Singaporeans generally lacked an understanding of the ‘finer nuances’ of Chinese business practices:

‘The view that many people in China have of Lee Kuan Yew is that he’s Chinese on the outside, and a Westerner on the inside. And like many other naive westerners, people are saying he got swindled by the Chinese.’ (AC 3)

Therefore, the Singapore transnational entrepreneurial state did not realize all the projected competitive advantages, especially those that were supposed to be advantageous for doing business in China. Instead, the Singapore government appeared to be as far removed as the stereotypical ‘western’ business person in China. The Singapore entrepreneurial elite was possibly even worse off than the ‘westerner’ because in some circumstances, the westerner was willing to learn Chinese business peculiarities, whereas the Singapore government opted to ‘import’ Singaporean practices instead. As suggested in the previous chapter, the Singapore transnational entrepreneurial state also marginalized the local Suzhou authorities. Ultimately, the poor social relationships at the local level did negatively affect the Suzhou Industrial Park project.

8.5 THE ELITE'S REFLECTIONS

After the announcement of the disengagement, some key leaders of the Singapore entrepreneurial elite had been asked by the media to account for and evaluate the Suzhou Industrial Park project. This section analyzes the elite's own assessment of the project, as this provides a useful insight into its motivational and strategic processes. Generally, the Singapore entrepreneurial elite's responses could be divided into two camps: those that believed the project was a 'valuable lesson,' and another camp that 'blamed the Chinese' for its failure.

VALUABLE LESSON

'Valuable experience...it was an ambitious project, but the alternative is worse, never to try risky things, which we get blamed for too. We learned a lot of things from this project—how they work together with them so that you can get things done despite the difficulties.' (Lee Hsien Loong, Deputy Prime Minister of Singapore, quoted in *Singapore Straits Times* 10 July 1999)

The 'valuable lesson' view was that the project had some benefits as well as some problems. On the one hand, the elite was proud that they had correctly identified an economic niche in China's economy, and devised effective strategies to capture it. It had successfully provided high quality industrial infrastructure and managed to transplant a Singaporean 'operating system' in the Suzhou Industrial Park for the benefit of the investors. On the other hand, they admitted that they misjudged the length of the chain of command from the top (Beijing) to the local level (Suzhou), assuming that Singapore's strong and close relationship with Beijing would solve all of its problems. For example, Deputy Prime Minister Lee Hsien Loong—a key member of the elite—was interviewed by *Fortune* magazine:

FORTUNE: Do problems recently in Suzhou cause Singapore to think differently about creating economic space offshore?

BG LEE: We have to do it perhaps more soberly. The main problem was we didn't pay enough attention to the local interests and the role of the local government. We assumed that if the central government wanted it, it would happen. China doesn't work like that...

FORTUNE: You didn't realise that?

BG LEE: Well, we didn't realise it forcefully enough. (*Fortune* 25 Jan 2000)

In addition, on assessing the level of collaboration between the Singapore government and the China government, Lee Hsien Loong said:

'We've been able to overcome them in a way which does not do harm to our overall ties, and which establishes confidence between both sides, in good faith, and in the fact that interests have to be respected and cannot just be trodden on. The SIP was not an exercise where one side is being Santa Claus to another either way. It has to be—what the Chinese call—*ping deng hu hui hu li*, or equal mutual benefit. But in interpreting those few characters, in real life, there's a whole new chapter which can be written that's complex, that depends on working relationships, depends on mutual confidence and goodwill, depends on establishing a way of working which both sides can have faith in and that's what our people have been trying to do day by day.' (*Singapore Straits Times* 17 Sep 1999)

This showed that despite the problems at the project, close ties with Beijing were paramount. However, the key objective of this project—creating an external income that would supplement Singapore's economy—was not realized. Not only has the Suzhou Industrial Park been unprofitable, it appeared to be losing money. The root of the problem was the contradictions between economics and politics, and there was a clear change in focus after disengagement.

'It's [the Suzhou Industrial Park] not an easy model to implement where you have more than one objective. I think if it was purely a commercial project it would have been easier to handle. Or if it is a project that is entirely government, again it would be easier to handle.' (Lim Neo Chian, CEO of CSSD, quoted in *Far Eastern Economic Review* 26 Aug 1999)

Thus, there were no mixed signals for the 'new look' CSSD. It made plans to boost profit margins, including undertaking real estate development and cutting costs by 'localising' (*Singapore Business Times* 20 Sep 1999). Lim, the CEO of CSSD, was quoted as saying that developing, building and selling residential properties—particularly low and medium cost flats in the area—

were immediate priorities. This was because between 1998 and 1999, private developers reported a strong demand for ‘non-expatriate’ housing in the area. Residential projects such as ‘Orchid Manor’ and ‘Xincheng Garden’ had already sold the majority of flats within the Suzhou Industrial Park’s housing belt even before any of them were completed. Although the large majority of buyers were employees of companies located in the Suzhou Industrial Park—as they could utilise their Provident Fund as the deposits for these properties—there were several buyers who were employees of companies located elsewhere¹⁷. It was in response to this strong demand that the CSSD itself has targeted developing such flats with the aim of raising its income.

For the ‘localisation’ strategy, the objective was to simply cut costs because the CSSD’s operational overheads were too high considering the lack of direct income. Therefore, the most obvious strategy—at least from the company’s perspective—was to reduce the number of Singapore expatriates employed by the CSSD. In 1999, the company had employed 24 Singaporeans, down from the initial 57 in 1996 (*Singapore Business Times* 20 Sep 1999). The next step, according to respondents at the Suzhou Industrial Park, was to lower this to under ten. Between 1992 and 1999, the SIP’s officials that were Singaporean nationals were remunerated at levels equal or higher with their peers in Singapore, whereas Chinese nationals employed were remunerated at the local (Suzhou) market rate. This meant that the Singaporean expatriate manager at CSSD was earning five times more than his Chinese counterpart. However, at another level, with the impending change of majority stakeholding at the beginning 2001 in favour of the Chinese consortium, it was also a deliberate strategy to reduce the Singaporean influence in the office. To several respondents in China, such a change would ultimately mean that the CSSD’s development, marketing and management decisions in the future—if staffed by Chinese nationals—would reflect Chinese interests and system more¹⁸. To achieve this, the CSSD would fully take advantage of the ‘software transfer’ in the intervening two years, hoping to train Chinese nationals to perform at the levels and expectations of Singaporean managers. Thus,

whereas in the past the CSSD might have based its decisions on reasons such as political imperatives—for example having grand and extravagant designs that would have high political prestige value—its new role and objectives have been very clearly defined: make money.

SOUR GRAPES?

The ‘valuable lesson’ perspective was quite different from Senior Minister Lee Kuan Yew’s own personal views. The Suzhou Industrial Park failed because of one factor: ‘The Chinese authorities.’

‘Because they do not close the Suzhou New District, and they do not suspend the SND, they will always be running round giving extra push to SND. And whatever we do in SIP, they will reproduce in SND. So there is a loss of focus.’ (Lee, quoted in an interview given to *Channel News Asia* 30 Sep 1999)

It was clear that Lee blamed the competition from the Suzhou New District—directed by the local authorities—as the key source of the Suzhou Industrial Park’s problems. He also criticized China’s lack of effective governance, which was defined as having top-down control. This could be seen from the same report when Lee was asked whether going somewhere else within China would make a difference, he replied:

‘If you ask me, the ideal situation is to go to a place like Beijing, where the Central government is in charge, who knows exactly what’s going on, or to go to Tianjin, which is near Beijing, which has the status of a province, where the municipal is also the provincial government, so there’s no one layer down.’ (Lee Kuan Yew, quoted in an interview given to *Channel News Asia* 30 Sep 1999)

This showed that Lee either did not or chose not to accept that political structures in China were very different from those in Singapore. There was further evidence of Lee’s single-mindedness about ‘top-down’ approaches in an interview by *Forbes* magazine:

FORBES: What mistakes were made in Suzhou and what lessons did you learn?

Lee Kuan Yew: We would have done better if we had chosen a city with the shortest and most direct chain of command from the Chinese

centre [i.e., Beijing]. Proximity to the top leaders would have helped, with fewer administrative layers between them and the project.

FORBES: What are the lessons to be drawn from the Suzhou experience by foreigners doing business in China?

Lee: We have learned that not only must there be a common purpose and interest between the central government and you [but also] that common purpose and interest must be shared by the local partner you have to work with.

FORBES: Last year, you told us that patience and determination are required to achieve one's objectives in China. Do you now see that other ingredients are needed to be successful?

Lee: When dealing at provincial and lower levels, you have to live with their business culture. It requires you to be flexible, to compromise and do things half their way. We thought that they wanted to learn to do it the Singapore way, according to proper rules and strict procedures. That was what the centre wanted. But the reality at the local level could not be overcome.

FORBES: Will Singapore's experience with the Suzhou project deter future industrial collaboration between Singapore and China?

Lee: No, it will not. Ordinary business investors have to adopt their standards when working with local authorities. Now both sides have agreed that the Chinese side will take over majority shares of the project from Jan 1, 2001. We will help the Chinese team to be ready to take charge, and we will stay on as a minority partner until 2003. If they want the Singapore consortium to stay on beyond that, they will need to make good use of the intervening period to win over the international investors in the Singapore consortium.

FORBES: China's former leader Deng Xiaoping said in the 1980s that China should use Singapore as a model. Does the Suzhou Industrial Park show that Deng's idea is impractical?

Lee: It depends on the commitment of the top leaders in Beijing and the resources they put into a project. When the centre wanted to build a satellite singing "The East is Red," it succeeded. To build an industrial park in Suzhou, like the one in Singapore, requires a somewhat similar commitment in time, energy and resources. Singapore can be a model, just as other countries are models for China. However, the result will always be "with Chinese characteristics." (*Forbes* 15 Nov 1999)

It was unclear whether Lee could not or would not grasp the nature of politics in China. What also distinguished Lee from the other faction in the elite was his outright bitterness over the Park's failure. In the same interview, Lee took swipes at the Suzhou authorities.

‘And unlike the SIP, where recruitment is by open selection, whereas in SND, recruitment is by *guanxi*. So there is a very deep obligation and personal sentiments in not making people unemployed or redundant. So you have all these complicated items that prevent a rational, objective solution.’ (Lee, quoted in an interview given to *Channel News Asia* 30 Sep 1999)

Lee’s frustrations over the Singapore entrepreneurial elite’s eventual disengagement from the Suzhou Industrial Park could perhaps be understood if his own personal stake in the project is factored in.

‘This [the Suzhou Industrial Park project] is an experiment which will not fail. Mr Lee Kuan Yew himself has said that Singapore would view it as a personal failure if the industrial park did not succeed.’ Zhang Xin Sheng, Mayor of Suzhou (1996), quoted in *Financial Times* 9 Jan 1996)

Lee was central to the project, from the very conceptualization right through to its disengagement. In many ways, it was his ‘baby.’ Although Lee did not appear to have any personal financial stake in the project, he invested his personal and political reputation heavily. When his previous track record for economic and political decisions were further factored into the mix—Lee was credited for successfully leading the Singapore developmentalist state through the periods of industrial infancy to maturity—it could be argued that his bitterness over Suzhou was because he was simply not used to failure.

8.6 THE DUST SETTLES

‘The Singapore-China Suzhou Industrial Park is anticipated to chalk up accumulated losses of US\$90 million by the end of next year [2000]. However, Singapore and Chinese leaders who oversee the development of the government-to-government joint venture expressed confidence that the project would turn profitable some time. The CEO of the China-Singapore Suzhou Industrial Park Development Co (CSSD), the township’s developer, said yesterday that yearly losses averaged US\$23-24 million¹⁹ since the park was established five years ago ... The losses were attributed to interest costs, operating losses and a one-time write-off on the sale of water and sewage plants in the SIP.’ (*Singapore Straits Times* 15 Sep 1999)

After nine years—two years for planning (1992-1994) and five operational years (1994 to late 1999)—the date for the curtain to come down on the Singapore transnational entrepreneurial state's role as the majority shareholder and prime mover in the Suzhou Industrial Park was set for January 2001. While it might appear that the Singapore entrepreneurial elite's overall credibility in the eyes of transnational corporations might have been diminished, it could at least be assured that capitalist clients often have short memories, mainly of their focus on profitability. Companies that might openly regret the change of share-holding at the Park would have to admit that their over-reliance on the Singapore state in this context was actually poor business strategy. From the perspective of the Chinese partner, Beijing's silence over the Suzhou affair allowed it to remain aloof of the domestic squabbles. On the one hand, a world superpower could not afford to deal with some weeds in the backyard. Yet, by appearing to appease the Singapore government, Beijing ensured that diplomatic ties, at least at the highest governmental levels, remained unaffected by this phase. As this chapter has shown, the Suzhou Industrial Park's disengagement phase was similar to other earlier phases. It was as much about maintaining the project's competitive advantage for the future, as it was about maintaining good collaborative relationships with key partners.

¹ The main period of the fieldwork for this research was conducted between July and September 1999 in Suzhou, almost immediately after the official announcement of the disengagement on 28 June 1999.

² *Lianhe Zaobao* is a Chinese-language daily broadsheet that emanates from Singapore.

³ Some sense of the Singapore political opposition parties' line of attack can be seen from their websites. See 'other' information sources in the Bibliography and References section.

⁴ In this report, the CSSD was due to pay a tranche of US\$10 million of the overall US\$50 million loan it had secured from a consortium of banks, managed by Keppel TatLee Bank, a Singaporean bank (*Singapore Business Times* 10 May 1999).

⁵ On exactly how the change of shareholding will take place, paragraph 10 in the MOU read: 'In order to adjust the share-holding proportions of CSSD, its assets will have to be valued. Both sides agree that, under "PRC's Law on Joint Venture Enterprises," and the 8th Clause of MOFTEC and of the State Administration for Industry and Commerce's "Rules on Changes in Share-holding of Foreign Enterprises," valuation agencies will be engaged to evaluate CSSD's shares. The valuation results will be used as a basis for computing share prices.' (CSSD, MOU 28 June 1999: paragraph 10). The complete text of the MOU is reproduced in Appendix Five.

⁶ In the sub-sample for the research, 30 respondents were China nationals, of which 24 were native to Suzhou or surrounding counties (see Appendix One). In addition, the research also took the opportunity to chat informally with many local Suzhou people during my stay there between July and September 1999.

⁷ The research was 'fortunate' in that many GMs were recalled from their summer break to Suzhou upon news of the disengagement, and thus could be interviewed.

⁸ 'NS' refers to 'National Service,' which is mandatory for all Singaporean men over the age of 17. The service entails a period of full-time attachment of two and a half years, and a subsequent annual part-time attachment (of up to 28 calendar days) to one of Singapore's armed forces—including the army, navy and air force—or civil defence forces (fire-fighting, disaster rescue and others).

⁹ This quotation comes from an article in the *Far Eastern Economic Review*, which itself has had relatively poor social dynamics with the Singapore government. In 1994, due to certain articles published that were highly critical of the Singapore government, the magazine's circulation in Singapore was virtually banned until 1997.

¹⁰ See, for instance, DPM Lee Hsien Loong's comments that 'Suzhou difficulties handled well enough to leave bilateral relations healthy,' as quoted in *Channel News Asia*, 23 Sep 1999.

¹¹ It appears that for some governments and regions, the Crisis has not ended. However, from the business community's perspective, when they refer to the Crisis being over, they probably mean the 'worst' period, which was between 1997 and 1999.

¹² In China, automobile production plants have been among the largest foreign direct investors. See UNCTAD (2000).

¹³ As an example of how the Singapore government believed it understood these practices, see *Singapore Business Times*, 'Know the rules in China, otherwise fill the gap' (5 Nov 1995).

¹⁴ One study reports that Chinese managers perceived that Singaporean investors did not have good understanding of Chinese business practices, culture and the mentality of their Chinese counter parts and workers. In this respect, Chinese respondents ranked Hong Kong and Taiwanese investors above Singaporean investors (Wang and Seah 1998: 3).

¹⁵ See Appendix Two for details about the interview schedule.

¹⁶ See Appendix One for background information of the respondents. For instance, these three respondents (NA 3, 4 and 9) are China nationals working for transnational corporations.

¹⁷ For example, some respondents reported that they knew of individuals working in downtown Suzhou and in the Suzhou New District buying such properties.

¹⁸ On this issue, a Singaporean manager in the CSSD said: 'As a professional, I don't care who is paying me to do the job, I will do the job well. If the Chinese are willing to maintain my salary at current levels, I gladly would work for them and devote all my energies to make this Park successful. However, in the current economic reality, I don't think they can afford me. And anyway, I'm not afraid of my future...I have China experience. This is a major thing to sell to multinational or even Singaporean companies!' (SO 1)

¹⁹ The CSSD issued a statement correcting the financial figures supplied, suggesting that the average annual losses were US\$15 million between 1994 and 1996 and US\$23 million between 1997 and 1999 (*Singapore Straits Times* 21 Sep 1999).

CHAPTER NINE

SUZHOU AND SINGAPORE'S REGIONALIZATION

In the previous chapters, the research has focused on explaining the 'mixed fortunes' of the Suzhou Industrial Park project. The focus has been on the actions, interactions and transactions between the Singapore transnational entrepreneurial state, the China government, industrial transnational corporations and the local Suzhou authorities, who together basically for the project's 'inner circle.' From the analysis so far, the Singapore transnational entrepreneurial state's competitive and collaborative strategies have been effective under certain conditions, and less effective under others. However, the Singapore transnational entrepreneurial state also utilized these strategies on three other entities: Singaporean enterprises in the Suzhou Industrial Park, the Wuxi Industrial Park, and the other Singapore-developed industrial parks in the Asia Pacific region. This chapter therefore examines the 'outer circle,' with the intention of providing a comparative foil to the Suzhou Industrial Park project.

9.1 SINGAPOREAN INDUSTRIAL ENTERPRISES

Although less overt and obvious, the Singapore transnational entrepreneurial state also utilized its collaborative strategy onto Singaporean enterprises in the Suzhou Industrial Park project. In 1999, 18 out of 83 companies in operation were either wholly private owned or state-owned and government-linked Singaporean companies¹. Previously, Singapore enterprises had played a marginal role in the Singapore government's development strategies between 1965 and 1980 (Lim *et al.* 1988, Huff 1994, and Perry, Kong and Yeoh 1997). Initially, the government felt that they were too small and technologically backward to be the engines for generating rapid economic development and growth in Singapore. Instead, the Singapore government planned for the presence of large transnational corporations to bring developmental effects, mainly because of their resources, technological

capability and wide networks of markets (Peebles and Wilson 1996: 3). However, after the 'relative failure' of the Second Industrial Revolution²—where transnational corporations declined to collaborate in the industrial upgrading project—the Singapore government decided to incorporate Singaporean enterprises in its development strategies (see Wong and Ng 1997). Therefore, in the 1990s, the Singapore government's collaborative strategy sought to enhance its embeddedness with local enterprises. With greater embeddedness, the state could then have the capacity to direct local enterprises in nationally important economic projects³. Thus, in the 'Strategic Economic Plan' unveiled in 1990, there were many measures that encouraged local enterprises to collaborate in national economic projects such as the 'Regionalization' programme.

In the programme, the state utilized economic mechanisms such as tax incentives and overseas market access information services for Singaporean enterprises. It even set up Singapore-run international schools to assist expatriate Singapore families with school-aged children in selected cities, including Suzhou (Wong and Ng 1997: 130). Local enterprises could also apply for an investment grant of up to 20 percent of intended foreign investment. Furthermore, a S\$130 million (US\$80 million) venture capital fund was launched by the Singapore Economic Development Board and a government-linked company, Transpac Capital, to help private Singapore companies 'go regional.' The fund, known as the Regional Investment Company (RIC), offered small and medium-sized Singapore businesses low-cost loans of up to S\$600,000 (US\$400,000) for investments in regional projects (*Singapore Investment News* 1 Jan 1995). Singaporean enterprises with larger projects could approach the Singapore Economic Development Board for other financial assistance packages. In 1995, the Singapore Economic Development Board (SEDB) created a S\$1 billion Cluster Development Fund to assist local enterprises to 'regionalize.' Between 1994 and 1995, the SEDB awarded S\$170 million to 10 projects under the Overseas Investment Incentive, S\$465 million to six companies in the Regional Venture

Funds Incentive, about S\$1 million to eight companies under the Investment Study Grant, and S\$3 million under the Regionalization Training Scheme to 150 companies (see Wong and Ng 1997). Thus, as part of the state's larger regionalization strategy, Singaporean enterprises became as important as transnational corporations. The companies that most visibly took advantage of the regionalization incentives were those in property development and engineering activities; a few of these were government-linked corporations but the majority were wholly private owned enterprises (see Yeung 2000). The Singapore government's reasons for including Singaporean enterprises were, once again, entrepreneurial:

‘These developments enabled Singaporean firms to export their expertise in infrastructure planning, engineering development, and project management, but through equity stake, they also allow Singapore firms to share in the future industrial growth of the regional economies.’ (Wong and Ng 1997: 131)

The Singapore government was keen to encourage the ‘collaboration’ of Singaporean enterprises in the regionalization programme because their regional growth would filter back to supplement Singapore's economy. By the late 1990s, it was already clear that the take-up rate on many of the subsidies, loans and venture funds was very high (see Pang 2000, and Okposin 1999). One reason was that these subsidies were economically more attractive to Singaporean enterprises than turning to ‘normal’ capital-raising sources such as private capital investment firms in Singapore. By 1995, China was one of the most popular destinations for Singaporean outward investments (see Table 9.1).

TABLE 9.1 DESTINATION OF SINGAPOREAN COMPANIES' OVERSEAS INVESTMENTS

Country	1994	1995	Total	Total (%)
China	100	160	260	43.49
South Asia	44	96	140	23.43
Indochina	30	62	92	15.39
Southeast Asia	38	63	101	16.89
Others	5	0	5	0.01
Total	217	381	598	100

Source: Singapore Economic Development Board (1995: 72)

The reasons for this investment pattern could be in part explained by China's own economic attraction as a major market, but also in part explained by the strong ethnic links that many Singaporean business persons retained. As discussed in Chapter Five, almost 65 percent of Singapore's population are those who would claim descent from China. However, the most important reason for the investment patterns of Singaporean enterprises proved to be heavily influenced by the Singapore government. The Singapore government's embedding mechanisms also had the function of directing collaborating Singaporean enterprises towards participating in its regional projects as well. Strong evidence of this could be found in Suzhou.

SINGAPOREAN ENTERPRISES IN SUZHOU

Although the specific location of Singaporean investments in China was fairly evenly geographically distributed across the more popular zones such as Beijing, Shanghai, the Five SEZs, and the Eastern Coastal Provinces⁴ (which included Jiangsu and Shandong Provinces), the investment patterns within Jiangsu Province were unusual. Firstly, investments were heavily concentrated in two cities, Suzhou and Wuxi. Secondly, within these two cities, Singaporean investments were entirely located in Singaporean-developed industrial estates⁵. Were the locational strategies of Singaporean enterprises influenced by the Singapore government? To examine this aspect, the research approached Singaporean enterprises in the Suzhou Industrial Park. The interviews were conducted with the same inquiry schedule that was used for the rest of the sample (see Appendix Two). However, there were additional probes on whether they came to the Suzhou Industrial Park to support the Singapore government and what role the Singapore government played in their company's locational choice.

To the Singapore transnational entrepreneurial state, Singaporean enterprises—just like industrial transnational corporations—were 'warm bodies' that bought or leased industrial units.

‘We really don’t mind who we sell the units to, so long they meet the investment criteria (for environmental standards and sector profile). If they [Singaporean enterprises] didn’t come, there would be a rather large hole in our sales chart.’ (SO 1)

‘Singaporean enterprises have taken up a quarter of the units here in Suzhou. Perhaps most of them went into RBFs, and the vast majority of them are small investors, but that’s understandable. There are no Singaporean equivalents of General Motors or IBM or any of the other giants. And in fact, we actually have the biggest Singaporean investors anywhere in the region located here in the park.’ (SO 2)

Even though all the Singaporean enterprises included in the sample reported that their investments in China sought to take advantage of Chinese market and its lower costs structures (in comparison to Singapore), their choice of locations within Suzhou heavily favoured the Suzhou Industrial Park. Many added that they specifically wanted to locate in Singapore government-developed industrial parks and would not have located anywhere else in Suzhou. In other words, they did not consider locating at Suzhou New District, Kunshan or Wu industrial areas, which were zones that allowed foreign investment geographically within Greater Suzhou city. When asked to elaborate, the three most commonly cited reasons why their companies preferred a Singapore government-developed industrial estate were: security, incentives and familiarity, in order of importance.

The ‘security’ of the Suzhou Industrial Park was defined by several respondents as its ability to ‘minimize risks’ and provide a ‘stable environment’ for operations:

‘For us, we are a SME [small or medium sized enterprise], so we don’t have the big information networks as the big MNCs [multinational corporations]. We have to take extra measures to minimize risks. I mean the big boys can afford to open and close plants, lose a couple of million (dollars), won’t hurt them at all. But us, this is our first venture outside the country, and we have a lot riding on this. So to us, having the Singapore government here, both in body and spirit, is very important. We believed that the Singapore government’s presence gave us peace of mind.’ (SG 1)

‘I think that as a Singaporean company, we could not risk going to a place where rules and policies could change overnight. Bigger

multinationals probably could deal with that. But for us, we needed the guarantee of a stable environment provided by the Singapore government. I mean, the guarantee was not really legally enforced, but it gave our company a peace of mind.’ (SG 11)

Economic incentives were also important factors to Singaporean companies. Of all the 10 companies interviewed, only one did not get a subsidy, loan, grant, or any other form of state support. The rest took incentives ranging from financial injections to grants for overseas feasibility studies. The financial subsidies taken by these companies ranged from S\$500,000 (US\$300,000) to S\$1.5 (US\$1) million. When asked if these companies could have taken the subsidies and gone elsewhere in China, the responses were affirmative⁶. However, they stressed that it was their choice to come to Suzhou for the other reasons, such as being close to ‘big-brother’ companies (agglomeration), specific markets like Shanghai and the security of the Singapore government. The Singapore transnational entrepreneurial state had other forms of ‘subsidies’ to encourage Singaporean companies to locate in the Park. A general incentive was the ‘special concessionary’ rental rate given by the Park developer to Singaporean companies. If these companies were members of the Singapore Confederation of Industries (SCI)—a formally recognized business association in Singapore—they would enjoy a discounted per unit rate for the first two years of operation. According to Steven Chong, senior manager of CSSD, ‘...we are a Singaporean regional industrial park, and want to help all SCI members participate in the Suzhou Industrial Park.’ (Quoted in *Singapore Straits Times* 20 Aug 1996)

There was also evidence that the Singapore transnational entrepreneurial state utilized ‘co-investment’ as another economic mechanism. One company—the largest Singaporean investor in the Suzhou Industrial Park in terms of its committed investments—signed a ‘co-investment’ pact with the Singapore Economic Development Board. According to the respondent from this company, the SEDB’s Investment Department ‘bought’ shares worth nearly US\$5 million in newly created plant in Suzhou.

‘Of course, as a shareholder in this company, they [the SEDB] had a say in where this plant should be located. But it was not as if they insisted we come here; we had already envisioned to come to a Singapore-run park, so it was down to Wuxi or here. And in the end, we—not them [the SEDB]—chose to locate here.’ (SG 3)

In addition to security and incentives, ‘familiarity’ was cited by nearly all the respondents from Singaporean companies. It emerged that the familiarity was not psycho-social but very functional and economic in nature. Psycho-social familiarity, in the form of a shared kinship or allegiance—to a nation, club, ethnic group and so on—acts as conduits for collaboration (see Schneider and Maxfield 1997: 14). Yet, what emerged from the interviews were the economic benefits of familiarity.

‘We have chosen this park because we are familiar dealing with Singaporean officials, Jurong Town Corp people, and most importantly, Singapore-style system. This saves us a lot of time and headache. We did not have to learn new rules or systems. Even the forms we fill up look like those at home. When we deal with (Chinese) officials, we felt that they were almost like Singaporeans (in terms of efficiency).’ (SG 4)

‘The Singapore system here was very important to us. This was our first venture in China, and we needed to be up and running quickly, so we didn’t have the time to learn about how to get things done the Chinese way. Even if the other zones might claim to be international standard, going there would still have given us another worry about whether it was true or not. Here, we felt we were working with old friends, like the Singaporean officials at the CSSD or those at the EDB.’ (SG 9)

Based on these responses, it was clear that the Singapore transnational entrepreneurial state was overtly utilizing embedding strategies on the Singaporean enterprises to get them to locate at the Suzhou Industrial Park. Thus, the evidence suggested that the utilization of the collaborative strategy on Singaporean enterprises—at least those covered by the research—was effective. However, at the same time, these companies willingly allowed themselves to be ‘steered’ towards the Suzhou Industrial Park, mainly because of the high degree of complementarity and potential economic benefits. The potential drawback of being embedded in this case was the lack of company

autonomy. For example, private enterprises ought to have the autonomy to choose their investment locations. However, for this issue, it emerged from the data that these companies almost never considered alternative locations.

Another interesting aspect emerging from the data was the question of 'nationalism.' In this sense, there was almost total agreement among the respondents that their operations in China had business-oriented rather than nationalistic underpinnings.

'We didn't come here to support the government, carry the Singapore flag, or whatever. We came here because we think we can make money.' (SG 2)

'In 1996, if you were in manufacturing and you didn't come to China, you'd be missing out on a tremendous business opportunity. I would still say that despite the Crisis and all the other problems [disengagement], we've done rather well here.' (SG 11)

'We are not a very big company, so when we felt that manufacturing in Singapore was not viable, we wanted to move out. The question was to where? We had such a wide choice: Indonesia or Malaysia, which was closer, or Vietnam, which was cheaper. But in the end, the basic fundamentals directed us here to China.' (SG 3)

One respondent even cited his company's closure of certain operations in Singapore in order to come to Suzhou, in the process laying off nearly 100 employees. He argued that he had to think of his company's survival first, even before thinking about Singapore's economy. He was quick to add that Singapore's economy would not sink or swim on the account of his company's plans.

Even from this small sub-sample of Singaporean companies, it might be concluded that the Singapore transnational entrepreneurial state's embedding mechanisms had significantly influenced the Singaporean companies' choice to locate at the Suzhou Industrial Park. It was more difficult to prove that they were 'directed' or 'ordered' to come to the Park. Several Singaporean companies were interested in China but lacked certain attributes that would have encouraged them to venture by themselves. By collaborating with the Singapore transnational entrepreneurial state, these companies

strategically took advantage of the created conditions. As such, it would be inaccurate to say that these companies were manipulated by the Singapore transnational entrepreneurial state; a better description would be to suggest that these companies consented to be directed because of the potential benefits. The Singaporean companies got their financial incentives and security blanket while Singapore transnational entrepreneurial state benefited from having companies acquire units in Suzhou. Thus, these Singaporean companies chose to 'collaborate' on the basis of complementarity and mutual benefit.

9.2 AFTER DISENGAGEMENT

Given the Singaporean enterprises' relatively high degree of embeddedness onto the Singapore government, what were their responses to the latter's impending disengagement? Research on the industrial transnational corporations included in the sample indicated that although many were disappointed with the Singapore government's decision, nearly all of them stressed that they would continue their operations nonetheless. This indicated that industrial transnational corporations could accept the embedding strategies of the Singapore government without necessarily becoming deeply embedded. However, the Singaporean enterprises were different from archetypal industrial transnational corporations particularly in their resources owned and business strategies. Compared to the transnational corporations included in the research, only 4 of the 10 Singaporean companies included in the sample had other foreign operations. In other words, there were six Singaporean enterprises that only had production plants in Suzhou and Singapore. One reason for this lack of 'global' spread could be explained by the resources of the Singaporean enterprises, many of whom described themselves as being 'small and medium sized' companies. 9 of the 10 companies included in the research employed fewer than 50 employees in Suzhou. Furthermore, there was not much difference between private and state-owned or government-linked Singaporean enterprises in this sub-sample, in terms of investment commitments, scale of operations and persons employed.

In terms of business strategy, another indication that these Singaporean companies were not 'archetypal' transnational corporations was their relative dependence on the Singapore government. Based on the data gathered in Suzhou from Singaporean companies, several of the Singaporean companies used the terms 'over-dependent' and 'under-prepared.'

'It was only after the announcement of the Singapore withdrawal that it hit us: we were under prepared for going overseas. We are a small operation, and we could have remained in Singapore; but when this park was open, and with the cost of labour being only a fraction, we had to come. When we came, we were well taken care of, by the Singaporeans here. We've been operating mostly as if this was Singapore, but at a cheaper cost structure. Now, we will have to find our own way, as the Singapore government is not going to be here for much longer.' (SG 9)

'Our company might have been over dependent on the Singapore government. We trusted them too much, especially in assuming that they would be here for the long term. Still, we cannot complain about the situation, we are doing quite well, and perhaps we are ready to go solo.' (SG 2)

When asked how their (Singaporean) companies would react to the Singapore government's withdrawal from the Suzhou Industrial Park, 9 out of the 10 respondents sounded 'worried.'

'For nearly two years, we operated here as if this place [the Suzhou Industrial Park] had a Singapore postal code. There are Singaporeans all over the place, the place is more or less run by Singaporeans...there even is a silly tree-planting day or cleanliness campaign just like back home. And you know there's that Singaporean food court near Singa Plaza? Even the operators [employees] are becoming so Singaporean...talking about their provident fund and buying their own flats when they get married. And in fact, I am supplying our sister company back home with products. I mean, for all intents and purposes, I could close my eyes and imagine I had to send a shipment from Jurong [in the west of Singapore] to Kallang [in the east]. I suspect with the Singapore government now gone, its not quite going to be the same.' (SG 4)

'Actually, I won't say that we will miss the Singapore government but we are concerned about future business conditions. You see, we [Singaporean companies] are all small and medium size companies, which mean we are very susceptible to market volatility. If this park was Singapore-run, in tough times, we could perhaps negotiate with

the Singaporean officials for breaks or postponements and so on. Without them, well, we just don't know how the Chinese would do things. Maybe it will be the same, maybe not. It's just that we don't feel so comfortable without the Singapore umbrella.' (SG 1)

'I think there is a general concern among many Singaporean managers. But I think this is because we got complacent. I fully admit that we always thought the Singapore government would be here long term. We never worked hard at learning the Chinese way of doing things, or to get to know the Chinese better. If we had gone to Shenzhen or Shanghai, we would have had to. So over here, we've been spoon fed, and pushed around in the pram. Now we're suddenly told we're on our own. Whose fault is it that we have not grown up? Our own, and I freely admit that I am guilty of this complacency. The only good thing is that it is not too late to learn. I hope.' (SG 3)

'Our company's biggest concern about the future is that without the Singapore government around, the Chinese might make sudden decision shifts. They are famous for that, and it happens all the time elsewhere in China. We haven't faced that here, and I believe this is because of the Singapore system established by the government. However, with them gone, nobody is going to stop the Chinese from doing as they please. Now if we were big MNCs, we can probably absorb it, do some creative accounting and sweep it under the carpet. But not us, we're a small company and any small change for the worse would affect us quite seriously.' (SG 8)

While there might have been some pessimism in the tone of these responses, every informant clearly attempted to put on a brave face. None of them said that their companies had contemplated withdrawing, scaling down or even postponing expansion plans. All of them said their companies were going to give the Suzhou Industrial Park 'a go.' Just like managers of transnational corporations, managers of Singaporean enterprises displayed some 'corporate pride,' which can be described as a form of outward display in order to demonstrate his or her own managerial capability to overcome obstacles.

One exception was a Singaporean company that could be described as being more 'globally connected.' Although originated from and still legally domiciled in Singapore, it had several units in other countries. The response from this manager suggested that the company was evolving more into an archetypal transnational corporation. To him, wherever they establish

operations or when it is time to think about relocating, the company thinks in terms economics, geography, politics and society, in that order of importance. Their focus was singularly on profits. Governments, according to this respondent, were a secondary consideration that affected the first four factors, and was not a main factor by itself.

‘Our business is to supply them [transnational corporation across the road] with the circuit boards. We did it for them in Singapore, when they told us they wanted to come here, we decided to trail them. So we are here not because the Singapore government is here, but because they [other companies] are here. Yes we have benefited from the Singapore government’s presence, but we are pretty independent. If they [big brother] had chosen to go to Inner Mongolia, we probably would have followed, with or without the Singapore government.’ (SG 1)

The concern among the Singaporean companies—especially those that were small and medium sized—regarding the disengagement of the Singapore government could be generally explained by their lack of experience in the global sphere. Their over-embeddedness—translated into over-reliance—to the state, coupled with their small scope of business activities and firm size did not induce them to ‘learn’ how to effectively function in the global game of industrial production. For the single Singaporean enterprise that had greater experience in the global game, it was much more confident without the Singapore government.

Thus, the evidence from Singaporean enterprises—regardless of whether they were private or state-linked—that were located at the Suzhou Industrial Park indicated that they were effectively embedded onto the Singapore transnational entrepreneurial state. The embeddedness had brought mutual benefits for both sides. Singapore enterprises had benefited from the ‘secure’ environment created by the Singapore transnational entrepreneurial state, relieving them of learning and other adaptive costs. Furthermore, the Singaporean companies’ high degree of familiarity with the Suzhou Industrial Park’s Singaporean system greatly reduced their transaction costs. However, the embeddedness led several Singaporean companies to become—in their

own words—complacent and over-reliant on the Singapore transnational entrepreneurial state.

9.3 THE WUXI INDUSTRIAL PARK

The Singapore transnational entrepreneurial state developed not one but two industrial parks in China. While the Suzhou Industrial Park was its ‘flagship’ project, the other project—the Wuxi Industrial Park—resembled the other seven ‘regular’ regional industrial parks, in that its development and management were designated to a Singaporean government-linked corporation. However, as a direct contrast to the Suzhou project, the Wuxi Industrial Park project offers a comparison of the utilization of the competitive and collaborative strategies.

‘Suzhou [industrial park] is very much a Beijing-Singapore [government] affair so the cooperation between Singapore and the municipality has not been as smooth as in Wuxi, which is a project between Singapore Technologies and the municipality.’ (Goh Toh Sim, General Manager of CSSD, quoted in *Asiaweek*, 21 June 1996)

Being only 60 kilometres west of Suzhou, this research took the opportunity to study the Wuxi Industrial Park⁷. This park was initially planned to be one square kilometre (approximately 10 hectares) in size (*Singapore Business Times* 10 May 1995), which meant that it was even smaller than Suzhou Industrial Park’s Phase One (eight square kilometres). Another difference is that the Wuxi Industrial Park is located within the Wuxi Municipal Authority’s ‘New Zone,’ a large plot of land just outside central Wuxi city⁸. Between 1995 and 1999, the Wuxi Municipal Authority has been developing the Wuxi National High Tech Development Zone, while Singapore Technologies and later Sembawang Corporation oversaw the development of the Wuxi Industrial Park. The only thing separating the two estates is the Shanghai-Nanjing highway.

During its ground-breaking ceremony in October 1995, the Wuxi Industrial Park announced that it had 25 companies signed up, committing US\$320 million (*Singapore Straits Times* 9 Oct 1995). In 1998, there were 48

investors including transnational corporations such as Siemens Components, Seagate, Sumitomo Electric, Matsushita Refrigeration, Hitachi and Maxell, committing US\$585 million (*Singapore Investment News* 1 Jan 1998: 12) The 'nationality' of the investors were reported as follows: Japan 37 percent, Asia (including Singapore) 31 percent, Europe 17 percent and America 15 percent (*ibid.*)

The Wuxi project's collaborative strategy differed significantly from its twin in Suzhou. The Wuxi Industrial Park was developed by a company that was a joint venture between Singapore Technologies and the Jurong Town Corporation International—both Singaporean government-linked corporations—and the Wuxi New Zone Development Company, an agency linked to the Wuxi Municipal Authorities. Unlike the project in Suzhou, this company did not have high level government-to-government support. Thus, the focus of the collaborative strategy was at the local rather than at the national level. This was also reflected in the relatively 'local' composition of the Wuxi project's board of directors, which was made up of representatives from the main shareholders only, and not from the national governments⁹. In 1997, Singapore Technologies sold its shares to Sembawang Corporation, another Singaporean government-linked corporation. Secondly, the collaborative strategy did not involve any 'formal' transfer of software. Instead, any technological or managerial expertise transfer was carried out informally. In this sense, the officials of the Wuxi project indicated that the transfer was two-way, as they claimed that the Singaporean agency was as willing to learn Chinese practices, as they were keen on Singaporean systems. Finally, the collaborative strategy was singularly focused on commercial interests. Unlike the Suzhou project, there was no agenda to experiment with social welfare reforms, or labour management issues. The Singaporean partner's inputs included the development of infrastructure, and the marketing of property units. The local partner's inputs were its administrative and logistical support. Yet, despite these commercial interests, the pressure to

realize profits, especially in the short-term did not appear to be as intense as it was in the Suzhou project.

Compared to the Suzhou Industrial Park, the Wuxi project had much less media coverage. This made secondary data gathering relatively more difficult. However, the research asked every correspondent to compare the two Singaporean industrial parks in China, and the emergent information was very interesting. The overwhelming view was that the Wuxi Industrial Park was ‘...doing better.’ (See Table 9.2)

TABLE 9.2: RESPONDENTS’ VIEW OF THE WUXI INDUSTRIAL PARK (N=103)

Proposition	Agree (%)	Don’t Know (%)	Disagree (%)
The Wuxi Industrial Park is doing better than the SIP	95	5	0
The Wuxi Industrial Park is a better location than the SIP	25	25	50

Source: Interview Data

‘Doing better’ was explained by respondents in two ways: firstly, they identified that the Wuxi Industrial Park did not appear to be losing money, and secondly, it did not have poor local-foreign relationships (as the Suzhou Industrial Park apparently did). It was significant that nearly all the respondents based in Suzhou were aware that the collaborative relationships in Wuxi were much better than those in their own park. However, when asked if the Wuxi Park was a ‘better location,’ most respondents stressed that the Suzhou Industrial Park’s infrastructure and administration was probably the best in all of China.

‘I’ve been in China for over three years. I have been in occasional contact with some managers based at Wuxi. They tell me they are very pleased with the Wuxi Park. They saw that being over there, they are big fish in a small pool. If they were here, they’d be small fish in a big pool.’ (AS 2)

‘I actually was born in Wuxi, so I was very pleased to see the Park there do well. My family still live there, and they are surprised to hear that the mood over here [Suzhou] is very tense, whereas the mood over there—between the Singaporeans and the Chinese—is actually very good.’ (NA 5)

‘The reason why the Wuxi Industrial Park is doing well is because it is away from the spotlight. Left alone by the foreign media, Chinese officials, Singaporean officials, and you students too. They just get on with the business of doing business. Over here, there’s always something going on.’ (EU 3)

‘I surveyed the Wuxi Industrial Park. I think the tax policies and everything else were more or less the same [as the Suzhou Industrial Park]. Then we figured that the quality of the infrastructure was also about the same. But they did not have any software transfer, and we were a little concerned, at that time about the local authority. However, we did like the atmosphere over there, less competitive. I mean, I remember meeting with the Singapore developers and the Chinese developers at the same time. They welcomed us together, and discussed with us what we wanted out of the industrial property. At one stage, the Chinese developer said that perhaps the Singaporean option would suit us more. I couldn’t believe my ears!’ (NA 7)

This research interviewed two officials of the Wuxi Industrial Park. They—both China nationals employed by Sembawang Corporation—explained that the Wuxi Industrial Park was considered to be a ‘specialist’ estate within the Wuxi New Zone. Both respondents said that they worked very closely with their Wuxi counterparts on issues such as marketing and administration.

‘When we meet prospective clients, I will not hesitate to refer them to the High Tech New Zone if it would suit them more. We have done referrals in the past, and they have referred some to us. We win some, lose some. Sometimes, we refer clients to go to Suzhou too. We have our reputation to think about. We don’t want an unhappy client here.’ (WX 1)

‘We have regular quarterly meetings to iron out any administrative issues. My department is assigned to deal with tax issues, so sometimes we meet with colleagues from all the Wuxi zones to discuss solutions.’ (WX 2)

‘I think the reasons why our relations here are good, as compared to over there [Suzhou], is that our expectations are low, our goals and objectives are modest. Over there, there is this do or die mentality. Over here, we have a long term development programme, where we expand slowly and at a pace where we can cope, the estate can cope and the city can cope.’ (WX 1)

Therefore, as suggested earlier, the imperative for profitability at the Wuxi Industrial Park was not as high as compared to the Suzhou Industrial Park.

From one estimate, Singapore Technologies had only invested around US\$5 million into the Wuxi Industrial Park, as opposed to figures almost ten times higher in Suzhou. Furthermore, the main partner in the venture had developed effective social relationships, which might have defused any competitive tensions. Even Lee Kuan Yew could not help but be impressed with the degree of embeddedness in Wuxi.

‘I wish Wuxi was placed in Suzhou and Suzhou was in Wuxi.’ (Lee Kuan Yew, quoted in *Singapore Business Times* 5 Dec 1997)

SUZHOU’S ASSESSMENT OF WUXI?

It was also interesting to hear how the organizations in the Suzhou Industrial Park viewed the Wuxi Industrial Park. What was clear was that the Wuxi Industrial Park often took the role of being a minor player in the global game of industrial production; however, with the Suzhou Industrial Park’s eroding competitiveness, was it possible that Wuxi was viewed as an antagonistic competitor as well, particularly as it could boast of offering ‘Singapore-styled’ infrastructure and management?

‘We don’t consider Wuxi a threat. We can’t go around regarding everybody as a threat. We have to focus on our core competence and maximize our offensive strategies, and not constantly worry about defensive strategies. Furthermore, even at the upper levels, Wuxi is not considered a loose cannon; it plays within the rules of the game, just like the vast majority of industrial estates in China and all over the world. So we don’t consider it a problem at all.’ (SO 1)

‘I think they have a good relationship with the Chinese because it is virtually a Chinese dominated joint venture. The Singapore side is a sleeping partner. Well, it might have financed most of the project, but now it is not really calling the shots. It is sitting back and waiting for the project to bring in the money. Good luck to them.’ (SO 2)

‘I think we can learn something from Wuxi. I think we can learn how to get along with the local authorities without conflicts. I think that is going to be very important for us in the future.’ (CO 1)

‘For all the good spirit in Wuxi, they face tremendous difficulties. They can’t seem to get enough investments; the growth there is very slow. They are very fortunate that one or two big Japanese companies liked Wuxi, and along came a whole bunch of little

brothers to tag along. I am unsure about the long term viability of the Wuxi Industrial Park. To an outside onlooker, they do not have any unique characteristics, nothing special.’ (SO 3)

‘I don’t think we could have adopted the Wuxi model [relationship with municipal authority]. To be absolutely frank, that would have meant cutting the pie for more people to share. That means less for us, which would have almost certainly have meant that we would not have even embarked upon the project as we know it [high government intervention]. We were quite sure, in the beginning, that our model would have brought in greater profits than the Wuxi model. But we were proven wrong in some respects. So, in hindsight...which model was better? Both have some advantages and disadvantages.’ (SO 1)

The ambivalence that these officials of the Suzhou Industrial Park towards the Wuxi Industrial Park is perhaps understandable. The Wuxi Industrial Park project appeared to have been more effective in finding a system of co-existence between the Singaporean and Chinese collaborators. Thus, from the surface, their relationship had weathered hard times, including the Asian Financial Crisis. It could be argued that because the Singapore-local collaborative relationship in Wuxi was positive, the prospect for Wuxi’s long-term viability was enhanced. In comparison, the top-down government-to-government approach favoured at the Suzhou Industrial Park has actually threatened the long-term viability mainly because of the ineffective embeddedness at the local level¹⁰. So was the relative success of the Wuxi project implicitly a criticism of the Suzhou project? This was difficult to ascertain. From an entrepreneurial perspective, the Wuxi project could not match the economic growth of the Suzhou project, especially between 1994 and 1997. Yet, over the long term, the Wuxi project appeared to have greater stability and prospects. Therefore, in many ways, the Suzhou project might represent the proverbial ‘hare’ that sprinted ahead, but might be eventually caught by the Wuxi ‘tortoise’ that was developing slowly but surely.

9.4 THE OTHER REGIONAL INDUSTRIAL PARKS

Finally, a cursory survey of the other Singapore government-developed industrial parks was useful, because they act as a comparative foil for the

Suzhou Industrial Park case, and would contribute to providing a wider picture of the transnational entrepreneurial state. All the information on the other regional industrial parks was gathered from secondary sources, and thus any conclusions drawn remain speculative. Although the Suzhou Industrial Park was the Singapore transnational entrepreneurial state's most ambitious project of the 'regionalization programme,' it was but one of eight Singapore government-developed industrial estates in the Asia Pacific region. As discussed in chapter four, regionalization—to the elite—was a means of re-stimulating Singapore's economy in the 1990s, where the development strategies were transnationally rather than nationally oriented. The regionalization programme also had an overtly entrepreneurial agenda; it was designed to take advantage of new economic opportunities in the region for the purposes of creating profits. Within the programme, the Singapore entrepreneurial elite—particularly Senior Minister Lee Kuan Yew and the Chairman of the Singapore Economic Development Board Philip Yeo—was especially keen on the 'regional industrial parks' projects in Indonesia, China, Thailand, Vietnam and India. At all of these projects, the Singapore transnational entrepreneurial state utilized the competitive and collaborative strategies.

Evaluated as an entrepreneurial activity, by the end of 1999, the regionalization programme could be best described as being only partially effective. The aspects that appeared to be most effective included the accurate identification of the economic niche in the market, and the initial strategies to capture this niche. Firstly, the clearest indicator that the Singapore transnational entrepreneurial state had designed a highly competitive 'product' was from the high demand for industrial property by industrial transnational corporations, at least between 1992 and 1997. This was the case in the Suzhou project, and others studies on a few Singaporean industrial parks in the region have also found this to be true (see Perry, Kong and Yeoh 1997, Grundy-Warr, Peachy and Perry 1999, and Perry and Yeoh 2000). In Batam, where there were eight industrial estates designated for export processing, only the

Singapore-developed Batamindo Industrial Park reported near capacity tenancy, while the other seven—managed by Indonesian agencies—remained largely vacant (Grundy-Warr, Peachy and Perry 1999: 316). The Vietnam-Singapore Industrial Park, 35 kilometres outside Ho Chi Minh city, reported 16 companies signing up for industrial space before the park was operational (*Singapore Straits Times* 24 May 1997). While tenancy was negatively affected by the onset of the Asian Financial Crisis after 1997, in late 1999, Singapore's regional industrial parks saw a renewed interest in industrial units after a 'lull'¹¹. Secondly, most investors appeared to be very satisfied with their operations within these industrial parks, especially in terms of actualizing costs savings (see Kumar and Lee 1991, and Perry and Yeoh 2000).

However, even though these industrial parks were competitive, their profitability was less clear. There are some reasons offered: firstly, investments in infrastructural projects usually do not yield short-term profits. Secondly, even if the period of five to ten years is considered 'medium-term,' the economic performance of these parks was affected by the Asian Financial Crisis, which could not be forecast. For example, the launch of the Thai-Singapore Industrial Park in Rayong (Thailand), scheduled for 1997, was delayed for nearly two and a half years¹². This was because the developers—a Singaporean government-linked corporation—were extremely concerned about the impact of the Crisis on the wider Thai economy. There were even rumours that this particular project would be abandoned (see *Bangkok Post* 10 September 1998). In addition, other 'spillover effects' of the Asian Financial Crisis also unexpectedly affected the Singapore-developed parks. In 1999, during the height of the political turmoil in Indonesia caused by the Crisis, the Batam and Bintang Industrial Parks were affected by riots, work stoppages and other problems, including an ethnically driven conflict between the Batak and Flores Indonesians on the islands (see *Far Eastern Economic Review* 12 Aug 1999; *Singapore Straits Times* 2 Aug 1999). At one stage, the Singaporean government-linked corporations contemplated withdrawing from all their industrial parks operations in Indonesia for safety reasons (*Singapore Straits*

Times 2 August 1999). In these industrial parks, projections of profitability were completely revised.

Finally, the Singapore government was in some respects even more entrepreneurial in the other regional industrial parks than in the Suzhou project. This was because in the other projects, the state's only concern was generating profits that would eventually supplement the Singapore economy. However, at the Suzhou project, it attempted to transfer Singapore's 'operating system,' social welfare and labour management practices to Suzhou, perhaps as a political and social experiment for the benefit of the China government. Thus, when there were difficulties and problems in Suzhou, as reported in the previous chapter, economic and political agendas appeared in conflict.

From another angle, the Suzhou Industrial Park and the other Singapore-run industrial estates did create an outlet for Singaporean enterprises—both private and government-linked—to diversify their activities through the collaborative strategy. Although the regionalization of these enterprises also have not yet turned profitable—again mainly due to the impact of the Crisis—at least many have already established a foothold in the region and gained valuable experience. It could further be argued that if and when the region recovers, the Singapore government (as an entrepreneurial agent) and Singaporean enterprises would be in a promising position to take advantage once again. Thus, in 'interventionist' terms, the Singapore transnational entrepreneurial state evaluated the country's economic position within the global game of industrial production, and subsequently identified, devised and executed strategies to achieve national economic growth. This intervention was 'transnational' in nature, as the potential for national growth was not promising. Thus, from a sociological perspective, the Singapore entrepreneurial state transcended its national boundaries and intervened to act, interact and transact in the regional arena with other players in the global game of industrial production. This thesis is not meant to explain the wider regionalization programme; however, based on this study of the Suzhou Industrial Park project—as it was one of the most ambitious and important

projects within the larger programme—certain conclusions can be drawn. It is a truism to say that most actions could carry intended as well as unintended consequences; indeed ‘interventionist’ economic or industrial policies are no exceptions. The intended consequences of pursuing state-led transnational strategies has allowed the Singapore economy to benefit from the economic opportunities from the wider region which otherwise would not have been there. It could be hypothesized that had the state not devised the regional industrial parks project, the relocation by industrial transnational corporations of their lower value added operations to the emerging regions would have brought either no benefit to the Singapore economy or even weakened it. Instead, with state intervention, an attempt was made to (financially) benefit from such relocation. However, the old adage, ‘live by the sword, die by the sword,’ also holds true in this case when the exposure to the region (and by implication global dynamics) left the Singapore government’s strategies vulnerable to global downturns, as seen during the period of the Asian Financial Crisis¹³. Yet, to adopt another old adage, perhaps for the Singapore government, ‘...it was better to have loved and lost, than not to have loved at all.’ The key question is therefore whether the Singapore state has ‘entrepreneurially’ learnt from this experience as it enters the new millennium.

‘The Suzhou Industrial Park was an expensive lesson for the Singapore government. The regionalization strategy will continue, but in a different form. The state’s presence will be less obvious. It will perform a more facilitative rather than directive role from now onwards.’ (SO 6)

9.5 CONCLUSION

In the previous chapters, the research has examined the dynamics of the inner circle of the Suzhou Industrial Parks project, explaining the actions, interactions and transactions of the key players such as the Singapore transnational entrepreneurial state, the China government, the industrial transnational corporations, and the local Suzhou authorities. This chapter has widened the focus to examine the outer circle, focusing on the Singaporean enterprises at the Suzhou Industrial Park, the processes ongoing at the Wuxi

Industrial Park, and the other Singapore government-developed regional industrial parks. The conclusions that could be drawn from these cases were in many ways very similar to the processes surrounding the Suzhou Industrial Park. These other cases had initially benefited from the Singapore government's interventionist strategies: Singaporean enterprises had taken advantage of the regionalization strategies; and the other regional industrial parks had initially captured the intended niche in the regional economy. However, when the external conditions turned unfavourable, these Singaporean enterprises and state-driven projects consequently were negatively affected. Therefore it could be argued that the outer social circle of the Suzhou Industrial Park mirrored processes within the inner circle.

¹ This research's sample included 10 of these 18 Singaporean enterprises (see Chapter Six, Table 6.1).

² The Second Industrial Revolution (1980 onwards) was an economic policy that encouraged private enterprises to upgrade their operations towards higher value-added activities. However, instead of upgrading, the majority of the enterprises in Singapore—which were industrial transnational corporations—opted to relocate manufacturing to the emerging regions (see Chapter Four).

³ See Yeung (1998) for details on how the Singapore government had fostered a few state-owned enterprises and government-linked corporations in a developmentalist mode. However, in Singapore's wider context, with the state's heavy reliance on industrial TNCs, the effects were relatively minimal (see Lim *et al.* 1988).

⁴ See Okposin (1999), Yeung (1998), and Yeoh and Willis (1998) for some data on Singaporean companies in China.

⁵ Information gathered from interviews with officials of the SIP and WSIP.

⁶ Three companies were reported to have taken state subsidies to establish additional plants in other parts of China.

⁷ During the course of the fieldwork in China, the Wuxi Industrial Park was visited several times, with interviews with park officials conducted in August 1999 (see Appendix One).

⁸ The Wuxi Municipal Authority oversees eight development zones, all of which allow the issue of foreign business licenses.

⁹ Unless attributed, the information presented here was gathered from a research trip to the Wuxi Industrial Park, where two officials were interviewed (23 Aug 1999).

¹⁰ The alternative argument is that without the top-down government-to-government relationship, the economic forecasts of the Suzhou Industrial Park would have been too low, and the project would not have been viable in the first place. In any case, these issues are tangential to the main argument, as this research is not solely focusing on the economic performance of the estates.

¹¹ *Channel News Asia* reported that 'Singapore JTC's Industrial Parks in Asia see improving occupancy rates,' 7 Oct 1999.

¹² Construction for the Thai-Singapore 21 Industrial Estate was originally planned for 1996; however, it only began building in September 1998 (*Bangkok Post* 10 September 1998), and the first tenants began operations in 1999 (*Bangkok Post* 9 May 1999).

¹³ A strong argument could also be made to show that even if the regionalization programme did not exist, Singapore's economy would have still suffered from the Crisis.

CHAPTER TEN

THE SOCIOLOGY OF THE TRANSNATIONAL ENTREPRENEURIAL STATE

This study has examined one government's utilization of interventionist development strategies to deal with rapid economic globalization at the beginning of the 1990s. The Singapore government embarked upon the Suzhou Industrial Park project—which was the largest, most ambitious and politically significant project within its regionalization programme—in order to generate financial profits that could supplement Singapore's national economy. This chapter will reiterate that this project was an exemplary case of a transnational entrepreneurial state participating in the global game of industrial production. It will conclude by situating this case within the existing theories of interventionist development strategies.

10.1 EVALUATING THE SUZHOU INDUSTRIAL PARK

Inevitably, the question: 'Was the Suzhou Industrial Park project a failure?' will be asked. The answer, as always, depends on who is asking this question, and what interest he or she has in the project. This research did not have the intention of analyzing the Suzhou Industrial Park from a business or management perspective, or even a prescriptive policy-oriented perspective; its objective was never that of identifying the strengths and weaknesses of the project for purposes of generating recommendations that would improve future projects. Instead, this research has a sociological objective: to explain the relationships between key actors interacting and transacting within a particular economic, political and social environment over a specific time period. In this case, the study sought to develop the concept of the transnational entrepreneurial state participating in the global game of industrial production. More specifically, this study sought to explain the actions, interactions and transactions of the Singapore government within the Suzhou Industrial Park project between 1992 and 1999.

The Suzhou Industrial Park project was the ‘flagship’ project within the Singapore government’s broader ‘regional industrial parks’ project, which was designed to develop highly profitable industrial estates in the neighbouring countries. In this project, the Singapore government utilized interventionist development strategies, especially with the use of competitive and collaborative strategies. In the competitive strategies, the objective was to intervene in the ‘market,’ supplying high quality secondary factors of production—particularly industrial infrastructure and bureaucratic administration—which were deficient in China at the time. In the collaborative strategies, collaboration with key players such as the China government, industrial transnational corporations and Singaporean enterprises was encouraged as a purposive strategy to further enhance the competitiveness of the project. The competitive strategies were initially very effective. The infrastructural and institutional attributes, as well as its prime geographic location, gave the project a significant competitive advantage over other industrial estates in China. This demonstrated that the Singapore government had accurately ‘read’ the market, and intervened successfully to capture a niche. Furthermore, the project’s overall competitiveness was further improved by the collaborative strategy, which maximized the inputs of other players, such as the China government, transnational corporations and Singaporean enterprises. These players were motivated to collaborate because of the effectiveness of the Singapore government’s embedding mechanisms and because collaboration was mutually beneficial. The embedding mechanisms achieved complementarity, effective governance, and confidence and trust among collaborators. Industrial transnational corporations benefited from the collaboration, as they could enjoy the Suzhou Industrial Park’s high quality industrial infrastructure and administrative system, which was closely modelled on the system in Singapore. The China government also benefited from the collaboration as the project had given it an opportunity to experiment with an ‘alternative’ model of economic development and industrialization. This included the successful implementation of the Provident Fund scheme for employees in Suzhou, as well as successful training of SIPAC as efficient

administrators. Also, to the central China government in Beijing, the objectives of employment creation, technology and management transfer, and foreign currency generation were met, at least between 1992 and 1997. To the Singapore entrepreneurial elite, this transfer validated their view that effective implementation of large-scale projects required the full government-to-government support. This support was both necessary to get the project off the ground, as well as served as a means of further attracting potential investors.

However, the Suzhou Industrial Park's competitive strengths were ironically its weaknesses. By focusing the collaborative strategies on the top-level government-to-government relationships, the Singapore government had marginalized key local players. Without the input or support of the local Suzhou Municipal Authority, the Singapore government soon found that day-to-day operational problems were suddenly magnified, especially after 1997. Part of the reason was that the leaders of the Singapore government did not fully understand the nature of politics and business in China. It assumed, incorrectly, that local governments would be fully aligned with national concerns. Also, the Singapore government assumed that the solution to solve local problems was through the national government. As the Singapore government eventually discovered, the regional-central relationships in post-1990 China were much more complex. In addition, the Singapore government was unable to maintain the project's competitive edge over time. This was both because of the increasing competitiveness of other estates as well as the impact of the Asian Financial Crisis. For example, the Suzhou Municipal Authority had quickly observed and adopted the Singapore government's competitive strategy, eventually utilizing it for their Suzhou New District. With the onset of the Asian Financial Crisis in 1997, the transnational corporations' demand for industrial property in China diminished. This placed the two Suzhou industrial estates in direct competition with each other. As the Suzhou Industrial Park could not compete on the basis of price because of the fixed investments in infrastructure, it was at a disadvantage when trying to

attract expansionist industrial transnational corporations that were seeking to relocate lower value added operations to low cost areas such as China.

Therefore, the ‘mixed fortunes’ of the Suzhou Industrial Park project was not just the result of the Singapore government’s strategies. Equally responsible were the resources, motivations and strategies of the other participating collaborators and competitors, as well as the influence of the external environment, particularly the impact of the Asian Financial Crisis. There was a possibility that the Singapore government and the Suzhou Municipal Authority could have collaborated rather than competed for clients. Although it may not be an appropriate comparison, the case of the collaboration between the Singaporean developer—which was a Singaporean government linked corporation—and the local Wuxi Municipal Authority at the Wuxi Industrial Park, demonstrated that this was at least a possibility. However, the Singapore governments’ top-level government-to-government strategy effectively eliminated this option; indeed, it demonstrated a distinct unwillingness to compromise on this issue. The reason could have been economic in nature, as it did not want to share the spoils of the profits with yet another partner. By mid 1999, the Singapore government had re-assessed its position in Suzhou, and subsequently chose to disengage. This was seen as one measure to reclaim some of the financial losses, and also a means of exempting itself from any future financial liabilities that might occur.

The resources, motivations and strategies of the China partner—in this case referring to the political elite of the central government in Beijing—also contributed to how events turned out between 1992 and 1997. From Beijing’s viewpoint, its collaboration in the Suzhou Industrial Park has been fruitful. Its input in the venture has not carried serious or negative costs; indeed, its ‘investments’—which involved politically and ‘morally’ supporting the Singapore transnational entrepreneurial state’s strategies—achieved most of its developmental objectives, which was to create employment opportunities, achieve technology and managerial transfer, and generate income from taxation. Also, it could be argued that Beijing’s secondary objective of

experimenting with an alternative path of ‘capitalism,’ as witnessed from SIPAC demonstrating that it could be both efficient and effective and the apparent successful transplanting of various social welfare schemes such as the Provident Fund and the internal migration policy¹. However, as suggested earlier, Beijing was not in a position to intervene any further in Suzhou, mainly because of the changed political dynamics in post-1990 China. Local, regional and provincial authorities had grown more autonomous from Beijing, and the new political and economic relationship was much more finely balanced than in the past.

The strategies of the industrial transnational corporations were also important to the outcome of the project. Although as capitalist enterprises their prime motivation was profitability, the means of achieving this was less homogeneous. As this research has shown, certain industrial transnational corporations that came to the Suzhou Industrial Park were more ‘dependent’ on secondary factors of production; for instance enterprises involved in semiconductor, pharmaceutical and chemical processing required high quality industrial infrastructure and utilities. On the other hand other industrial transnational corporations chose Suzhou to take advantage of low primary factors of production, particularly labour costs. Also, there were other companies that saw the Suzhou Industrial Park as being able to supply both factors of production competitively. The differences in motivations of these industrial transnational corporations were initially not an issue to the Singapore transnational entrepreneurial state. All that mattered was that there was a regular stream of prospective tenants. However, with fewer customers during difficult times (such as during the Asian Financial Crisis), the structure of the global game of production shifted drastically. With the Crisis reducing global consumer demand, industrial transnational corporations had to reduce capacity and output. Thus, expansionist plans were either abandoned or postponed. This led to a reduction in the demand for ‘new’ industrial units such as those on offer in the Suzhou Industrial Park. Furthermore, with many new competitors also seeking to attract foreign investors, there was a large

oversupply of industrial properties in China. Finally, where there were new investors, the size and scale of their investments were also significantly smaller. Therefore, from the perspective of the suppliers, the game had turned into one of intense competition for a small handful of clients.

10.2 THE TRANSNATIONAL ENTREPRENEURIAL STATE

This study has shown that the transnational entrepreneurial state is a particular 'interventionist' state that closely resembled the archetypal 'developmental state' in its actions. The similarity arises from its utilization of collaborative and competitive strategies to minimize the negative effects of rapid economic globalization and to take advantage of new opportunities. Developmental states have proven that selective intervention within the economy, particularly through collaboration with key private indigenous enterprises (and the exclusion of other groups seeking to interfere), has provided the platform for improving national competitiveness and in turn led to positive economic growth (Johnson 1982, Evans 1995, and Woo-Cumings 1999). The transnational entrepreneurial state, however, differed from the model in that it was, firstly, primarily motivated to generate financial profits (entrepreneurship) from participating in the global game of industrial production. Secondly, its sphere of actions, interactions and transactions were outside of its own borders (transnational).

In this sense, the Singapore government's regionalization programme, of which the Suzhou Industrial Park project has been an exemplary case, demonstrates how and why a transnational entrepreneurial state's participated in the global game of industrial production. Although economic growth was an ultimate objective, its primary motivation was profit generation. Furthermore, any 'developmental' motivations were primarily focused on benefiting Singapore rather than Suzhou. This had serious implications in the course of the Suzhou Industrial Park project. Being singularly focused on generating profits, the Singapore transnational entrepreneurial state was saddled with fixed costs (the price it had paid for the property to the China government in 1994) and its own investment costs (the value added for developing

infrastructure) during the years of the Asian Financial Crisis. On the other hand, competing local Chinese authorities could afford to disregard income or revenue generation as long as ‘developmental effects’—which referred to employment creation, technology and managerial transfer—were taking place. Thus, local Chinese authorities could theoretically afford to give away land ‘cost free’ to foreign investors and wait for the worst of times to blow over. As such, the profit motive of the Singapore government becomes even more clear when it decided that institutional transfer to China—the so-called ‘software transfer’—was unprofitable from a financial viewpoint². This ultimately explained why the Singapore transnational entrepreneurial state chose to disengage and recoup some of its financial investments by selling 30 percent of its shareholding to the Chinese partner.

The Singapore government had demonstrated that as an entrepreneurial agent, it could (initially) effectively identify economic opportunities in the global game of industrial production, devise and execute strategies to exploit these opportunities. This applied not just to the Suzhou Industrial Park project but also to its other regional industrial parks within the regionalization programme. The niche in the Asia Pacific sector of the global game of industrial production was the supply of high quality industrial infrastructure and bureaucratic administration. However, in order for it to remain an effective entrepreneurial actor, it had to constantly maintain its competitive edge. Theoretically, this might be done through regularly monitoring the environment and being quick to adapt when circumstances change. In reality, the Singapore transnational entrepreneurial state—in its involvement in the Suzhou Industrial Park project—was unable to maintain the project’s competitive edge, especially when it was clear that competitors had caught up, and also when the external environment changed. Within the sociology of development, the state’s inability to adapt and change is not unique; even the classic developmental states have demonstrated that they might be able to ‘keep up’ with their own fostered enterprises in the changing global economy. In South Korea, the state-fostered *chaebols* had grown so large and resource-

rich in the 1980s that they no longer required the state's support in many spheres. Without taking the financial subsidies from the state, many *chaebols* therefore were not beholden to state directives any longer. This has led the South Korean government after the 1980s being described as 'devolving' from a 'comprehensive' developmental state to a 'limited' developmental state (see Kim 1997). The reasons why states could not adapt are manifold and often context specific; however, the commonalities indicate that the resources, motivations and strategies of the various agents and the influence of the external environment (or the global economy) matter significantly.

The Singapore government cannot be described as a failed transnational entrepreneurial state on the basis of its decision to disengage from the Suzhou Industrial Park project. Even though entrepreneurs are supposed to constantly maintain their competitive edge, in reality, this is rather difficult. Furthermore, having the foresight to change streams when a project was no longer viable was itself a sensible business decision. In other words, there was no sense in flogging a dead horse. The more pertinent question would be whether the entrepreneur had learnt from this experience, and whether this learning added to the stock of resources for future entrepreneurial ventures?

10.3 INTERVENTIONIST STATES IN THE GLOBAL ECONOMY

The transnational entrepreneurial state can be understood from within the theories of interventionist development strategies. Like other interventionist states, the transnational entrepreneurial state's strategies were designed to minimize the negative effects of rapid economic globalization and to take advantage of new opportunities. However, a transnational entrepreneurial state's strategies differed from the model because it was primarily profit oriented, and it acted, interacted and transacted transnationally rather than locally.

Within theories of interventionist development strategies, states or governments pro-actively intervene in their national economies in order to

enhance their competitiveness within the global economy. More specifically, the theory argues that governments will attempt to minimize the negative effects of rapid economic globalization while attempting to take advantage of new opportunities. In this light, the Singapore government's choice of interventionist strategies is not surprising. States or governments that are motivated to encourage or maintain economic growth will try to come up with the most realistically possible strategies given their existing resources. In the past, governments have focused their interventions on their domestic economies because they either feel that local intervention would be most economically effective, or they feel that do not have the necessary resources to transcend their national boundaries. Furthermore, the nature of the intervention also depended on the state's resources and the current structure of the domestic economy. Thus, from the theories of interventionist development strategies, developmental states opted for co-investment (collaboration) with domestic enterprises because this was the most efficient means to achieve global competitiveness (see Henderson 1997 and Woo-Cumings 1999). Alternatively, because of the political and economic resources they held, socialist states opted to nationalize and control all productive domestic enterprises as their development strategy (Block 1994). Some states, including the Singapore government before 1990 and the Irish government after 1960 (O'Hearn 1998), adopted development strategies based on the location of industrial transnational corporations within their borders because of their lack of economic resources and the lack of productive domestic enterprises. Between these many options, there is a wide range of 'hybrid' developmental strategies, which may include any combination of EOI, ISI or FDI strategies³. Such a variation can be explained by the fact that governments will choose particular development strategies because of their resources and motivations, which are designed to minimize the negative effects of the global economy as well as to take advantage of new opportunities.

However, when a particular government—in this case the Singapore transnational entrepreneurial state—actually identified that it had the necessary

resources, and there were imperatives within its own national economy it thus made the choice to become a transnational agent itself. In the case of the Suzhou project, the Singapore government demonstrated that it had the necessary economic, political and social resources. At the beginning of the 1990s, it had financial surpluses, which it was seeking to invest profitably. Politically, it had good diplomatic relations with the host governments of the countries where it planned to invest. Finally, it had social resources such as the expertise and credibility in the fields of industrial infrastructure development and bureaucratic administration, not just with transnational corporations but also with the host governments. At the very same time, the Singapore government viewed that domestic industrial expansion was limited and there was also a lack of domestic enterprises which it could 'send abroad⁴,' with the intention of remitting profits back to the national economy. Therefore, from a theoretical perspective, a transnationally-oriented state would emerge under specific historical and economic condition where a particular government identified that intervention in the national economy would not be effective, and/or forecasted that transnational intervention was more beneficial.

Furthermore, even if such a state had the necessary resources, the outcomes of its strategies did not just depend on its actions, interactions and transactions with other key players, but would also depend on the dynamics of the external environment. This raises the most interesting theoretical implication of the concept of the transnational entrepreneurial state participating in the global game of industrial production. A transnational entrepreneurial state may be initially successful with its competitive and collaborative strategies. Yet, the game is never static. Competitors have the ability to learn and adapt. And as seen from the Suzhou project, the competitors could be actors such as a rival local government, the Suzhou Municipal Authority. Furthermore, when the Asian Financial Crisis began in 1997, the number of players from the demand side in the global game of industrial production fell dramatically, as industrial transnational corporations were undertaking belt-tightening strategies. The Singapore government, as a

profit seeking entrepreneurial agent, did not have the patience to sit out the storm, nor was it confident it could compete under the conditions after 1997. Therefore, a holistic sociological analysis of the concept of the transnational entrepreneurial state participating in the global game of industrial production must factor in the participation of local, regional, provincial and national governments, in addition to industrial transnational corporations. From a theoretical perspective, how these players participate in the game is therefore dependent on their respective conditions, resources, motivations and strategies.

WHAT'S NEXT?

At the macro level, this study has focused on developing a theory that can explain governmental strategies under conditions of rapid economic globalization. At the micro level, this study examined the case of the Suzhou Industrial Park project between 1992 and 1999. The most obvious route for future research is to examine whether the China government-run Suzhou Industrial Park would be able to compete in the global game of industrial production effectively in the future. In addition, would the software transfer 'pay off'? In the sense that if and when the China government finally takes down all its barriers for transnational capital, would the Suzhou Industrial Park have unique competitive advantages to distinguish it from the rest of the country? Also future research could examine the outcome of the other institutions incorporated in the Suzhou Industrial Park, particularly as a unique economic, political and social experiment for the China government. Due to the time frame of this research, the full impact of the new social security system—with the Provident Fund Scheme—in Suzhou cannot be fully understood for at least 10 to 15 years. The most significant aspect of this Scheme is the financial empowering of individuals in Suzhou, especially in terms of being able to purchase their own private or semi-private housing. Would this two-tier system—where some employees have the Provident Fund and others across town do not—create class structures in Suzhou? Also, the Suzhou Industrial Park has institutionalized more 'liberal' migration schemes

for professionals. Would this in any way challenge the existing systems of 'local citizenship' in the region? Only time, and additional research, will tell.

Although this research cannot explain the dynamics of global capitalism, it has opened an insight into the global game of industrial production and more specifically shed light on how interventionist states might participate in it. The game is as dependent on each player's resources, motivations and strategies as it is dependent on the external environment. There has been a growing trend towards ever intensifying competition within the global game of industrial production that has been felt (and has been caused) by both sides. On the demand side, global capitalism has intensified the industrial transnational corporations' motivations to dominate markets, leading to ever greater transnationalization of activities. On the supply side, a greater number of governments—national, sub-national and local—have adopted FDI-oriented industrialization as an economic growth strategy. Will other governments eventually be 'pressured' as a result of endogenous and exogenous factors to evolve into transnational entrepreneurial states? Only the future will tell.

¹ See Chapter Six for details on these schemes, most of which were only launched after 1997. Unfortunately, because of the time frame for this research meant that an analysis of these schemes was not possible. However, initial responses from the SIP's officials indicated that the implementation of these schemes went smoothly, and forecasts for their prospects were generally positive.

² This would be a strong case to argue that the Suzhou Industrial Park project was clearly a profit oriented rather than 'aid-oriented' project.

³ Hybrid strategies include the dual use of developmental and FDI-led strategies, as seen in the Korean and Taiwanese economies, where the governments fostered (and protected) indigenous industrial enterprises, but at the same time, also created Export Processing Zones (EPZs) to tap into foreign capital (see Fields 1995 and Chen 1995).

⁴ It could be argued that the rest of the Singapore government's regional industrial parks project shared many similarities with other 'transnational' states such as the Japanese and US governments that encouraged domestic enterprises to venture abroad. This was because the other regional industrial parks were developed and managed by Singaporean state-owned enterprises or government-linked corporations that were financially supported by the Singapore government. This therefore made the Suzhou project, where the Singapore government itself was actively involved in developing and management, significantly different (see Chapter Nine).

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APPENDIX ONE

THE SAMPLE

SECTION ONE: SUB-SAMPLE OF CORPORATE TENANTS

Summary	No
Number of Companies from Europe	15
Number of Companies from Asia (excludes Singapore)	7
Number of Companies from Singapore	10
Number of Companies from North America	24
Total Number of Companies Covered in the Research	56
Total Number of Managerial Respondents Interviewed	64

1.1 LIST OF RESPONDENTS FROM COMPANIES LOCATED AT CSSIP

No	Code	Appt(1)	Nat (2)	Cn Exp (3)	Gender	Age
	eu1, BOC	GM	CN	Yes	M	35
	eu2, Dorma	GM	CN	Yes	M	35
	eu3, Glamox	GM	SG	Yes	M	30
	eu4, Glaxo	HR	CN	Yes	F	30
	eu5, Grundfos	GM	MY	No	M	35
	eu6, LJF	GM	FR	Yes	M	35
	eu7, L'Oreal	OM	CN	Yes	M	35
	eu8, Mahr	GM	HK	Yes	M	35
	eu9, MTU	AGM	CN	Yes	M	30
	eu10, Nokia	GM	FI	Yes	M	40
	eu11, Rexton	GM	SG	Yes	M	40
	eu12, Saurer	GM	CN	Yes	M	40
	eu13, Vesuvius	AGM	BE	Yes	M	40
	eu14, Volex	AGM	SG	Yes	M	35
	eu15, ZF	GM	SG	Yes	M	50
	as1, Je Je	GM	SG	Yes	M	35
	as2, Advantest	GM	JP	No	M	50
	as3, Daito	GM	JP	No	M	50
	as4, Eisai	GM	JP	No	M	35
	as5, Fujitsu	GM	JP	Yes	M	50
	as6, Fujitsu	AGM	CN	Yes	M	30
	as7, Mitutoyo	GM	JP	No	M	40
	as8, Pokka	GM	JP	Yes	M	40
	sg1, Amtek	OM	SG	Yes	M	30
	sg2, Clearpack	GM	IN	No	M	30
	sg3, Gul Tech	GM	SG	No	M	45
	sg4, Hong Guan	OM	SG	No	M	35
	sg5, Keppel	GM	SG	No	M	35
	sg6, Keppel	OM	SG	No	M	35

	sg7, Lion City	GM	SG	Yes	M	40
	sg8, Lion City	AGM	SG	Yes	M	45
	sg9, Microform	GM	SG	Yes	M	40
	sg10, NCS	HR	SG	No	F	25
	sg11, Sing Tech	GM	SG	No	M	35
	sg12, Xpress	GM	SG	No	M	35
	na1, 2-6	GM	SG	No	M	35
	na2, 2-6	AGM	SG	No	M	35
	na3, Allied Sig Cat	HR	CN	Yes	F	35
	na4, Allied Sig Lam	HR	CN	Yes	F	35
	na5, AMD	HR	SG	Yes	M	45
	na6, Andrew	GM	US	Yes	M	50
	na7, APC	GM	SG	Yes	M	45
	na8, Aptar	GM	FR	Yes	M	35
	na9, Baxter	HR	CN	Yes	F	35
	na10, Becton	AGM	MY	No	M	35
	na11, BlackDecker	GM	UK	Yes	M	50
	na12, BlackDecker	HR	CN	Yes	F	35
	na13, Com Dev	FM	CA	No	F	25
	na14, Com Dev	AGM	CA	No	M	30
	na15, Copeland	FM	CN	Yes	F	25
	na16, Culter	GM	MY	Yes	M	35
	na17, Culter	FM	CN	Yes	F	25
	na18, Delphi	GM	SG	No	M	40
	na19, Dryvit	FM	CN	Yes	M	35
	na20, Gates	FM	CN	Yes	M	35
	na21, Jacobs	HR	CN	Yes	F	25
	na22, Knowles	GM	TW	Yes	M	45
	na23, Lilly	GM	US	Yes	M	45
	na24, Lilly	FM	CN	Yes	F	25
	na25, Littlefuse	GM	HK	Yes	M	45
	na26, Millipore	GM	CN	Yes	M	35
	na27, Nabisco	FM	CN	Yes	M	35
	na28, Richs	GM	US	Yes	M	30
	na29, Technic	FM	CN	Yes	M	25

Notes:

1. Appointment: GM-general manager, AGM-assistant/deputy general manager, HR-human resource/personnel manager, FM-financial controller/manager, OGM-operations/floor manager
2. Nationality (passport): CN-China, SG-Singapore, MY-Malaysia, FR-France, TW-Taiwan, IN-India, HK-Hong Kong, BE-Belgium, JP-Japan, CA-Canada, FI-Finland.
3. China Experience: Yes/No.

1.2 APPOINTMENTS OF RESPONDENTS

Appointment	Frequency	Percent
Assistant/Deputy General Manager	8	12.5
Finance Manager	8	12.5
General Manager	36	56.5
Human Resource Manager	8	12.5
Operations Manager	4	6
Total	64	100

1.3 PREVIOUS CHINA WORK EXPERIENCE OF RESPONDENTS

	Frequency	Percent
No	19	30
Yes	45	70
Total	64	100

1.4 RESPONDENTS CATEGORISED BY GENDER

	Frequency	Percent
Female	11	17
Male	53	83
Total	64	100

1.5 NATIONALITY OF RESPONDENTS

	Frequency	Percent
Asia-other	7	11
China	20	31.2
Europe	5	8
Japan	6	9
Singapore	21	32.8
North America	5	8
Total	64	100

SECTION TWO: SUB-SAMPLE OF OFFICIALS AND OTHERS

1.6 LIST OF OFFICIALS INTERVIEWED

No.	Code	Organization	Nationality	Gender	Age
1.	SO1	CSSD	SG	M	35
2.	SO2	CSSD	CN	M	35
3.	SO3	Xinsu	SG	M	35
4.	SO4	SEDB	SG	M	35
5.	CO1	SIPAC	CN	M	30
6.	CO2	CSIP	CN	M	35
7.	SND1	SND	CN	M	30
8.	WSIP1	WSIP	CN	F	30
9.	WSIP2	WSIP	CN	F	25
10.	HG	German Government	DE	M	50
11.	SO5	High Commissioner	SG	M	60
12.	SO6	High Commissioner	SG	M	55

Note: Unless specified, interviews conducted in Suzhou or Wuxi, China (Jul-Sep 1999)

1. Interview conducted in Hamburg, Germany, September 1998

2. Interview conducted in London, UK, October 1998

3. Interview conducted in London, UK, March 2000

1.7 OTHERS INTERVIEWED

No.	Code	Organization	Nationality	Gender	Age
1.	SA 1	Suzhou University	CN	M	35
2.	SA 2	Jiangsu Research Inst.	CN	M	55
3.	SA 3	Hangzhou University	CN	M	35
4.	SA 4	Tongji University	CN	M	50
5.	AC 1	SUNY Albany	US	M	50
6.	AC 2	University of Calgary	CA	F	40
7.	AC 3	Ford Foundation, Beijing	US	M	45
8.	AC 4	Oxford, Oriental Institute	HY	M	35
9.	AC 5	Liverpool	UK	M	45
10.	AC 6	Beijing	CN	F	30
11.	AC 7	USC	US	F	36
12.	O 1	Lawyer, Tokyo	SG	M	34
13.	O 2	National University of Singapore	SG	M	55

APPENDIX TWO

THE INTERVIEW SCHEDULES

SECTION ONE: SUB-SAMPLE OF CORPORATE TENANTS

1.1 SCHEDULE FOR MANAGERS FROM COMPANIES LOCATED AT CSSIP

No.	Question	Options
1.	Investment Strategy	
1a.	Why China?	
1b.	Why Suzhou?	
1c.	Why SIP?	
2.	Rate SIPAC	Satisfied/Neutral/Dissatisfied
2a.	Business license approval procedures	Satisfied/Neutral/Dissatisfied
2b.	Transparency	Satisfied/Neutral/Dissatisfied
2c.	Professionalism	Satisfied/Neutral/Dissatisfied
2d.	Competence	Satisfied/Neutral/Dissatisfied
2e.	Speed	Satisfied/Neutral/Dissatisfied
2f.	Better than Singapore	Satisfied/Neutral/Dissatisfied
2g.	Same as Singapore	Satisfied/Neutral/Dissatisfied
2h.	Better than other parts of China	Satisfied/Neutral/Dissatisfied
2l.	Worse than other parts of China	Satisfied/Neutral/Dissatisfied
3.	Evaluate Tenancy	
3a.	What aspects of the SIP are you satisfied with?	Singapore Government, Singapore System, SIPAC, Infrastructure, Human Resources, Business, Costs, others (specify)
3b.	What aspects of the SIP are you dissatisfied with?	Singapore Government, Singapore System, SIPAC, Infrastructure, Human Resources, Business, Costs, others (specify)
3c.	What is your view of your company's relationship with Singapore?	
3d.	What is your view of your company's relationship with China?	
3e.	What is your view of Singapore's relationship with China?	
3f.	What is the impact of the Asian Financial Crisis to your company?	
4.	Disengagement	
4a.	What are your views on Singapore's disengagement?	
4b.	Will Singapore's disengagement affect your company?	
4c.	Will Singapore's disengagement	

4d.	affect the SIP? Will Singapore's disengagement affect future investors?	
5.	Other estates	
5a.	What are your views of the SND?	
5b.	What are your views of the Wuxi Industrial Park?	
5c.	What are your views of any other estate in China?	
6.	Collect respondent's background	
6a.	Respondent's appointment	
6b.	Respondent's gender	
6c.	Respondent's nationality	
6d.	Respondent's China work experience	Yes/no, how long.
6e.	Respondent's age group	under 30, 31-35, 36-40, 41-45, 46-50, over 50
7.	Collect company's background	
7a.	Company's 'country of origin'	
7b.	Business license type	WFO, JV, Chinese etc.
7c.	Business Sector of operations	Manufacturing, software, support, services etc.
7d.	Length of occupancy	under 1 year, 1-2, 2-3, 3-4, or over 4 years.
7e.	Factory type	Own, RBF, commercial, or other (specify)
7f.	Factory size (by floor size)	under 3000 sqm, 3000-5000 sqm, 5000-10,000 sqm, over 10,000 sqm
7g.	Number of employees	under 20, 20-50, 50-100, over 100
7h.	Size of investment	under US\$10m, US\$ 10-30m, US\$30-50m, over US\$ 50m
7i.	Destination of products	Local, part-local, re-export etc.
7j.	Any other manufacturing operations in China? How many? Where?	
7k.	Any former or current operations in Singapore?	

1.2 SCHEDULE FOR SINGAPOREAN OFFICIALS

1.	Intended Competitive Advantages	
1a.	Geographic	
1b.	Infrastructure	
1c.	Institutional	
2.	Assess competitive advantages	
2a.	Geographic	
2b.	Infrastructure	
2c.	Institutional	

3.	Describe investment environment
3a.	1992-1996
3b.	1997-1998
3c.	1999 onwards
4.	Disengagement
4a.	Reasons for disengagement
4b.	Methods of disengagement
4c.	Reactions to disengagement
5.	Others
5a.	Assess SND
5b.	Assess Wuxi
5c.	Assess other estates
5d.	Views on China economy
5e.	View on Asian Financial Crisis
6.	Background information
6a.	Respondent's appointment
6b.	Respondent's gender
6c.	Respondent's nationality
6d.	Respondent's SIP work experience
6e.	Respondent's age group

1.3 SCHEDULE FOR SIPAC/CHINESE OFFICIALS

1.	Intended Competitive Advantages
1a.	Geographic
1b.	Infrastructure
1c.	Institutional
2.	Assess competitive advantages
2a.	Geographic
2b.	Infrastructure
2c.	Institutional
3.	Describe investment environment
3a.	1992-1996
3b.	1997-1998
3c.	1999 onwards
3d.	Asian Financial Crisis
4.	Disengagement
4a.	Reasons for disengagement
4b.	Methods of disengagement
4c.	Reactions to disengagement
5.	Others
5a.	Assess SND
5b.	Assess Wuxi
5c.	Assess other estates
5d.	Views on China economy
6.	Background information
6a.	Respondent's appointment

6b.	Respondent's gender	
6c.	Respondent's nationality	
6d.	Respondent's SIPAC work experience	Length of time
6e.	Respondent's age group	

1.4 SCHEDULE FOR OFFICIALS OF OTHER ESTATES

1.	Intended Competitive Advantages
1a.	Geographic
1b.	Infrastructure
1c.	Institutional
2.	Assess competitive advantages
2a.	Geographic
2b.	Infrastructure
2c.	Institutional
3.	Describe investment environment
3a.	1992-1996
3b.	1997-1998
3c.	1999 onwards
3d.	Asian Financial Crisis
4.	Others
4a.	Views on Singapore's disengagement
4b.	Views on other estates
4c.	Views on China economy

1.5 SCHEDULE FOR 'OBSERVERS/OTHERS'

1.	Views on SIP
1a.	SIP's strengths
1b.	SIP's weaknesses
2.	Views on Singapore's disengagement
2a.	Assess the Singapore government
2b.	Assess the China government
2c.	Assess the Suzhou government
3.	Views on other estates
3a.	Views on SND
3b.	Views on Wuxi Industrial Park
3c.	Views on any other estates
4.	Views on China economy
4a.	Before Crisis (pre-1997)
4b.	During Crisis (1997-1999)
4c.	The future (after 1999)

APPENDIX THREE

SECTION ONE: ECONOMIC POLICIES IN THE SUZHOU INDUSTRIAL PARK

Source: CSSD (1999: 15)

'The China-Singapore Suzhou Industrial Park is awarded the same status as the five Special Economic Zones (SEZs) and Pudong. The corporate income tax rate is reduced to 15%, compared to 30% in most of China. At the same time, the local corporate income tax of 3% is exempted.

The preferential tax incentives available to foreign manufacturing enterprises and infrastructure developers in the park are shown in the table on the next page.

INVESTMENT ENVIRONMENT- TAX INCENTIVES OF THE SIP

Corporate Income Tax	Tax Rate	Reduction/Exemption Policy
Foreign Invested Enterprises of a Production Nature		
General	15%	Exempted from 3% Local Income Tax
Period of operation exceeds 10 years	15%	As above. In addition, exemption for 2 years from first profit-making year. Reduced tax rate of 7.5% for next 3 years
Exporting enterprises	15%	As above. After first 5 years of enjoying the additional tax incentive, if export value in any year exceeds 70% of output value, tax rate is reduced to 10%
Technologically advanced enterprises	15%	Exempted from 3% Local Income Tax. Exemption for 2 years from first profit-making year. Reduced tax rate of 7.5% for next 3 years. Thereafter, enterprises pay a rate of 10% for next 3 years.
Others		
Enterprises developing harbours, wharves and other infrastructure	15%	If intended period of operation exceeds 15 years, exemption for 5 years and reduced tax rate of 7.5% for next 5 years.
Financial institutions with more than US\$10 million capital investment	15%	Must exceed 10 years period of operation. Exemption for 1st profit-making year and reduced tax rate of 7.5% for next 2 years.

Tax Rebates for re-investments		
Re-investments in the same enterprise, or a new FIE	40% rebate	New FIE must have an operation period of more than 5 years; rebate is based on corporate income tax already paid on sum re-invested
Re-investments in export-oriented or technology advanced enterprises	100% rebate	New FIE must have an operations period of more than 5 years; rebate is based on tax already paid on sum re-invested
Withholding Tax		
Dividends remitted to foreign shareholders	0%	Complete Exemption
Interest, rental, capital gains, leasing or franchise fees	10%	May be further reduced depending on Double Taxation Agreements signed between China and other countries after payment of 5% business tax.

Source: CSSD (1999: 16)

SECTION TWO: TYPES OF RBFs (READY-BUILT FACTORIES) IN SUZHOU OFFERED BY XINSU

Type	Size	Notes
L1 Standard Factory	4, 258 — 6,300 sq m (total size) 1,995 — 2, 033 sq m (floor area)	Single and Double-storey units
L2 Standard Factor	7, 600 — 8, 700 sq m (total size) 3, 618 — 3, 786 sq m (floor area)	Double-storey units
M1 Flatted Factory	Average 2, 820 sq m (floor area)	Multi-storey, multi-tenant
H1 Flatted Factory	Average 3, 778 sq m (floor area)	Multi-storey, multi-tenant

Source: Xinsu (1999)

SECTION THREE: SOCIAL SECURITY AT THE SIP - PROVIDENT FUND (PF) SCHEME

From 1 April 1997, a new social security system is being implemented in CS-SIP. This system is modelled after the Central Provident Fund (CPF) Scheme in Singapore. As at end of May 1999, there were 198 companies with 10,697 employees participating in the PF Scheme.

HOW PF WORKS

Individual Account			
Consolidated Fund 5%	Retirement account 4%	Medical account 8- 16% (depending on age)	Ordinary account 75-83%
Use of PF Savings			
Transition Management (Used by PF Center)	Withdrawable only after retirement	Major illnesses Hospitalisation Insurance (4%); Outpatient	Purchase and Rental (for non-Suzhou residents) of Housing

‘From 1 January 1999 to 31 December 2000 (two year period), both employers and employees contribute an equal share of 20% of monthly gross salary. The money is deposited with the SIP Provident Fund Management Center (PFMC). Of which 95% of contributions are credited to the individual employee accounts, while 5% is put into a consolidated fund.

SALIENT FEATURES OF THE PF SCHEME IN CS-SIP

- It applies to PRC employees only; expatriate staff are not included
- Both employers and employees have to contribute to PF monthly
- The rate is the same for employees of all ages, positions and salaries
- The PF contribution is subject to an upper limit. The upper limit (maximum contribution) is based on 3 times the average annual gross salary of the previous year. The upper limit in 1999 is RMB 2, 600 per month.
- Gross salary includes bonuese, allowances and overtime pay
- Each contributing employee has his/her own individual PF account
- PF contributions are a tax-deductable expense (for employer), and a non-taxable income (for employee)
- PF savings are interest bearing
- PF savings are guaranteed by the Finance and Taxation authorities
- Beside PF and work-related injuries, other benefits are provided by employers on their own accord and are not mandatory

WHY IS PF BEING IMPLEMENTED

The PF system is designed to promote joint responsibility of employers and employees, and to relieve employers of the administrative burdens of social security. It is a break from the old social security system which lumps the major part of contributions into a common pool. Instead, the new PF system emphasizes individual social security savings and encourages the individual to be prudent in consuming housing and medical benefits. In addition, by centralising the management of PF savings with the SIP Provident Fund Management Center (PFMC), the scheme significantly reduces the administrative responsibilities of employers. In drawing up the PF scheme, the policies makers' key considerations are:

- There should be no increase in labour costs to employers
- There should be no decline in employees' take home pay
- There should be shared responsibility in social security
- PF savings must be secure
- PF should improve attractiveness of working in CS-SIP
- PF must be administratively efficient
-

PF IMPLEMENTATION

The PF system in CS-SIP is the first of its kind in China, combining management of all 3 major social security elements i.e. housing, medical care and retirement.

Employees who are members of PF can make use of the medical account savings for themselves and their children's medical expenses. After the ordinary account of PF reaches a certain amount, they can also make use of the ordinary account for purchase or rental of a house.

SIP PFMC has published a '100 Q&A on PF'. Interested parties may obtain a copy from the PF Center.'

Source: CSSD (1999: 38-9).

APPENDIX FOUR

SECTION ONE: DETAILS ABOUT THE CSSD BEFORE DISENGAGEMENT

China-Singapore Suzhou Industrial Park Development Co Ltd

Source: CSSD (1999: 8-9)

‘CSSD is the company who is responsible to develop the infrastructure and marketing of CS-SIP. It is a joint venture between a Singapore consortium and a Chinese consortium.

The Chinese consortium CSIPC has 12 shareholder companies and holds 35% of the shares in CSSD. Among the Chinese joint venture partners, there are representatives from Suzhou city, Jiangsu Province, and 9 state-owned enterprises that report directly to the Central Government.

CSIPC: CHINESE SHAREHOLDER OF CSSD

Jiangsu International Trust and Investment Corporation
SIP Economic Development Co Ltd
China National Cereals, Oils and Foodstuffs Import and Export Corp
China Ocean Shipping (Group) Co.
China Huaneng Group
China Agriculture Bank Finance Co Ltd
China National Chemicals Import and Export Corp
China National Technical Import and Export Corp
China Energy Conservation Corp
China Central Television
Bank of China Trust and Consultancy Co
China Great Wall Industry Corp

‘The Singapore consortium SSTD has 24 shareholder companies and is chaired by Mr Philip Yeo, Chairman of the Singapore Economic Development Board. It holds 65% of the shares in CSSD.

The Singapore consortium of 24 companies includes some of the largest publicly listed companies in Singapore and companies from United States, Japan, Korea and Netherlands.

Two key Singapore agencies have also invested in CSSD through their investment arms. EDB Investment and Juriong Town Corporations International (largest industrial land developer in Singapore) are both shareholders.

SSTD: Foreign Shareholders of CSSD

CDL-Suzhou Investment
Centerpoint Properties Ltd
EDB Investments
GE Capital Services
Hong Lim Investments
Hua Ye Holdings
Huaten Investment and Development
JTC International Pte Ltd
Keppel Corporations Ltd
Keppel Land
KMP China Investments
Liang Court Suzhou Investment
Lum Chang (Suzhou) Investment
Mi-Mi Investment Singapore
NTUC Cooperatives Suzhou Investments Pte Ltd
RMA Land Developmemnt
Rodamco China B.V.
Samsung Corporation
Sembawang Resources Ltd
Shing Kwan Investment
SLF International
STIC Investment
Sum Cheong (China)
Wing Tai Holdings

SECTION TWO: ORGANISATIONS IN THE SIP*JOINT WORKING COUNCIL (JWC)*

- At the working level, the software transfer program is supported by the Joint Working Committee (JWC) co-chaired by the Suzhou Mayor and EDB Chairman, Philip Yeo.
- The JWC meets regularly (at least once every quarter) to look into challenges and issues to the industrial park's development.

JOINT STEERING COUNCIL (JSC)

- At the higher level is the Joint Steering Council (JSC) co-chaired by Chinese Vice-Premier Li Lanqing and Singapore Deputy Prime Minister Lee Hsien Loong.
- The JSC's members also include ministers and vice ministers from key ministries in China such as the State Planning Commission, SEZ Officer, State Economic and Trade Commission, Ministry of Finance, MOFTEC, People's Bank of China and the State Taxation Bureau.
- The JSC meets regularly to review the progress the Park.

ILLUSTRATION OF THE ORGANISATIONS IN THE CS-SIP

Joint Steering Council

VP Li Lanqing	DPM BG Lee Hsien Loong
MOF MOFTEC SPDC SETC State Taxation Bureau Jiangsu Government Suzhou Government General Admin of Customs	Min of Environment Min of Trade & Industry Ministry of National Development Min of Foreign Affairs EDB
Joint Working Committee	
Suzhou Mayor	Chairman SEDB
SIPAC	
EDB Suzhou (Marketing Support)	SSPO (Software Transfer)
CSSD	
CSIPC 35% shareholding	SSTD 65% shareholding

Source: CSSD (1999:12)

APPENDIX FIVE

MEMORANDUM OF UNDERSTANDING BY THE CHINESE AND SINGAPORE TEAMS ON SUZHOU INDUSTRIAL PARK'S DEVELOPMENT

Based on views agreed upon by both sides, the Chinese team represented by Mr Liang Baohua, Mr Chen Deming and Mr Xie Jiabin and the Singapore team represented by Mr Khaw Boon Wan, Mr Lim Chee Onn and Mr Lim Neo Chian have held talks on the relations between Suzhou Industrial Park (SIP) and Suzhou New District (SND) as well as issues concerning SIP's development. Opinions have been exchanged in a candid and friendly manner and consensus has been reached on the following issues.

1. Both sides recalled the agreement between two governments on the joint development of SIP. The objectives of the project are to develop good bilateral ties, broaden bilateral economic and technological cooperation, and deepen the friendship between the two peoples. An industrial park of considerable size will be developed in Suzhou. It will have new and high technologies as its leading sector and modern industries as its core and will be complemented with tertiary industries and social amenities. In the course of development, the SIP will independently and selectively adapt Singapore's experience in economic management and public administration, while taking into account the conditions of The Peoples Republic of China.
2. A review by both, teams shows that SIP has made impressive progress in the least 5 years. It has met the targets of the initial phase—by becoming one of China's fastest-growing and most competitive development zones. At the same time, positive results have also been achieved in adapting Singapore's economic management and public administration experience in developing an industrial park. Both sides share the view that the leaders of both countries have consistently accorded a high degree of importance and support for the SIP. The achievements of SIP are a result of the friendly cooperation and joint efforts between China and Singapore.
3. To be carried out in stages, the full development of SIP, which is master-planned for 70 km² will take many years. Both sides agree that China-Singapore Suzhou Industrial Park Development Co Ltd (CSSD)'s current priority is to concentrate on developing the first 8 km² and strive to complete it by 1 Jan 2001, so that it can serve as a model for the remainder of the 70 km². With the help of Singapore Economic Development Board (EDB), CSSD will complete the marketing of the remaining industrial land in the first 8 km² (about 70 ha).
4. Consultations have been held on the issue of marketing SIP and SND to the outside world. It is agreed that SIP is the largest government-to-government project between China and Singapore—the priority of all

priorities in Sino-Singapore economic and technological co-operation. Both sides declare that they will continue to take every possible measure to speed up SIP's development. The Suzhou Municipal Government (SUM) and Suzhou Industrial Park Administrative Committee (SIPAC) will give priority by recommending all suitable projects to SIP. The Suzhou Mayor will chair regular meetings to avoid disorderly competition between both parks for the same project and in order not to confuse investors. SUM and SIPAC will further strengthen their cooperation with CSSD to promote SIP by actively encouraging investors to make SIP their choice investment site and providing investors with a most competitive environment. SUM will make a public announcement to reaffirm its full and continued support for the priority status of the SIP.

5. SUM will actively encourage and support SND's participation in SIP's growth as well as forge a good partnership between the two. SUM will also take effective measures to encourage population from Suzhou old city to move to the park to accelerate SIP's development and growth. An initial population target of 20,000 has been set.

6. One key objective of the adaptation of Singapore's experience is to train and groom a team of Chinese managers who are able to effectively take over the management responsibility of CSSD as soon as possible. Both sides have reviewed the progress in this effort and agree that the Chinese managers will be fully ready to take over the management of CSSD on 1 Jan 2001.

7. As such, both sides discussed and agree that CSSD will adjust the proportions of shares held by the Singapore and Chinese consortiums respectively from 1 Jan 2001. The Chinese consortium will increase its shareholding from the present 35% to 65%, while the Singapore consortium will reduce its shareholding from the present 65% to 35%. At the same time, the majority shareholder's responsibility of large tract development will be handed over to the Chinese side.

8. Both sides agree that the adaptation of Singapore's experience will be accelerated. Software adaptation will focus on (a) speeding up the training of Chinese managers; (b) adapting Housing Development Board's experience in public housing, township management and Jurong Town Corporation's experience in industrial parks; (c) adapting Singapore's IT promotion and developmental experiences.

9. Based on SIP's master plan and principle of phased implementation and 'rolling development', CSSD will focus its energy on developing the first 8 km². Its movement forward will be in line with the SIP masterplan. It will construct infrastructure in advance and at an appropriate pace so that SIP's development will continue uninterrupted towards the set targets.

10. In order to adjust the shareholding proportions of CSSD, its assets will have to be valued. Both sides agree that, under 'PRC's Law on Joint Venture Enterprises', and the 8th clause of MOFTEC and of the State Administration for Industry and Commerce's 'Rules on Changes in

Shareholding of Foreign Enterprises', valuation agencies will be engaged to evaluate CSSD's shares. The valuation results will be used as a basis for computing share prices. Both teams have considered SSTD and CSIPC shareholders' intention to restructure CSSD in the future and agree to respect their aspirations. Both sides express confidence in CSSD's future prospects and will assist CSSD, through concrete actions, to enable CSSD's early listing.

11. Both sides view that CSSD should plan and work to significantly enhance its financial performance. They will assist CSSD to achieve this turnaround as soon as possible. Meanwhile, CSSD requires new loan of US\$ 100 million to meet its operational needs. For this purpose, both consortiums will guarantee their share of the additional loan in accordance with their relative shareholding in CSSD. Beyond this commitment, it is up to SSTD and CSIPC to independently decide whether to inject new funds or to guarantee new loans depending on the financial performance of CSSD.

12. The Singapore and Chinese commercial teams have held discussions on the outstanding commercial issues. Both sides agree and approve the agreement reached at the talks.

13. With the signing of this 'Memorandum of Understanding on SIP's Development', both teams will jointly announce the outcome of the bilateral discussions in a manner that will boost investor confidence in SIP and avoid unnecessary speculation and negative interpretation. After the adjustment in the shareholding proportion of CSSD, the Chinese and Singapore sides will continue the cooperation and the commitments of SUM, SIPAC and CSSD to investors will remain unchanged. Both sides will make a public commitment on this.

14. Both sides will continue the friendly cooperation under the principle of 'equality and mutual benefits and sincere cooperation'. The consensus documented above reflects the aspiration of both governments to build on their warm and close relationship, and the need to safeguard basic interests of both countries.

15. This Memorandum has been written in both Chinese and English languages. Both Chinese and English texts of the Memorandum shall have equal force.

16. This Memorandum is signed by both parties on 28 June 1999 in The Republic of Singapore.