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‘CHINESENESS’ AS A COMPETITIVE DISADVANTAGE

Singapore Chinese business strategies after failing in China

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ABSTRACT

The focus of this paper is on the strategies applied by Singapore-Chinese businesses upon failing in their China business ventures. It has been argued that both the increase of Singapore ventures into China and the failures are due to either cultural issues (misinterpretation of ‘shared ethnicity’) or economic factors (differences in economic practices). Singapore businessmen apply inclusive strategies combining Western management styles with Chinese ways of doing business in order to reduce the risk involved with investments across national borders into China. Though largely successful, this strategy entails its own risks. Based on 10 case studies, this paper discusses the ways in which Singapore Chinese entrepreneurs respond upon failing in China and the strategies they develop to re-find their comfort zone for transnational business ventures. [1]

Keywords: Chineseness, Ethinicity, Entrepreneurship, Singapore, China, Business Strategies.

Introduction

Doing business in China mainland is a popular topic in current management books and expat manuals boasting of tips and tricks in order to ensure successful business deals for businessmen who enter China with great hopes and expectations. This literature is produced particularly to guide Western businesspeople in their China adventure as it is implicitly or explicitly understood that Chinese business culture strongly contrasts with its Western counterpart. Inspired by Hofstede's analysis of cultural differences (1995) it is claimed that Western capitalist market cultures characterized by individualism, rationality and secularism meet with collectivism, familism and Confucianism in China. The upsurge of foreign direct investment in China during the 1990s and the emergence of more and more Sino-foreign joint ventures have raised concerns about management, organizational culture and corporate identity. From a Western perspective, many publications testify to the different-ness of China and the Chinese in general and of doing business in China in particular (Wilpert and Scharpf 1990; Jia 1993; Bogstra et al 1993; Van Buuren et al 1995; Harmsen and Nelissen 1995; Weller 1998; Buckley 1999).

However hard Western business people may try to acquire an understanding of cultural norms and values to be successful in China, the accumulation of social capital that provides access to Chinese bureaucratic power is difficult to accomplish without the relevant connections built on trust. The lesson learned by Western managers is that they have to dismiss the idea that trust has to be based on calculation of economic costs and benefits and on shared business strategies and management styles and that affection-based trust has to be rejected as 'unprofessional' and as characteristic of an era prior to the advent of capitalism and the modern nation state. It is claimed that in transnational business ventures an increase in networks can be witnessed, networks which are based on ethnic affinity (Koot, Leisink and Verweel 2003). In this respect it seems obvious that Westerners face a structural disadvantage vis-à-vis some of their Asian competitors when it comes to establish *rapport* with the Chinese.

Conversely, management gurus like Kotkin (1993) have identified ethnic ties - allegedly more affection-based than other forms of social relations - as the success formula of Asian businesses. Ethnic Chinese businesses in particular, organised in 'bamboo-networks' (Weidenbaum and Hughes 1996), are regarded as the spearheads of Asia's economic growth as well as a major global force. As the story goes, the large Chinese diaspora living in Southeast Asia and in ethnic Chinese communities scattered all over the world, enjoys special privileges when it comes to business ventures into China. After all, being descendents of Chinese migrants, they not only look Chinese, but they can also be expected to speak Mandarin or at least one of the many Chinese dialects, maintain connections with their ancestral village and be familiar with or at least sensitive to Chinese ways of doing business. Indeed, the image of the networking, family-based, flexible overseas Chinese business has become a trope in the literature on transnational relations in contemporary Southeast Asia (cf. Chan 2000; Coe, Kelly and Olds 2003; Douw 1999; Gomez and Hsiao 2001, 2004; Redding 1990; Suryadinata 1997; Yeung and Olds 2000) and beyond (cf. Ong 1999). Coupled with the capacity for hard work and trust based on blood ties or ritual kinship, Chinese business networks seem to distinguish Chinese capitalism and seem to have engendered the economic success of the overseas Chinese where others failed (Redding 1990).

One of the ethnic Chinese communities that should prove this point is the city-state of Singapore, the only place outside of Greater China where the Chinese constitute the majority of the population. In the late 1980s, with China re-entering the world economy and Singapore craving for new markets to overcome economic recession, the Singapore government was among the first to invest in China. Since the establishment of diplomatic relations between Singapore and China in 1990, there has been a rapid increase in the number of Singaporeans visiting China for the purposes of both ancestor worship and economic investments (Bolt 2000, Khun 1999, Tan 1996). Presently, Singapore is among the largest foreign investors in China, while China is among the most important countries for Singapore's investments abroad (Bolt 2000, p. 135-136; Kumar, Siddique and Hedrick-Wong 2005).

However, there is also an increase in the number of business failures of which no records are kept. Many Singapore-Chinese businessmen – including the Singapore government as the largest entrepreneur in the city state - have learned the hard way that their China mainland counterparts not necessarily subscribe to the image of Singaporeans as fellow-Chinese and treat them as foreigners. Conversely, Hong Kong Chinese companies are rather successful in their China mainland ventures. Being pioneers in mainland investments when China opened its borders to foreign investments, Hong Kong entrepreneurs showed flexibility, patience, local sensitivity and long-term perspectives instead of a quest for quick profits in their business ventures. Although they had their share of failures in China, Hong Kong (and Macao) entrepreneurs had a competitive advantage over other investors from East and Southeast Asia as they were regarded not as "'foreigners' but *tong bao* – compatriots – and could thus contribute to national modernization in a way that was less threatening than assistance from capitalists …"(Smart and Smart 2000, p. 261). Singaporeans, entertaining the idea of a shared ethnicity whereas being defined as both foreigners and capitalists in China mainland, obviously fell into the trap of regarding the Chinese as one homogeneous category.

In this paper, Singaporean business failures in China will be investigated in terms of the consequences that Singaporean businessmen have drawn from their experience and the ways in which they respond to business failure. How do they cope with the discovery that their alleged cultural advantage *vis-à-vis* other investors in China – their self-declared dual identity between China and the West – turned out to be a misjudgement of how the Chinese conceived of them? In contrast to the recently published study by Kumar, Siddique and Hedrick-Wong (2005) which analyses the factors that contributed to the success of both large and small Singapore businesses in China and the lessons that these businesses put to use to improve their competitive position there, this paper focuses on small businesses that – upon suffering bankruptcy - pulled out of China. Based on a number of case studies, the focus is on the ways in which Singapore Chinese entrepreneurs re-defined and re-directed their business ventures after leaving China.

This paper is structured as follows: Upon elaborating of the current theoretical debate addressing issues cultural versus capitalist motives of ethnic Chinese business ventures into China and a brief portrayal of the development of Singapore investments in China from the late 1980s, the paper proceeds with a brief description of the available database. In the following section, the empirical findings are presented, featuring a number of selected case studies. In the concluding section, some theoretical thoughts will be developed for further investigation.

Ethnic Chinese Transborder Ventures: a Theoretical Perspective

Chinese capitalism has been described in terms of a 'network capitalism' characterised by both hierarchical relationships within the family and a system of reciprocal relationships known as *guanxi* (good connections). Chinese business ventures consisting of independent firms loosely structured in multi-firm business groups (Hefner 1998) or ‘bamboo networks’ (Weidenbaum and Hughes 1996) have been traced to a Confucian value system that presumably emphasises trust and responsibilities towards the lineage (cf. Fukuyama 1995; Kotkin 1993, Redding 1990). It has been argued that this centrality of the family as a fundamental unit of social and economic organisation gives the ethnic Chinese their sense of Chineseness (cf. Yeung and Olds 2000). The central argument of this ‘culturalist’ approach is that institutions, norms and practices of ethnic Chinese businessmen have facilitated the growth of their enterprises and the emergence of ethnic business networks – extending into China mainland.

> It has, however, been questioned whether many ethnic Chinese businessmen from Southeast Asia share a bond based on a common ethnic identity in general and with the Chinese in China in particular. The homogenizing assumptions of the culturalist approach ignore the experiences of Chinese communities and individual Chinese entrepreneurs under specific and widely differing economic and political conditions. The approach that stresses ‘profit seeking’ as a main motive for transnational ventures focuses on how global and local economic organization represents the Chinese with opportunities (Gomez 1999; Jesudason 1989; Thireau and Hua 1999). Mutual interest instead of common ethnic identity seems to characterize successful cooperative efforts among Chinese businesses across national borders (Hodder 1996; Godley 1999).

In this ‘culture versus capitalism’ debate the impact of political power on economic actors is lacking. A political economy perspective focuses on culture as an instrument for the protection of material and political interests (Gomez 2002; Gomez and Hsiao 2004). This approach contests essentialist arguments that culture, shared identities and value systems determine ethnic business activity. Culture and ethnicity are social phenomena that can be manipulated by governments, businessmen and community organisations in the pursuit of their own goals. In present-day Asia, states are directly involved in economic decisions taken by private entrepreneurs in their country. They do not shy away from far-going interventions like forced savings, tax policies to attract (foreign) investments, restricting capital outflow, and repressing interest rates and by so doing, shaping financial market activity, providing logistics infrastructure and targeting service-rich sophisticated manufacturing strongly influences the pattern of service sector location and growth (O'Connor and Hutton 1998). Singapore, in particular, is described as a 'developmental' state as the government itself ventured into profit oriented projects acting as the city state's main economic agent for a number of decades. A developmental state, according to Leftwich, can be defined as a state "whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives …" (1995, p. 400). Under these conditions, government patronage is of great importance for domestic entrepreneurs whose economic success is closely intertwined with state-orchestrated privileges allocated to specific (ethnic) groups.

The three different perspectives are brought together in Hamilton's institutional approach which claims that the organisation of business firms is largely shaped by institutional structures, business networks being the most characteristic example (Hamilton 1996, 2000). Business networks are useful institutional means of implementing co-operative strategies and enhancing "institutional thickness" (Amin and Thrift as cited by Yeung and Olds 2000, p. 15) in any business system. In the context of Chinese business networks, 'institutional thickness' can be generally represented by the strong cultural and social embedded-ness of business networks in personal relationships (*guanxi*), high levels of personal and social interaction among actors in these networks, collective representation through trade and commercial associations and informal business groupings, state patronage and the quest for mutual benefits (Yeung and Olds 2000, p. 15-16).

Chinese family firms may still play an important role in the business networks as providers of resources, such as the capital for business start-ups, hands-on training and good connections. While Chinese families may have lost their position of overall capital provider to institutes of formal education providing professional training and to governments intervening in markets and controlling economic assets, they have also become part of larger networks of loosely connected sets of firms (Numazaki, 2000, p. 172). Therefore, the role of inter- and intra-family linkages as providers of social capital must not be underestimated – whether based on affective ties or mutual benefit. While maintaining the inclusive perspective of the institutional approach, Ng (2002) argues in favour of a historical viewpoint on capital assets of the ethnic Chinese. He identifies a shift from family and ethnic linkages in the pre-independence period to more profit-oriented assets and, finally, state-sponsored benefits for Singaporean businessmen venturing abroad. Considering this generational shift, one may wonder whether the young generation of entrepreneurs also draws on the traditional ethnic-based ties that characterize the investment patterns favoured by the older generations and leverage these into a new form of social capital as a distinct source of competitive advantage.

Literature addressing (ethnic) Chinese business ventures emphasizes the significance of social capital in cooperation and coalition building. This applies in particular to small and medium enterprises that regard flexible and informal networking as normal business practice. “Chinese business tends to be conducted through a series of personalized networks based on friendship and trust which are given substance by long term relationships and reputation of trustworthiness and reliability, rather than in the open marketplace or in an institutional framework”(Tracy and

Lever-Tracy 2002, p. 72). Ethnic Chinese businessmen accumulate social capital by maintaining membership in a number of partly overlapping networks. “There is not one Chinese diaspora network but many, based initially on things like language groups, clan associations or place of origin, or alternatively on old school or university friends, but given substance over time by business association. Business people are often members of more than one network and can pass members from one network to another… The strength of these networks is also their capacity for extension to new members in new places” (ibid; cf. also Tan and Yeung 2000, p. 240). This strategy of networking enables (ethnic) Chinese businessmen to evade failing vertical linkages, such as bureaucratic obstacles, by forming horizontal coalitions based on *guanxi* relationships. *Guanxi*-based personal trust is an expansive and inclusive principle providing the ‘institutional thickness’ that characterizes (ethnic) Chinese business networks in a globalizing business environment (Chan and Tong 2000, p. 74). This perspective provides a framework for the analysis of the practices applied by Singapore-Chinese businessmen venturing into China mainland markets and their failure.

Singapore business in China mainland

Upon the establishment of diplomatic relations between Singapore and China in 1990, there has been a rapid increase in capital investments in China; Singapore being among the largest investors. In China, the economic reform and modernization programme since 1979, including the designation of Special Economic Zones (SEZs) and “open cities” in the provinces of Guangdong and Fujian, attracted Chinese overseas investors who had their ancestral roots there (Tan and Yeung 2000). Before 1994, over 80 percent of all Singaporean investment projects were situated in the provinces of Guandong and Fujian, where most Chinese Singaporeans originated. These investment projects were initiated primarily by private

Singaporean companies and were relatively small-scale (Chan and Tong 2000:72). Since the mid-1990s, ventures into China were organized by the Singapore government which led consortia of government-led companies (GLCs) and local companies further north to Wuxi, Suzhou, and other places in Zhejiang, Henan and Sichuan provinces (Chan 2000; Tan 1996). These missions included small- and medium-scale enterprises as part of the government schemes promoting this sector and creating an 'external wing' of the Singapore economy (Ng 2002, p. 262). More recently, the expansion of investments by GLCs has been to more peripheral areas in China. They are moving away from the older SEZs and into newer areas such as Yunnan and Sichuan, as the less developed inland provinces offer attractive concessions (Chan and Tong 2000). However, Singaporean private firms, both large and small prefer to concentrate their investments in the coastal areas rather than in China's interior (Bolt 2000, p. 139).

The type and scale of investments have also changed. In the initial period, funds were directed primarily towards real estate development, food processing and manufacturing. These traditional investment sectors are still popular among smaller enterprises (Bolt 2000, p. 138). The services sector has become a new and rather diversified area for investment among large private and public enterprises targeting leisure and recreation, the tourism industry, environmental protection, warehousing, finance, logistics, communications and information technology. Singaporean GLCs in joint ventures with third-country firms or Chinese state investment agencies are involved in massive projects, such as the development of ports, industrial parks and infrastructural projects that require huge injections of capital (Chan and Tong 2000). While for the latter investments the concept of political entrepreneurship has been coined to describe the role of the Singapore government as being one of the most important institutional forces behind Singapore investments in China (Tan and Yeung 2000, p. 239), small Singapore companies benefited from family relationships that had been maintained through a long period of political hostility between China and Singapore. Once the establishment of diplomatic relations between the two countries relaxed travel restrictions, increasing numbers of Singaporeans have returned for purposes of ancestor worship as well as economic investments that contributed needed developmental capital (Khun 1999, p. 143). Besides for capitalist considerations - the promise of quick and large profits-, affinity with the village where one's family originated from and a shared 'Chinese' identity contributed to the interest taken by ethnic Chinese businessmen to invest in China (Douw 1999). In addition to being a strategy of overcoming economic recession and counteracting political insecurity in Southeast Asia, Singapore's China policy must also be regarded as a balancing act to establish an identity of its own juggling with often conflicting forces of Westernization (holding the promise of economic prosperity) and Sinification (holding the promise of cultural authenticity). Singapore-Chinese businessmen seem to benefit from their dual identity as they can exploit the ethnic advantage by strategically playing up their Chinese identity when dealing with business people in China mainland. At the same time, their being different is what makes them attractive business partners for the Chinese, as they represent the successful Asian model of modernisation without westernisation (Chan and Tong 2000) – at least, this is what the Singaporean corporate sector, the government and a few political analysts thought.

Investments in China mainland by large and small businesses certainly generated considerable returns for Singapore entrepreneurs and the city-state at large (cf. Kumar, Siddique and Hedrick-Wong 2005), but it also came with certain risks and failed to yield the huge profits that many Singaporean entrepreneurs had dreamt of when setting out to enter this country. The most infamous example of a business failure is provided by the Singapore government with its much publicized Suzhou project. This project aimed at the development of a 70-square-kilometre industrial township in Suzhou, dubbed as ‘Singapore II’ (Bolt 2000, p. 139). This project which started in 1993 received government support at both provincial and national levels. It was agreed and signed by the national governments of Singapore and China to transfer knowledge in economic management and public administration from Singapore to China, granting Singapore a 65 per cent stake in this project. The total investments in this project were estimated to reach US$ 30 billion (Bolt 2000, p. 140). In 1997 the project which had already attracted private investors from Western and Asian countries, ran into problems which were caused by conflicts between the joint Chinese-Singaporean management and by competition from a rival industrial park established by the Suzhou government adjacent to the Singaporean venture. When in 2001 the Singapore government handed over management of the industrial park to the Chinese, its loss on this project was estimated at about US$ 90 million (Bolt 2000, p. 140-141).

The Database

Underlying this paper is a database of 56 in-depth case-studies of Singaporean small- and medium sized companies in the manufacturing (26), retail (12) and services sectors (18). The vast majority of these companies (46) are owned and managed by ethnic Chinese people. The case studies were established with the purpose of gaining insight into intra- and inter-ethnic relations in their cross-border business ventures, whether long-standing or recently established, of which 23 (46%) include investments in China mainland. Of these 23 companies 10 discussed their business failures with the researchers. The involvement in cross-border exchanges of some kind formed a criterion of selection for companies to be eligible for this research.

The research methods applied may be characterized in terms of organizational ethnography which refers to a way of doing fieldwork. Fieldwork is a long-term involvement with the people under study with the aim of obtaining an in-depth understanding of the ways in which they construct their world and give meaning to their lives. The case-studies established in Singapore, however, often encountered the problem that the researcher was denied long-term participation in everyday organizational practice and, as a consequence, failed to reach beyond the public face and front-stage behavior that organizational members perform in front of outsiders. In these cases, the researcher refrained herself with obtaining ethno-data, i.e. answers to open interview questions (Dahles 2006). Only a few case-studies represent an in-depth ethnographic description compiled from a number of lengthy conversations with the manager-owners in their 'natural habitat' and with people from their private and business network – resulting in thick description (Geertz 1973) of what I prefer to term his 'business-life-history'. This is a biographical method which focuses on the chronology of critical events and decisions in the life of an entrepreneur that describe his or her career as businessman or –woman. In a context where firms are unstable, business start-ups quickly end in bankruptcy and mergers and acquisitions are pertinent – as is the case of many Singapore small and mdium-sized enterprises (SMEs) - an ethnographic-historical approach focusing on organizations as basic units of research would be an unrewarding venture. The purpose of these ethnographic case studies I collected was to obtain an in-depth understanding of the ways in which Singaporean entrepreneurs establish business coalitions with foreign companies within and across Singaporean borders and how these coalitions are intertwined with the politics of identity characteristic of the intra- and inter-state relations in East and Southeast Asia. In the next section, the findings from both approaches – single-interview cases and business-life-histories will be presented.

Coping with failure - learning from failure?

In this section, Singapore business ventures into China mainland will be discussed in terms of the strategies applied by the owners/managers to start and maintain their enterprise in China ... The use of personal resources such as family ties and diverse forms of ethnic affiliation (expressed through lineage, dialect group, hometown associations, etc.) range among 'conventional' strategies applied by of ethnic Chinese businessmen (Dahles 2002; 2004; 2005). The use of conventional strategies in China ventures reflects a rather conservative and predictable way of doing business. Conversely, 'new' strategies in the Singaporean context are subcontracting and other cooperative relations with foreign multinational corporations (MNCs) and with foreign friends and acquaintances recruited through overseas academic education. The use of these personal assets reflects a rather diverse and dynamic way of doing business. Often, conventional and new strategies are combined together to be used selectively constituting a mixed strategy within a specific context. The analysis will identify differences in the ways in which Singaporean businessmen using conventional and new investment strategies respond to business failure in China. For each category, one exemplary case will be presented in 'boxes' to illustrate how this specific form of capital is exploited in business ventures.

Conventional strategies

Trading with China and, in particular, importing Chinese goods from and to one's ancestral village, is conventional in the 'traditional Chinese' sense and characteristic of many first-generation ethnic Chinese firms in Singapore. Few of these first-generation Chinese are still at the helm of their companies; most of these firms have been taken over by the next generation(s) or have perished by lack of a successor. With the next generation in charge, the companies often undergo far-reaching adjustments in terms of management styles, business practices and market orientation. Also, the products of these firms diversify. First-generation ethnic Chinese were looking for markets to *buy* traditional Chinese products for import to Singapore, where these products were then traded in the local market with a substantial demand for authentic Chinese consumer goods. The second generation is more inclined to look for markets in China to *sell* their products from Singapore while, at the same time, they both diversify and expand their business beyond both China and Singapore. When asked about the reasons for venturing into China mainland, this category of small and medium-scale entrepreneurs produced answers that showed a mix of calculation and sentiment. The majority referred to the economic opportunities that this huge country seemed to offer, but they also mentioned the advantages of having relatives in China, speaking the language and their familiarity with and the pleasure taken in 'Chinese ways of doing business'. One informant explicitly brought up the informal atmosphere and the considerable amount of time invested in socializing with his mainland business partners that in his view contrasted pleasantly with the 'no-nonsense, black-and-white' approach to business that characterized the 'Singapore way'.

The entrepreneurs in this category who experienced business failure, pulled out of China never to return, but they did not lose faith in the basic strategy they used to employ to establish cross-border business coalitions, i.e. the strategy of building on family and ethnic relations. According to Linda Wang, managing director of B&Office, a stationary supplier, there is no trust between Singapore and Chinese businesses: "Better concentrate on Singapore, Malaysia and Thailand" (interview 2003). As *Case 1* below illustrates, it is in these kinds of relations that sentiments and emotions are invested, irrelevant of where kin and co-ethnics are located. The betrayal by distant kin in China is blamed on the weakness of these blood-ties, not on the failure of kin and ethnic group as providers of trust. Hence, instead of persuading business people to shift their cross-border business strategies from kin/ethnic based to 'rationalist' approaches, kin and ethnic group become even more important for doing business. The shift is from defining one's identity as rooted in mainland China (before it turned communist), to locating one's roots in colonial Southeast Asia under British rule.

Case 1: Failure of conventional assets

Principal Refrigerating & Airconditioning[1]

… was established in 1965 by the brother of its present owner as a trading firm in household items. The business changed into a successful exporting firm in refrigeration spare parts. Principal R&A is a family business owned by Mr. Luh, a Singaporean Chinese, and managed by his Malaysian Chinese wife. The firm is embedded in the Luh's extended family network; forty members of which are involved in the business as branch manager, staff or associate. Principal R&A has Singapore as its home base and offices in Kuala Lumpur and Johore Bahru (Malaysia). These offices are managed by Mrs. Luh's brothers. Principal R&A was one of the first small entrepreneurs from Singapore to enter China as early as 1988. The Luh couple established business links with distant kin in Hong Kong who ran a few companies across the border. The Luhs entrusted them with the capital to start trade offices in China mainland. The Hong Kong relatives took the money to China but invested it in their own mainland manufacturing businesses that suffered bankruptcy. After this failure, the Luhs decided to play it safe. They consolidated their Singapore business and started to expand their Malaysian branch offices through Mrs. Luh's close kin. "One has to be careful doing business in China", says Mrs. Luh, "in Malaysia with close relatives, we don't expect bad surprises". Although Mrs. Luh is aware of the different position of the ethnic Chinese in both countries, she denies that there are any cultural differences among the Singaporean and Malaysian Chinese. After all, she remarked, "Malaysia and Singapore used to be a British colony". (interview 2002).

New strategies

For decades, the Singapore government invited foreign multinational corporations to invest and locate their regional head-offices in Singapore. When the government started to promote the establishment of an 'external wing' of the Singapore economy, these MNCs obtained the role of intermediary for introducing Singaporean entrepreneurs to foreign markets. The preferred position of Singapore businessmen as subcontractors of foreign multinational corporations provided crucial assets to venture beyond Singapore. Basically, it was a risk-avoiding strategy that allowed small companies to ride the waves of the expansion drift of their main clients benefiting from their local knowledge, their networks and contacts with the foreign state agencies. Recently, Singapore Chinese companies working for large Japanese or Western MNCs were more or less forced to do business across the border when their clients decided to cut costs by outsourcing or relocating some of their production units in low-payment countries in the region. There are also examples of companies that emerged after their owners (former MNC-employees or subcontractors) were introduced to foreign markets by their former employers or clients. However, even at present, most Singaporean graduates prefer to start their career in a foreign MNC in order to gain experience in business practices and learn a trade. Subsequently, they start their own businesses as a subcontractor of their former employer. Sometimes, they shift back and forth between being employed and starting a new business several times and finally, if market forces work in their favour, they expand their businesses across the border.

Another business strategy that observes risk-avoidance when venturing into China is the participation in government missions. This strategy emerged with the political entrepreneurship of the Singapore developmental state and has been most prominent in traditional service sectors such as construction and transportation, distribution, and warehousing. Entrepreneurs in these sectors benefited from the large-scale public projects initiated by government agencies like the Port of Singapore Authority, the Mass Rapid Transport Corporation, and the Housing Development Board (HDB). Later on, other economic sectors, such as computer hardware and software, business services, and biotechnology, also became important for government-initiated projects. Having established a good reputation in government circles, these entrepreneurs were invited by state agencies to join government missions abroad. These patterns can also be discerned among Singaporean SMEs venturing into China, as *Case 2* below illustrates.

Case 2: New strategies: dragging business ventures

Green Apple IT Solutions

Henry Chan Hock Seng, the owner and at the same time manager of Green Apple IT Solutions, a dotcom firm situated in Singapore's China town, was born in 1965 as the second child and only son of a Singaporean Chinese real estate agent. Henry obtained an engineering degree from *Nanyang* Polytechnic in 1990 and an MBA diploma from a polytechnic-turned-university in Perth (Australia) two years later. His business start-up in Singapore in the information technology sector failed due to the Asian Crisis. Only two years later, ambitions were soaring again as Singaporean enterprises were lured into entering the global market by its entrepreneurial government. In 1999, Henry was invited to join a government-sponsored trade mission to China which he owed to his father's connections with the HBD involved in industrial estate development in China. This mission resulted in Henry's involvement in a few projects – not for the Singapore government but for foreign Singapore-based multinational corporations in China mainland. With his name on the list of participants of the HDB mission, foreign and domestic firms with an interest in China investments approached him with job offers.

Upon having established a network of potential clients, Henry opened a Shanghai branch of the Green Apple. At first, this branch was a one-man business. Eventually as the business ran well while the parent company in Singapore was suffering due to Henry's frequent absence, he took on a few local ICT engineers to help him with the projects. His clients in China were domestic as well as foreign, private as well as state-owned enterprises requiring foreign expertise in establishing computer networks and appropriate software. In 2004, while the Green Apple had been taken over by another Singaporean IT firm, its Shanghai branch had split off from the Singaporean parent company and then joined forces with a local IT firm. This joint venture did reasonably well, but cooperation between Singaporean and managers from China mainland did not run smoothly. The biggest bone of contention between both partners was the 'overhead', as Henry euphemistically labelled the bribes that Henry refused to pay. As his Shanghai counterpart was better equipped to deal with the Chinese government and the Chinese market, Henry became more of a silent partner leaving most of the management to his local counterpart.

At the same time, a new business start-up planned in Beijing did not materialize. After four years, Henry's Beijing venture still had not been approved by the Chinese authorities. Henry felt bitter about Chinese bureaucracy which he characterised as hostile and corrupt. While this Beijing venture was still pending, Henry lost interest in China. A new international joint venture in Kuala Lumpur with former college friends from Australia opened exciting new avenues to the European and American markets. [fieldnotes August 2000 and May 2004]

In the personal network of young entrepreneurs in Singapore connections established during their education abroad (which implies that they are English educated), with former employers and colleagues, and professional associations (in contrast to traditional Chinese hometown associations) play a rather prominent role. These connections directly or indirectly provide a vehicle for launching business across the border into Southeast Asian, China and the Asia-Pacific, often with the ultimate aim to start a successful venture in the United States. Henry Chan, who is introduced in *Case 2*, provides a good example of this shift from conventional to new strategies in business ventures. In 2003, his first firm 'Green Apple IT Solutions', which he had started with financial injections provided by his father, ceased to exist as an independent company in Singapore. It was taken over by a larger domestic IT company. Henry Chan did not this resist this takeover as he preferred to put his energy into his Shanghai venture. However, something even more exciting came up. In 2004, Henry was in a joint venture with Australian and Chinese Malaysian university friends operating a dotcom firm in Kuala Lumpur (Malaysia). The joint venture which combined Malaysian local knowledge, Singaporean experience in the new technology sector and Australian marketing skills targeted the multimedia super-corridor in Klang Valley, the Silicon Valley of Malaysia. Henry invested most of his time in this new business venture which – as he expected - would soon expand to Europe and the United States. For this purpose and for enhancing competitiveness they attempted to acquire international certification for their products and services. All in all, this Western-Asian joint venture is an exemplary case of the increasing cosmopolitan outlook and professionalization of small and medium entrepreneurs which significantly enhances their social capital.

Relocating the comfort zone: an analysis

Singaporean SMEs may enter China in the slipstream of government-sponsored trade missions or relocation of their main clients, and may subsequently learn to benefit from the attractive production factors in China and its huge market, as the following *Case 3* will illustrate.

Case 3: The success story

Com-Elect Special Products

This company was established in 1990 with a total of 3 staff members including the founder/owner/manager. The firm operated with contracts for manufacturing components such as semiconductors, metal finishings and circuit boards for large multinational corporations in the electronics sector, among which were Philips, AMD and Hitachi. The company did well and employed 20 people in 1995. Upon obtaining ISO certification, Com-Elect entered into a process of expansion and restructuring. Permanent sales offices were established in Malaysia, Thailand, the Philippines and Indonesia. The staff of these offices, consisting of sales representatives and technical personnel, were trained in Singapore and came back regularly for audits. In Singapore, in addition to the manufacturing, quality control and marketing divisions, a R&D team was set up in 2000 which consisted of engineers from Singapore, Malaysia, Hong Kong and China. An employment agent was entrusted with the recruitment of these highly trained and specialised experts, all of whom were (ethnic) Chinese. Mr. Tang, the owner-manager of Com-Elect remarked that (ethnic) Chinese employees are hard-working and stress-proof people who share the same culture.

In 2002 the company – counting 40 employees - shifted production to Suzhou in China. The Suzhou plant was a greenfield investment and did not involve local partners. Manpower was relocated from Singapore to China to start operations. Processes of economic restructuring in Singapore and market shifts in the region, in particular the relocation of production by its major clients, provided the immediate trigger for Com-Elect to move to China. Eventually, the Singaporean employees were

substituted by Chinese workers to cut production costs. The parent company in Singapore developed from a manufacturing company into a producer service much in line with the government policy of turning the city-state into the regional total business hub.
[Interview 2002]

Cultural affinity may stimulate investments, but capitalist considerations certainly constitute the major reason for the ‘new’ businessmen to venture into China. Instead of diasporic affiliation with the (imagined) homeland, Chinese efficiency, resourcefulness and respect towards Singaporeans play a decisive role for businessmen from the city-state to seek cooperation with mainland Chinese partners. “The Chinese have a mechanically efficient mind,” said one of our informants. “They have four seasons and always have to think one year ahead,” added another Singaporean entrepreneur. “China realises that there are things we can learn from each other and that we can be equal partners. It’s not about who is more superior, it’s about business…” commented a third informant. So much for the success stories; what about business failures?

With tales of bankruptcies in China flooding into Singapore business life and with even GLCs failing, many Singapore Chinese SMEs shy away from investments in China mainland. For some, the experience of a business failure discourages further ventures into China and even into foreign countries altogether. Mister Johnson Lee who runs a distribution firm for European consumer goods lost a lot of money when his joint venture in China went broke after three years: “China too big of a game… difficult to manage from a distance” (interview 2003). And Mister Yap took his plastics manufacturing firm to China only to find his Chinese partners squeeze him out of a promising business deal in the Middle East (interview 2002). Others regard a failure more as an asset than a drawback and use their experience to direct business ventures into new areas that prove to be more successful. Henry Chan down-scaled his involvement in the Shanghai joint venture as he ran into problems with the Chinese bureaucracy – without pulling out of China completely. He understands that business opportunities are still huge, but as they fail to materialize, the venturesome spirit of this young dotcom entrepreneur ventures into new fields. With the global market on his mind, he enters transnational business space in a transnational partnership – located in *Malaysia*. Throughout the interviews, Malaysia emerges as the refuge of many Singaporeans who encountered problems in China. Mr. Joy, a Singaporean fashion wholesaler, lost much money when a Hong Kong partner went bankrupt due to failing investments in China mainland in the early 1990s. Ever since Mr. Joy declined repeated offers to enter China again: “Too big of a game, difficult to manage from a distance,” was his brief diagnosis of the Chinese market. Instead, he expanded business in Malaysia, because it is “closer and similar in terms of culture” meaning that the formal contracts he established with partners in Malaysia – all personal friends of his - were respected and implemented to the letter. Frequently, Malaysian contract law, based on the British legal system that survived de-colonization in many former British colonies, is memorized as an important advantage and, at the same time, binding factor for doing business in countries with a common British colonial past.

On the other hand, Malaysia is not a comfort zone for everybody. Some of my informants reflect on the strained political relations between Singapore and its larger neighbor which go back to the 1960s when Singapore was evicted from the Malaysian Union. “They still treat us like a colony”, complained a successful agrarian entrepreneur from Singapore who relocated his business from Malaysia to China many years ago. Others pull out of Malaysia in search for bigger markets or out of frustration with the economic policies that hinder ethnic Chinese progress or because they regard Malaysia as a backward country. Mister Wah, a furniture manufacturer with factories in both Singapore and Malaysia, confided that he turned to Thailand: “… good for smaller firms, not as risky. You can invest small money, labor is cheaper than Malaysia." (interview 2002). And, finally, there are many Singaporean businessmen who establish coalitions with counterparts in Hong Kong to smooth their way into China. Mr. Joe, a packing-material manufacturer who traded with China, refused to take his production there because he thought that business people from Hong Kong were much better equipped to invest in China: "Hong Kong understands China better than us. In China they say yes but do 'no'… you can lose everything" (interview 2002).

Conclusion

The number of Singaporeans expanding their businesses to China has clearly increased since the 1990s. The new generation of Singapore entrepreneurs is attracted to China because they are looking for new markets, product diversification and low-cost production sites. To enter China in a risk-avoiding way, they establish co-operative ventures with private firms, state-owned companies and foreign MNCs based on mutual interest. Although these entrepreneurs may entertain affective linkages with ancestral villages and relatives in China mainland, these ties do not play a leading role in their business decisions. There is no doubt that business ventures into China are subject to capitalist reasoning. However, the capitalist orientation of the young generation of Singaporean businessmen may also explain why China is not the single best place for Singaporean Chinese to invest. From a macroeconomic perspective, it is a very promising market due to sheer numbers (of both potential consumers and labour), but the microeconomic perspective often teaches otherwise. China is difficult to penetrate, as the multi-layered state bureaucracy requires cautious handling. The internationally less experienced Singaporeans may not be well equipped to deal with the complexities of doing business in China. Ethnic ties may facilitate a smooth entrance into the country, but often seem to be part of the manifold obstacles that ethnic Chinese investors encounter in China and lead to failure.

The second and third generation of ethnic Chinese - born, raised and educated in Singapore – are often not sufficiently aware of the changes that Singapore Chinese identity have undergone during the last forty years of nation building in the city-state. Their imagery of Chinese identity is characterized by two cardinal mistakes. First, they think that their personal resources establishing Chinese identity are identical with the resources of the older generation of Singapore Chinese. Second, they think that China mainland has remained the same as it was when their parents maintained connections with their place of birth or ancestral village. However, there is a gap of a few decades since the older generation was actually involved in China mainland. In the meantime, Singapore has developed into a modern nation state with a British colonial history and a multi-cultural present. Memories of a Chinese past have generated frozen images and stereotypical representations of China and Chinese identity in the Singaporean imagination. The idea of that looking Chinese, speaking the language and sharing 'Asian values' constitutes a sound basis for business success has turned out to be rather naive. Societal transformations in both China and Singapore render part of the social capital which Singaporeans presume to possess inadequate and redundant in the present situation of doing business in China mainland.

These few examples illustrate that the Singapore government was over-optimistic to expect the Singapore economy transplanting itself to China mainland solving the problem of too tiny a home market with an 'external wing' or even a 'Singapore II'. Cultural affinity, speaking the language, understanding business practices and even obtaining government support turned out to be insufficient guarantee for lasting success. As Johnny Lim, a Singaporean iron and steel producer said:

“China is very Chinese, by comparison Singapore is not Chinese at all” (interview 2003). For Lim, the awareness of the cultural differences between both countries resulted in successful deals with Chinese partners. For others, the same awareness became the reason to pull out of China. “We do things different here in Singapore”, has been a much quoted statement in this context.

Learning by experience that Singapore Chinese identity represents a disadvantage instead of an advantage in China, contributes to a changing attitude vis-à-vis the ethnic Chinese in Malaysia, their closest neighbours. Many of those who delete China from their foreign venture planning (re-)turn to Malaysia instead. The relationship between the Singaporean and Malaysian Chinese is ridden with problems that reflect the tense relationship between both nation states. However, Malaysia also represents a comfort zone to turn to in order to recover from business failures in China mainland and to reconsider business strategies for the future. Because of the close relationship comprising of a shared past and a separate present, of love and hatred, similarities and differences, acceptance and rejection, the social capital of both Singapore and Malaysian ethnic Chinese is well suited for joint business ventures. However, Malaysia seems to be only a temporary comfort zone. Once the wounds caused by an unfortunate China venture are healed, Malaysia turns out to figure only as a stepping stone to business start-ups in Europe and the United States.

Notes:

1. All names of companies and interviewees cited in this text are pseudonyms. The researchers involved in establishing the database agreed with the respondents not to reveal their and their firm's identity.

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