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Local politics and foreign ventures in China's transitional economy: the political economy of Singaporean investments in China

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Abstract

The re-articulation of China into the global economy since December 1978 has led to a tremendous influx of foreign capital during the past two decades. Constrained by the limited domestic market and encouraged by home-country government, transnational corporations from Singapore are regionalising increasingly into the Asia Pacific region. To date, a significant amount of Singaporean investments abroad has gone to China. Based on personal interviews with parent companies in Singapore and their subsidiaries and/or affiliates in China, this paper aims to examine the political economy of Singaporean investments in China. Specifically, I argue that successful cross-border operations of Singaporean firms are embedded in dense networks of social and political relationships. These relationships provide the political leverage and strategic resources to enable the establishment of Singaporean firms in China. This establishment, however, is contingent on blending with local politics in China through which foreign firms use leverage on the partnership advantage of local governments (*difang zhengfu*), their enterprises, and business activities. This rise of local corporatism is a key institutional consequence of the recent rescaling of China's political economy. Case studies of ventures by Singaporean firms in China are presented to support my arguments. Taken together, these empirical materials shed light on the importance of understanding the role of politics at different spatial scales in influencing transnational corporations and their international business operations. © 2000 Elsevier Science Ltd. All rights reserved.

Keywords: Spatial scales; Political economy; Local politics; Foreign direct investment; Singapore; China

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Introduction

Accelerated globalisation and growing global competition have driven more national firms into international production. Many developing countries have now succumbed to the global economy and welcome international operations by foreign transnational corporations (TNCs). In the Asia Pacific region, the re-articulation of China into the global economy since December 1978 has led to a tremendous influx of foreign capital during the past two decades. In 1998, China was the largest recipient of total foreign direct investments (FDIs) to all developing countries. The UNCTAD (1999) estimates that at US$45 billion in 1998, inward FDI to China accounted for 7% of total global FDI (US$644 billion) and 27% of total FDI into developing countries (US$166 billion). China has now attracted more than US$50 billion investments by ethnic Chinese abroad, accounting for about 80% of total realised FDIs in China. These ethnic Chinese have formed more than 100,000 joint ventures in China (Weidenbaum & Hughes, 1996, p. 27). Penetrating into China's huge domestic market, however, is never an easy task, as is evident in the tremendous problems faced by most foreign firms in China. A study by a management consulting company, A. T. Kearney, in April 1999 reported that almost a quarter of foreign companies in China have pulled out at least one venture since entering the country (*The Straits Times*, 28 April 1999). Only 40% of its sample foreign firms reported profitability from their ventures in China. What then are the reasons for the success or failure of foreign investments in China? There are at least three general approaches: (1) neoclassical economic explanations; (2) culturalist explanations; and (3) political economic factors. From the neoclassical economics perspective, many earlier studies have paid significant attention to the role of production costs and market access as the key determinants of foreign investments in China (e.g. Kamath, 1990; Pearson, 1991; Pomfret, 1991; Zhang & Ow, 1996). The spatial variations in these factor costs and market potential are correlated with the entry and success rates of foreign ventures in China. The geography of foreign investments in China becomes the independent variable in explaining the empirical outcome of these ventures in China.

On the other hand, an emerging culturalist discourse, particularly in the popular press and media, has produced a "Greater Chinese sphere" myth. This discourse assumes that ethnic Chinese from Hong Kong, Taiwan, Singapore, and elsewhere in Southeast Asia can conduct a seamless web of businesses through regional trade and investment linkages in China based upon a common culture and heritage (e.g. Chang, 1995; Lever-Tracy, Ip & Tracy, 1996; Weidenbaum & Hughes, 1996; Brown, 1998; Douw, Huang & Godley, 1999). This culturalist discourse identifies vague regulations, unscrupulous officials, and arbitrary corporate partners as the main barriers to doing business in China. Cultural affinity between ethnic Chinese abroad and mainland business partners becomes a convenient explanation for the relative success of ethnic Chinese investments in overcoming these operational difficulties in Southern China.

The third approach in the recent political economy literature argues that foreign

investors in China are subject to "differential levering"[1] by relevant state officials, in part because of corruption (see Levy, 1995). Different foreign investors are found to experience different levels of political intervention that in turn is a function of their ongoing patron–client relationships with the investors. Those really "foreign" investors from the US, Japan, and Europe tend to suffer from more stringent obligations and tighter monitoring in areas of technology transfer and working conditions than ethnic Chinese from Hong Kong, Taiwan, and Southeast Asia. This differential levering results in highly differentiated outcomes of investment ventures by firms from different countries and/or regions of origin (see also Walsh, Wang & Xin, 1999; Weldon & Vanhonacker, 1999).

What is missing in these three popular explanations of the success and failure of foreign investments in China is the critical role of *politics* at different spatial scales. Many existing studies of China's political economy have shown that one important aspect of its economic reform is the power shift of central–local politics in favour of local governments,[2] local collectives, and local enterprises (see next section). Few studies, however, have examined specifically how this newly rescaled spatiality of politics in China and the coping strategies of foreign firms can significantly influence the investment outcomes of these foreign firms. Reporting an empirical study of Singaporean investments in China, this paper is situated in the theoretical context of the recent resurgence of geographical studies addressing the rescaling of politics in urban and regional governance (e.g. Storper, 1997; Brenner, 1998; Cox, 1998; Scott, 1998; DeFilippis, 1999; MacLeod & Goodwin, 1999a). This rescaling process is defined by the continuous reconfiguration of state power and capacity at different spatial scales (supra-national, national, regional, and local) that results in the loss of a relatively privileged scale (e.g. national) in which the global economy is governed.

In this paper, I argue that it is important to understand the rescaling of politics in China's political economy. This is because the emergence of *local politics* in China's transitional economy implies that neither the ownership advantages of foreign firms nor the macro-geography of foreign investments in China per se can explain their success or failure. Local politics here refer to the political commitment and patronage of local officials, and cadre/business elites in an era of economic reform and decentralisation of decision making to the local level. Rather, successful transnational operations of foreign firms in China are embedded in dense local networks of social and political relationships. These local relationships provide the political leverage and strategic resources to enable the smooth establishment of foreign firms in China. This process of establishment, however, is highly contingent on blending with *local politics* in China through which foreign firms use leverage on the partnership advantage of local governments, their enterprises, and business activities.

The empirical material in this paper sheds light on the role of rescaled politics in

[1] I would like to thank a *Political Geography* referee for pointing out this approach.

[2] Local governments (*difang zhengfu*) in China are defined as government and quasi-government institutions whose official authority rests below provincial governments. These local governments typically include city municipalities (except for four centrally administered municipalities), county and township authorities.

determining the success or failure of Singaporean investments in China. Since the establishment of official diplomatic relationships between China and Singapore in October 1990, Singapore's FDI into China has increased substantially. From a relatively insignificant destination for outward investment from Singapore throughout the 1980s, China emerged as almost the largest recipient country of Singaporean investments by the end of 1997. At a cumulative total of S$8.96 billion or US$5.3 billion, Singapore's investments in China were only S$14 million or US$8.2 million behind that in Malaysia (*The Straits Times*, 8 September 1999). According to Chinese sources,[3] Singapore has a total of US$7.9 billion cumulative realised FDI in China between 1979 and 1998, and ranks fifth after Hong Kong (US$110.3 billion), Taiwan (US$16.3 billion), the United States (US$16.3 billion), and Japan (US$8.2 billion). This is significant since Singapore is a relatively small economy compared to Taiwan, the US, and Japan.

Although several studies have directly or indirectly examined the motives of Singaporean investments in China (e.g. Cartier, 1995; Lu & Zhu, 1995; Tan, 1995), most of them are based upon macro-economic statistics rather than detailed firm-level investigation. They are also less concerned with the intricate relationships between business and politics as manifested in the material processes of Singaporean investments in China. Through selective case studies, this paper shows how a fuller understanding and appropriation of rescaled politics in China can enable smoother cross-border operations by Singaporean firms in China, irrespective of whether these Singaporean firms have strong home-country government support (e.g. government-linked companies). This aspect of localising global investments is critical because many initiatives spearheaded by the Singapore government in China have focused their negotiations and agreements at a different spatial scale with the *central* or *national* government. Little effort is made by these government-linked companies to address the concern and agenda of *local* governments in China. This is not surprising because the developmental state in Singapore is used to the lack of scale differentiation between the national and the local in governing a city-state. The Singapore government and its affiliated companies have little experience in dealing with local states in other countries. Their projects in China subsequently face implementation problems because this *mismatch of scaled politics* results in conflicts of interests with local authorities and officials. On the other hand, private firms from Singapore are able to resolve this problem of mismatch through their flexibility in incorporating *guanxi* (or relationship) politics as argued in the culturalist explanation above. These private firms are therefore able to use leverage on local politics to sustain their operations in China. The case studies analysed in this paper are based on established ventures by Singaporean firms as well as those ventures facing major problems.

The paper is divided into four parts. The first part (Section 2) develops a theoretical framework of scale politics to explain the success and/or failure of international flow

[3] These data are calculated by summing the cumulative realised FDI values between 1979 and 1996 (Sun, 1998, Appendix A) and in 1997 and 1998 (Ministry of Foreign Trade and Economic Cooperation, 1998, pp. 626–629; 1999, pp. 705–708).

of capital, people, and so on. The next part (Section 3) offers an overview of the nature and organisation of Singaporean firms in China. The third part (Section 4) examines in detail the political economy of Singaporean investments in China. Based on personal interviews in Singapore and China, three specific case studies are presented to illustrate my arguments concerning the role of host country politics in explaining the success (and failure) of China operations established by government-linked companies and private sector firms from Singapore. The concluding part (Section 5) describes some implications about the future of foreign firms in China.

The political geography of international investments: states and firms in global competition

Towards a theoretical framework of scale politics in governing international investments

The contemporary rescaling of political economy has received significant attention in recent geographic literature (reviewed in MacLeod & Goodwin, 1999b). This literature shows that the nation state is being increasingly reconfigured along local, regional, national, and supra-national scales. State power is no longer exclusively restricted to the national scale. This relativisation of scale (see Jessop, 1999) and the "rescaling" of state power has important implications for the governance of urban and regional development. Understanding national developmental trajectory requires us to examine not only the local politics of development but also the complex ways through which local politics are spatialised (i.e. how they interact with and are mediated by actors of different spatial scales—global, international, national, region, and so on). The literature offers some preliminary evidence in support of an emerging theory of local and, in some cases, regional states in determining trajectories of economic development and political governance in today's global economy. Bypassing the nation state, these rescaled local and regional states have promoted their direct territorial and functional transnational linkages with other cities and regions through inter-urban and inter-regional flows of capital and people. These flows may not always occur within the same country, as in the case of foreign direct investments and international migration.

When these latter cross-border flows of capital and people occur in the context of the contemporary rescaling of political economy, it raises all kinds of governance issues that significantly shape the outcomes of these flows. Some of these issues are schematically presented in Fig. 1. FDI is embodied in the international operations of TNCs. The success and/or failure of cross-border investments in different host regions/countries may well be related to the extent to which TNCs are fitted into the institutional agenda of rescaled local and/or regional states in the host countries (e.g. see Phelps & Tewdwr-Jones, 1998; Phelps, Lovering & Morgan, 1998). While they may matter in determining the success of FDI by providing the economic contexts for TNC operations, cost factors and business strategies are not sufficient in explaining the actual outcome of these operations. This is particularly the case in

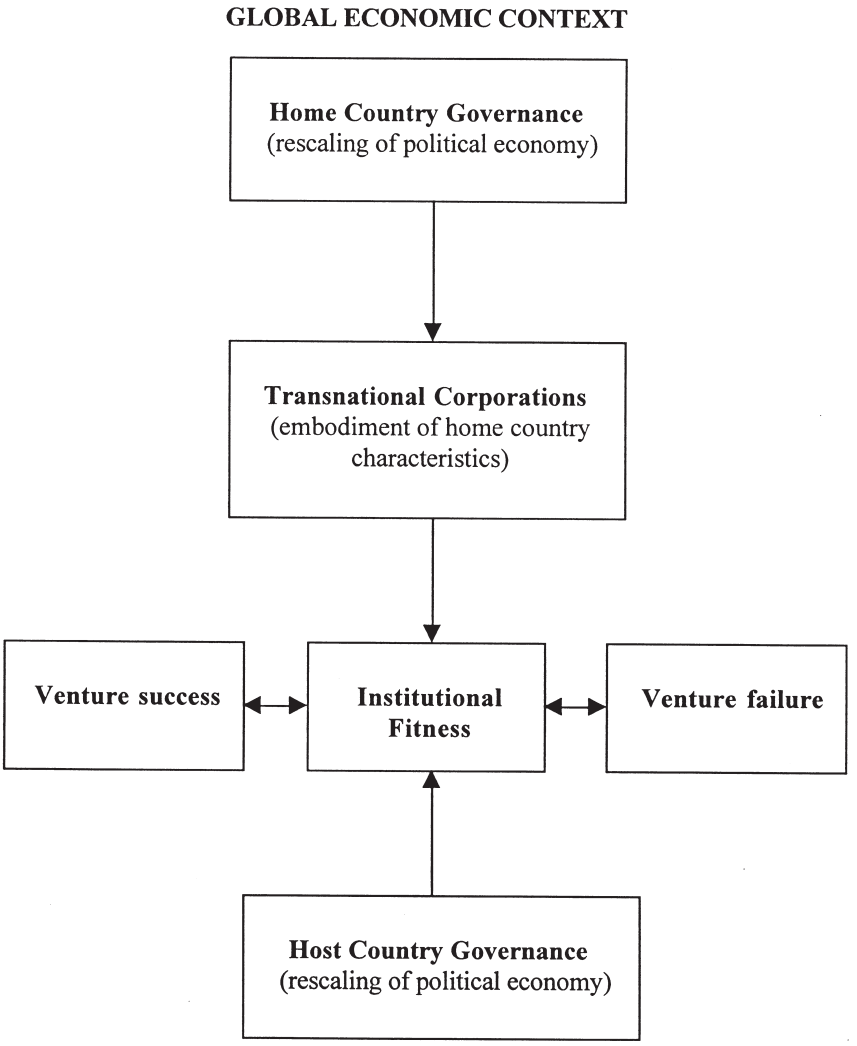

Fig. 1. A theoretical framework of scale politics in governing international investments.

developing countries in which the rules of the game are not transparent and well enforced. The "institutional fit" of TNCs into the needs and requirements of local and regional states becomes a highly important determinant of their operational outcome. Organisation studies have shown that TNCs are firmly embedded in their home-country institutional environments such that they remain national firms with international operations and bear some key institutional characteristics of their home countries (Hu, 1992; Dicken, Forsgren & Malmberg, 1994; Pauly & Reich, 1997; Doremus, Keller, Pauly & Reich, 1998; Yeung, 1998a). It is therefore possible that TNCs from different institutional environments and home countries may behave dif-

ferently and have a different extent of "institutional fit" with the agenda of host localities. As shown in Fig. 1, if incoming TNCs achieve a significant extent of "institutional fit" with the agenda of local and regional states, it is likely that their ventures will be successful. On the contrary, if these TNCs contradict the agenda or even challenge the institutional power of local and regional states, they are likely to face significantly more problems and difficulties in their transnational operations.

What then is the key factor in explaining these different configurations of "fitting" relationships between different TNCs and host localities? I argue that it is *local politics* that shapes the necessary causal relationships between states and TNCs. Although the internationalisation of capital (or TNCs) requires the necessary internationalisation of the nation state (Murray, 1971; Picciotto, 1991; Glassman, 1999), the empirical outcome of such internationalisation processes is highly contingent upon the conditions of specific localities in which these processes take place. Although the business and management literature argues that the existence of certain ownership, internalisation, and locational advantages is necessary to explain the raison d'être of TNCs (Dunning 1988, 1993), they are not sufficient to determine the outcome of their transnational operations. In particular, the *realisation* of these advantages in the host countries is highly contingent upon local factors. On the one hand, some local factors may be formidable obstacles to international production. For example, the existence of intricate webs of local social and political relationships in many developing countries may pose a major location-specific *dis*advantage to foreign firms. In fact, these relationships among local firms and local government authorities may rival foreign firms and thereby significantly increase their transaction costs of entering into the host countries.

However, the same set of local factors may be turned into key strategic advantages for foreign TNCs that are capable of tapping into these local networks and relationships. To do so, many foreign firms need to *localise* their global operations in the host countries and to collaborate with local states for mutual gains. Through this process of global localisation, many foreign firms are able to build up their political leverage and, very often, their dominant position in the host locality. These differential configurations of state–TNC relationships become an important nexus in explaining the empirical outcome of TNC operations in the host localities. Before I move on to explain the success and failure of Singaporean firms in China, it is necessary to understand the rescaling of political processes in both China and Singapore, and the mismatch of these scale politics in the context of certain government-led investments in China.

Unravelling scale politics in China's political economy

As a socialist economy, China has experienced tremendous transformations during the past two decades. These transformations result primarily from economic reform in China since December 1978. The ways in which this economic dynamic is unleashed in China are contingent upon the continuous rescaling of central–local politics (cf. Walder, 1995). Much has now been written on China's economic reform, and its implications for political governance and economic development. It is therefore

not my intention here to repeat the main arguments and observations about the reform. Rather, I intend to focus on one specific aspect of China's economic reform to contextualise my institutional explanations of Singaporean ventures in China. The rescaling of central–local politics in post-Mao Chinese economic governance towards the local scale (in favour of local governments, local collectives, and local enterprises) has very important implications for understanding the success and failure of foreign investments in China. In particular, the key process in China's economic reform has been the decentralisation of "many decisions to the firm level, or at least to the local government level" (Gordon & Li, 1991, p. 202). These decisions are related to output, production technology, and the timing of production. Many state-owned enterprises (SOEs) have become much more profit-oriented, although large-scale SOEs continue to be monitored closely by the state (Guthrie, 1997; Nolan & Wang, 1999).

The implementation of self-responsibility policies and other aspects of hardening budgeting constraints has compelled these Maoist SOEs "to consider business decisions that make the most economic sense" (Guthrie, 1998, p. 267). The management of SOEs has also been transformed into one in which these former economic units are no longer just factories under central government's planning, but also are profit-making and market-driven enterprises (Child, 1994). A new system of industrial governance has been implemented through the Director Responsibility System (DRS) and Contract Responsibility System (CRS). Under the DRS, the party committee no longer serves as the leading organ of the SOE; its director is no longer a mere executor of party decisions. According to the Enterprise Law of 1988, the director of an SOE is "fully responsible for the material and spiritual development of the enterprise" (quoted in Child, 1994, p. 68). Under the CRS, the responsibility of attaining agreed targets and the formulation of appropriate business plans are passed down to the management of the enterprises. These new systems have virtually revolutionised China's industrial organisation and economic governance.

The economic restructuring of the state sector has also contributed to the rise of *local* economic elites and cadre entrepreneurs who were former party secretaries in charge of SOEs and local governments (see Pearson, 1997). Economic reform in China has now made it much easier for local governments, collectives, and individuals to set up their own enterprises outside of the state planning structure, leading to the emergence of town and village enterprises (TVEs) set up in various townships and villages. Since 1985, we have witnessed a new diversity in organisational forms and a plurality of property rights in China (Nee, 1992; Naughton 1994, 1995; Guthrie, 1997; Peng, 1997). The new fiscal system introduced in 1985 allowed the local government treasury to retain all profit taxes from locally controlled private firms and some state enterprises. Other tax payments, such as product tax and value-added tax, were still shared with the central government. By the late-1980s, over 50% of China's state budget was in the hands of local governments (Nee, 1992, p. 1; see also Walder, 1995; Oi, 1999). Another key dimension to China's tax reform is the growth of extra-budgetary revenues that are not shared with higher levels of government. These revenues include non-tax levies (e.g. local fees and surcharges) on local and newly established enterprises. By the end of the 1980s, extra-budgetary funds

grew to equal the national budget (Walder, 1995, p. 280). These funds also helped local governments to survive austerity measures introduced by the central government to curb inflation during the 1980s and early 1990s (Huang, 1996).

This new fiscal system has significantly encouraged a "gold rush" phenomenon in which almost all local governments rush into setting up TVEs and other forms of business undertakings in order to "break away" financially from the central government. This phenomenon of the rise of local corporatism has led to two important outcomes at the local level. First, direct and indirect competition between local governments becomes a core attribute of rescaled politics in China's transitional economy. The relaxation of planning and coordination at the level of the central government implies that any local government can engage in commercial activities that are perceived as positively contributing to their local revenue bases. This is the case even though these activities (e.g. investment in more profitable processing sectors) may not fit into the overall economic plan of the central state that promotes such strategic sectors as energy, infrastructure, and raw materials (Huang, 1996; Guthrie, 1997). Moreover, resources accessible through plans of the central government during the reform era have become rather limited as local enterprises and TVEs fall outside these plans. As a consequence, we find many local governments trying to establish all sorts of industrial parks or economic zones to attract foreign investments; many also enter into cooperative joint ventures with foreign firms to tap into foreign capital, technology, and market access (see case studies below). By the end of 1998, these non-state-owned enterprises constituted 98.2% (7.8 million units) of China's industrial enterprises, and accounted for some 86.2% (RMB$10.3 trillion or US$1.3 trillion) of total industrial production, of which 38.4% (RMB$4.6 trillion or US$575 billion) came from collective-owned enterprises (State Statistical Bureau, 1999, Table 13-1). This compares favourably to the mere 23% contribution to total output value by these collective enterprises prior to 1978.

Second, local governments are increasingly in control of their own resources and firms, and depend much less on the central government for financial support. This reduced dependence on the central government not only increases the political power of key local party members (cadre entrepreneurs), but also encourages indirectly their enthusiasm in China's distinctive mode of socialist capitalism.[4] Indeed, local governments may actually place higher priority on assisting TVEs and other local enterprises than SOEs located in their jurisdiction. State policies are often interpreted selectively and implemented strategically in different ways by these local cadres and officials. Even Jiang Zemin, China's President, admitted in 1996 that "protectionism in some local governments and departments has become a serious problem as many pretend to comply but oppose covertly" (quoted in Lu & Tang, 1997, pp. 95–96). These deviant practices are subsequently tolerated by the central government as de facto policies with a local twist so long as they contribute to local economic develop-

[4] For example, in Wenzhou, a township located in Zhejiang, exceptional local coherence and solidarity among party cadres and peasants since 1949 has enabled them to resist state-imposed collectivisation and to protect local economic activities. It also explains why Wenzhou is the first township in China to achieve a predominance of private firms (Liu, 1992; Unger & Chan, 1999; cf. Wuhan in Solinger, 1996).

ment. As such, the socialist state in China has been characterised as a "sporadic totalitarian state with strong despotic power but weak infrastructural power" (Liu, 1992, p. 315).

This rescaling of central-local politics in China's political economy, however, complicates business transactions and joint ventures (JVs) between local states (via TVEs) and foreign investors (see Aiello, 1991; Eng & Lin, 1996; Hsing, 1998; Luo, 2000). Most existing studies of foreign joint ventures in China have focused on their performance in relation to such firm-specific variables as timing of investments, equity ownership, entry modes, and country of origin (e.g. Yan & Gray, 1994; Pan, 1996; Child, Yan & Lu, 1997; Luo, 1998a). Other studies of JVs in China have addressed the formation, transformation, and management of JVs, and the problems experienced (e.g. Shenkar, 1990; Beamish, 1993; Child, 1994; Luo, 1998b). How then do foreign firms in China seek political leverage to reduce the negative impact of host country regulation on their operations? A foreign firm can secure political leverage through its collusion (i.e. mutual dependence and induced cooperation) with local officials, party cadres, and business people (see earlier discussions). This phenomenon is an institutional outcome of *policy* or *administrative uncertainty* in China. For example, shifting government policies and the rescaling of politics in China play an important role in prompting foreign firms to enter into JVs to protect their interests. The policies of the Chinese government (e.g. regulations, licenses and favourable treatment) are constantly shifting in response to changing economic and other circumstances. This policy uncertainty has created a situation in which local authorities can selectively interpret state-level policies for strategic purposes (e.g. from legitimate rule-bending in favour of foreign firms to outright coercion of these firms). For example, a frustrated American businessman complained that "it does not matter much how the law says but how the person sitting in the [local] government office who interprets the law would say" (quoted in Lu & Tang, 1997, p. 86). Local politics therefore plays a tremendously important role in circumventing regulations imposed by the central government. It also complements the "bent effects" of *guanxi* or social relationships in weathering the harsh politics of the central government. Does this strategy apply to the experience of Singaporean firms in China? It depends on whether the Singaporean firm is a private firm or a government-linked company (GLC). To understand this difference in the role of private firms as embodiment of *guanxi* politics and GLCs as embodiment of scale politics, we need to pay some attention to the political economy of the Singapore end of the equation.

Undifferentiated scale politics in Singapore and the mismatch of politics in China

The political process in Singapore is characterised by its undifferentiated scale politics. There is virtually no difference between the national and the local scale in Singapore's political process because it is a city-state with a long-standing domination of the Peoples' Action Party (PAP) in national–local politics (see Yeung, 2000a). Because Singapore is a city-state in its own right, both the national and the urban/local scales are juxtaposed to explain Singapore's political economy. In other words, what happens to Singapore as a nation is also applicable to Singapore as a

locality or city (Yeung & Olds, 1998). This undifferentiated scale politics also allows the PAP state to engage in developmentalism to legitimise its existence. The Singapore state is highly successful in operationalising developmentalism at the national scale. When it engages in cross-border investments, the state and its affiliated companies find it difficult to understand the rescaling of political economy in host countries (e.g. China). This results in a mismatch of scale politics in the context of Singapore's government-led investments in China.

Initially, the Singapore economy inherited by the newly elected PAP from the British Administration in the immediate post-1959 period was weak in industrial bourgeoisie and lacked any significant manufacturing base. Indigenous entrepreneurship was not strong enough financially to shoulder the huge burden of industrialising Singapore. Moreover, the PAP-ruled state was suspicious of indigenous capitalists for fear of their pro-communist and pro-China attitudes (McVey, 1992; Menkhoff, 1993). The resource-deficient small state subsequently chose to rely on foreign capital to gain rapid economic growth in order to legitimise its political domination. In addition to creating institutional structures, the state employed other measures (e.g. labour market regulations) to make Singapore more attractive to foreign investment (Rodan, 1989; Huff 1995, 1999; Yeung, 1999a). The state also took up a heavy responsibility for the provision of public infrastructure through major state-owned enterprises (Yeung, 1998b; Yeung, 2000b). Many state-controlled statutory boards were established to provide for the nation its roads, electricity, transport and communication services. State-owned enterprises spun off from these statutory boards sowed the seeds for the domination of GLCs in the regionalisation drive in recent years. Rodan (1989, p. 77) argues that this trend reflected "the government's thinking that the question of industrial structure should not be left solely to the market—especially given the absence of a domestic industrial bourgeoisie of any consequence".

Temasek Holdings was set up on 25 June 1974 to hold and manage S$345 million (US$203 million) worth of equity invested in 36 companies (*The Straits Times*, 25 June 1999, p. 74). By 1983, the state had directly invested in 58 diverse companies with a total paid-up capital of S$2.9 billion (US$1.7 billion). These companies in turn wholly or partially owned some 490 firms in Singapore (Huff, 1995, p. 1428). Some of these large state-owned enterprises have grown significantly since then. Through privatisation since the late-1980s, many large former state-owned enterprises are now listed in the Stock Exchange of Singapore (e.g. Singapore Technologies, Keppel Corporation, Sembawang Holdings, and so on). These former state-owned enterprises have since been known as GLCs because the state still retains significant influence over their management control primarily through state-owned holding companies. As of 31 May 1999, the market capitalisation of first-tier public-listed GLCs controlled by Temasek Holdings alone was S$88.2 billion (US$52 billion) or 25% of total market capitalisation of the Stock Exchange of Singapore. The share of Temasek Holdings in these GLCs amounted to S$46.5 billion (US$27.4 billion) or 13.2% of total market capitalisation (*The Straits Times*, 25 June 1999, p. 74).

By the late-1980s, the state had become much stronger politically and economi-

cally. The domestic economy had experienced unprecedented growth for several decades. As the global economy is becoming more competitive, Singapore begins to realise that heavy reliance on foreign TNCs is no longer useful to attaining its long-term strategic goals. It is necessary to respond to this new global competition by developing its indigenous economic capabilities through tapping into growth potential in other countries. One such strategy is to regionalise its firms to capture the booming regional market. Senior Minister Lee Kuan Yew announced in January 1993 that the state was taking new initiatives to generate a bigger pool of local entrepreneurs and to building up the "external wing" of the Singapore economy (see Kanai, 1993; Régnier, 1993). This national strategic thrust is known as Singapore's "Regionalisation 2000". The extent of Singapore's outward investment, however, was relatively limited before the early 1990s and was very biased towards a few major geographical destinations. Compared to other advanced industrialised countries, the proportion of Singapore's FDI to its GNP is small. For example, Singapore's FDI reached 16% of GNP in 1991, compared to 30% for Switzerland, 36% for the Netherlands and 23% for the UK (Ministry of Finance, 1993, p. 20). In 1990, only 2293 (6%) of 36,573 companies in Singapore had regionalised their operations (Ministry of Finance, 1993, p. 70). Even among the Asian NIEs, Singapore compared very unfavourably in terms of its extent of transnational operations (Yeung, 1994; Yeung, 1999b).

The historical underdevelopment of indigenous entrepreneurship in the private sector has convinced the state that the regionalisation drive cannot be effectively taken up by private sector initiatives only. The state has to take up the role and the risks of spearheading regionalisation in two specific ways. First, GLCs and companies set up by statutory boards have the mandate to spearhead the regionalisation drive. Together with statutory boards, GLCs serve as partners to private sector companies in overseas ventures by selling their expertise to the private sector, forming joint ventures and consortia and leading in large infrastructural projects (Ministry of Finance, 1993). Second, the state engages in "political entrepreneurship" by opening up overseas business opportunities for private capitalists and negotiating the institutional framework for such opportunities to be tapped by Singaporean firms (Yeung, 1998b). How then does the state govern its investments via GLCs in China? What are the contradictions encountered by these GLCs in a political economy radically different from Singapore? How do GLCs resolve these contradictions (e.g. mismatch of scale politics) emanating from investing in China? What are the strategies of private firms from Singapore in incorporating *guanxi* politics to resolve their problems in China? These are the empirical issues to be discussed in the next two sections.

The nature and organisation of Singaporean ventures in China: an overview

This section offers a brief overview of the nature and organisation of Singaporean firms in China, based on primary data collected through interviews with 203 parent

TNCs in Singapore.[5] This overview helps to identify some generalised patterns of Singaporean ventures in China before I examine specific case studies of the politics of these Singapore investments in the next section. Some 151 parent TNCs (74%) in my survey have operations in China. Together, they own and control 365 subsidiaries and/or affiliates in China. Over 270 Singaporeans have been sent to work in these operations. In terms of ownership and management, a relatively large proportion of the respondents belongs to private sector SINTNCs (55.6%). Another 23.2% of the 151 SINTNCs are public listed in the Stock Exchange of Singapore, which implies that they tend to have strong financial support from the capital market in their home country. The same observation also applies to 19 GLCs. As shown in the case studies later, many of these GLCs have ridden on strong inter-governmental relationships between Singapore and China for their projects in China.

Table 1 presents some key attributes of the China subsidiaries and/or affiliates of these SINTNCs. In terms of sectoral distribution, 42% of the China operations by SINTNCs in my survey are in the manufacturing industries. Another 30% operations are established in other services, including hotels and producer services. This distribution in favour of manufacturing industries and other services does not deviate too much from a recent report by the Department of Statistics (1998, p. 5). In this report, 55% of activities by Singaporean firms in China in 1996 were shown to be in the manufacturing sector, followed by real estate (20%), commerce (10%), financial services (6%) and others (9%). This heavy bias towards the manufacturing sector is also reflected in the sectoral distribution of Singaporean investments in other developing Asian economies such as Indonesia, Thailand and Vietnam.

In terms of investment forms and entry modes, most foreign firms in China tend to enter into joint ventures for various reasons. Singaporean firms in China are not exceptional. Some 56.3% of parent SINTNCs have entered into JVs in China. Interestingly, a large proportion of parent SINTNCs (33.3%) have also set up wholly-owned subsidiaries in China. In terms of functions, 90 subsidiaries or JVs of parent SINTNCs in China have been established to serve local markets with local product or services (66.2%). Cost advantage has attracted only 7.4% respondents to establish their operations in China. This recognition of the important role of markets in attracting foreign investments from Singapore contradicts claims in some earlier stud-

[5] Empirical data in this section are derived from a larger, very detailed firm-level database on the globalisation of 203 Singapore-based transnational corporations (Yeung, 1999c). This database is based on a large-scale research project conducted between November 1997 and January 1999. At the end of the first stage of this project, we successfully interviewed 203 parent companies from an incomplete population of 822 Singapore companies having foreign operations. This represented a 25.8% response rate. The second stage of the research involved personal interviews with subsidiaries and affiliates of Singapore TNCs in China during May–June 1998. In contrast to the corporate survey in Singapore, no questionnaires were used in the interviews. Instead, the interviews were completely unstructured and almost all taped. Their duration ranged from one hour to several hours. I managed to interview the top executives of 13 Singaporean firms in Guangdong province and another 14 in Jiangsu province, China. Some of these interviewees were local Chinese managers or business partners. For the purpose of anonymity and confidentiality, the interviewees and their company information reported in this paper are disguised.

Table 1
Characteristics of Singaporean firms in China

Characteristics	Total	%
Sectoral distribution of investment		
1. manufacturing	61	42.1
2. other services (including hotels and other producer services)	44	30.3
3. transport and communications	13	9.0
4. wholesale and retail trade	12	8.3
5. finance and real estate	11	7.6
6. construction	4	2.8
Total[a]	145	100.00
Form of investment		
1. joint venture	81	56.3
2. wholly-owned subsidiary	48	33.3
3. other forms	15	10.4
Total[a]	144	100.00
Functions of subsidiaries		
1. to serve local markets with local products/services	90	66.2
2. to supply raw materials and resources to parent firm	18	13.2
3. to serve global/regional network of customers	11	8.1
4. to take advantage of lower production costs	10	7.4
5. other functions	7	5.1
Total[a]	136	100.00
Motives of investment		
1. important/potential growth region in the industry	130	61.3
2. serving local/regional/global clients with quality products/services	34	16.0
3. cost-saving reasons	17	8.0
4. government support/political stability	9	4.2
5. others	22	10.4
Total[b]	212	100.00

Source: Interview data.

[a] The number is less than the total number of responses (N=151) because some responses are missing.

[b] The number exceeds the total number of responses (N=151) because up to three answers were allowed in the survey.

ies (e.g. Lu & Zhu, 1995; Tan, 1995). Similar observations are applicable to the motives of Singaporean investments in China. Of all the 212 responses in Table 1, 164 responses or 77.3% are related to the role of market growth or the role of market presence or servicing specific clients in China. Cost-saving reasons are again insignificant, accounting for only 17 responses (8%). It can be concluded that most SINTNCs have invested in China primarily for market reasons, not for cost savings per se.

Many Singaporean firms have encountered serious problems in their China operations. Table 2 shows that host government regulations seem to pose a formidable problem (2.5 average score). Other major problems include the lack of personal experience, problems with local partners, and local labour force problems (see also *Business Times*, 8 October 1997). How then have these SINTNCs resolved their

Table 2
Problems and solutions of Singaporean firms in China

Problems of ventures in China	Average score[a]
1. host government regulations	2.5
2. lack of personal experience	3.1
3. labour force problems	3.2
4. problems with local partners	3.2
5. lack of market information	3.4
6. lack of special connections with host countries	3.4
7. lack of sufficient financial assets	3.4
8. high costs of operations	3.4
9. lack of technological edge	3.8

Solutions of venture problems in China	Total	%
1. reliance on local partners and/or adopt local practices	128	53.6
2. sending trusted executives from Singapore or direct involvement of top executives	38	15.9
3. asking help from local or home governments	37	15.5
4. closing down ventures or changing local partners	36	15.1
Total[b]	239	100.00

Source: Interview data.

[a] Respondents were asked to rank from 1 (very important) to 5 (not important at all) all potential/current problems of their operations in China. The average score is calculated on the basis of available responses.

[b] The number exceeds the total number of responses (N=151) because up to three answers were allowed in the survey.

operational problems in China? Of the 239 responses to the question on the solutions of venture problems in China, an overwhelming 128 (53.6%) are related to the reliance on local partners and practices (see Table 2). Another 37 (15.5%) responses refer to asking local governments for help. Together, these 165 responses (69%) suggest using local connections and politics to resolve problems of operations in China. These findings broadly confirm some earlier studies of the problems encountered and strategies adopted by Hong Kong and Taiwanese firms in China and elsewhere (e.g. Thoburn, Leung, Chau & Tang, 1990; Smart & Smart 1991, 1998; Leung, 1993; Chen, 1996; Yeung, 1997; Yeung, 1998c; Hsing, 1998).

Table 3 presents some further analysis to verify whether the above responses by parent SINTNCs differ by the form of investment. It should be noted that differences in Table 3 are not statistically significant.[6] They are at best indicative of some general trends rather than empirically tested generalisations. It appears that more SINTNCs enter into joint ventures rather than wholly-owned subsidiaries in China to serve local markets with local products and services. This entry mode makes sense because,

[6] A similar statistical test has been conducted on the industrial sector as an independent variable. However, no statistically significant findings are generated. I have therefore decided not to report the cross-tabulation of data in Table 1 by the industrial sector of SINTNC operations in China.

Table 3
The relationship between forms of investment and nature of Singaporean firms in China

Nature of Singaporean firms in China	Joint ventures	Wholly-owned	Other forms
Functions of subsidiaries			
1. to serve local markets with local products/services	57 (74)	23 (52)	9 (64)
2. to supply raw materials and resources to parent firm	6 (8)	11 (25)	1 (7)
3. to serve global/regional network of customers	2 (3)	6 (14)	3 (21)
4. to take advantage of lower production costs	8 (10)	2 (5)	0
5. other functions	4 (5)	2 (5)	1 (7)
Total[a]	77 (100)	44 (100)	10 (100)
Motives of investment			
1. important/potential growth region in the industry	41 (59)	33 (77)	9 (64)
2. serving local/regional/global clients with quality products/services	14 (20)	7 (16)	3 (21)
3. cost-saving reasons	5 (7)	3 (7)	1 (7)
4. government support/political stability	5 (7)	0	1 (7)
5. others	4 (6)	0	0
Total[a]	69 (100)	43 (100)	14 (100)
Problems of ventures in China[b]			
1. host government regulations	2.1	1.8	2.5
2. labour-force problems	2.2	2.8	3.0
3. lack of technological edge	2.4	2.2	1.9
4. high costs of operations	2.5	2.5	2.1
5. lack of sufficient financial assets	2.8	2.8	2.8
6. lack of market information	2.9	3.0	3.6
7. lack of personal experience	3.5	3.7	3.9
8. problems with local partners	3.6	3.4	3.7
9. lack of special connections with host countries	3.9	3.8	4.0
Solutions of venture problems			
1. reliance on local partners and/or adopt local practices	34 (49)	23 (56)	4 (31)
2. sending trusted executives from Singapore or direct involvement of top executives	12 (17)	5 (12)	5 (38)
3. asking help from local or home governments	8 (11)	10 (24)	0
4. closing down ventures or changing local partners	16 (23)	3 (7)	4 (31)
Total[a]	70 (100)	41 (100)	13 (100)

Source: Interview data.

[a] The number is less than the total number of responses (N=151) because some responses are missing.

[b] Respondents were asked to rank from 1 (very important) to 5 (not important at all) all potential/current problems of their operations in China. The average score is calculated on the basis of available responses.

as evident in the case study later, Singaporean investors often rely on the marketing and distribution knowledge of their local partners in China. About 25% of the wholly-owned subsidiaries of SINTNCs in China are established to supply raw materials and resources to their parent companies. These subsidiaries are internalised under the direct control of their parent companies in order to secure better supply chain management and to reduce transaction costs. These resource-oriented SINTNCs therefore prefer not to enter into joint ventures with Chinese partners. On the other hand, SINTNCs enter into joint ventures for a variety of motives, ranging from marketing strategies to cost-saving strategies and encouragement from home-country government. An overwhelming 77% of SINTNCs set up wholly-owned subsidiaries in China because of its importance as a growing market.

Table 3 also shows that wholly-owned SINTNC subsidiaries in China tend to have more problems with host government regulations than joint ventures of SINTNCs. This is possibly because joint ventures allow SINTNCs to circumvent local government regulations by tapping into the knowledge expertise and *guanxi* connections of their Chinese partners. As evident in the next section, this reliance on local partners does not always work because the local partners may very often manifest aspects of the state apparatus itself. In this regard, it is interesting to find that more joint ventures by SINTNCs (23%) tend to opt for an "exit" strategy to overcome their problems that may become intractable in the context of China's rescaled political and institutional structures. More SINTNC wholly-owned subsidiaries (56%), however, rely on local connections or adopt local practices to solve their operational problems. In the next section, I examine several case studies to show how local politics in China can make and break transnational ventures by Singaporean firms.

Politicising Singaporean investments in China: contrasting outcomes

Table 4 presents some background information on three specific case studies of Singaporean ventures in China. These case studies are chosen on the basis of their relevance and completeness of information. They are relevant because they represent the main problems and solutions faced by government-linked companies and private-sector SINTNCs summarised in Table 2. First-hand information obtained from personal interviews with top executives in these ventures allows for more complete evaluation of the nature and politics of Singaporean investments in China. These case studies are used to *illustrate* the main arguments encapsulated in the theoretical framework of this paper. They are meant neither as empirical proofs nor for wider generalisations. Notwithstanding their potential bias, the choice of two government-sponsored industrial park projects as case studies is critically important for several reasons. First, these projects are in themselves highly significant and interesting because they represent inter-state efforts to transfer economic development models from one city-state (Singapore) to another giant country (China). The potential for mismatch of scale politics may be magnified. These two case studies show that differential outcomes of ventures may be a function of the nature and extent of involvement by the Singapore government. Second, the nature of these two ventures

Table 4
Profile of selected case studies of Singaporean ventures in China

Nature	Wuxi–Singapore Industrial Park (WSIP)	China–Singapore Suzhou Industrial Park (CSSIP)	Wuxi Paper
Year of establishment	Contract signed in 1993; opened in June 1996	Contract signed in February 1994; opened in October 1996	Established in 1994
Key shareholders from Singapore	Singapore Technologies Industrial; Temasek Holdings; JTC International	Singapore Suzhou Township Dev. Co. (SSTD) comprising 20 statutory boards, GLCs and listed private firms from Singapore and 4 TNCs	SIN Paper
Key Chinese partner(s)	Wuxi municipality	China Suzhou Industrial Park Co. (CSIPC) comprising 11 state-owned enterprises	A TVE in Wuxi municipality
Amount of investments	About US$150 million	Up to US$20 billion	US$6 million
Major problems	None	Slow progress and lack of commitment from local partners; competition from Suzhou New District; involvement of government at different spatial scales	Conflicting objectives with local partners; obstacles set up by local partners
Keys to success	The "Singapore experience": Singapore's reputation in township development and management; satisfying the economic and political interests of the local partner	The "Singapore experience": Singapore's reputation in township development and management	Change of general manager sent by SIN Paper; increase shareholding from 51% to 90%

Source: Interview data and company reports.

may complicate local politics in the host country. Whereas the central government may be interested in the transfer of managerial expertise through infrastructural development, local municipal governments may be more interested in direct economic benefits of these projects and the transfer of technologies through manufacturing investments. Third, these major industrial park developments quantitatively account for a substantial amount of Singapore's investments in China. They may not be so representative in terms of the number of Singaporean projects in China. But they are certainly one of the most important forms of Singaporean investments in China.

This section argues that, on the one hand, the initial economic and management advantages may explain the entry of these SINTNCs into China, e.g. inter-governmental mandates given to the Suzhou Industrial Park. On the other hand, their success or failure is highly contingent upon such *local* factors as the alignment of mutual interests with their JV partners and other local power brokers. My discussion is divided into two parts. The first part examines the ineffective role of home-country government in the success of ventures by government-linked companies in China. This is particularly a problem if there is a mismatch of scale politics between the Singapore government (embodying national/local scales), the Chinese central government (national scale), and local municipal authorities (local scale). The second part examines the role of *guanxi* or relationship with local governments in explaining the success/failure of private-sector SINTNCs in China. The absence of home-country government influence in this situation, however, allows for flexibility in incorporating *guanxi* politics by private firms from Singapore to resolve their problems in China.

Government-led regionalisation: Singapore's industrial parks in China

Even ventures strongly supported by the Singapore government, in particular those ventures by GLCs, may not necessarily lead to immediate success in China because of the significant influence of local politics and Singapore's failure to understand this relatively recent rescaling of China's political economy. Some of these ventures have also received a top priority mandate from China's central government (cf. earlier studies of foreign firms in China). The existence of local politics reveals one of the main difficulties confronting JVs of foreign firms in China—different objectives of their local partners. Many foreign partners hold a *long-term* view of their JVs in China. To them, entering into JVs in China is more than just a statutory requirement. Very often, they view JVs as facilitating their access to Chinese markets and securing location-specific resources. Their local Chinese partners, however, may have different objectives that are primarily *short term*. For example, Child (1994) notes that Chinese managers are often motivated to seek specific local advantages of greater managerial autonomy, higher salaries, and operating privileges. They also have a strong interest in achieving short-term profits because profitable projects bring in tax revenues and prestige to the local municipality, city, or village. These attitudes and behaviour on the part of the Chinese local partners are an institutional outcome of central–local politics explained earlier. Consequently, there are significant differences in the business and production objectives between Chinese partners and foreign firms (see the example of an automobile JV in Aiello, 1991).

What about the case of government-linked companies from Singapore that have invested substantially in infrastructural projects in China? I examine two contrasting cases here: (1) the Wuxi–Singapore Industrial Park (WSIP) and (2) the China–Singapore Suzhou Industrial Park (CSSIP) (see Fig. 2). This idea of developing a township and bringing Singapore's style of economic management to China was first mooted by the former Prime Minister Lee Kuan Yew when he met China's late leader Deng Xiaoping during his first visit to Singapore in 1978 (Tan, 1995, p. 64). It involved the Singapore government taking the lead to develop an industrial township in China

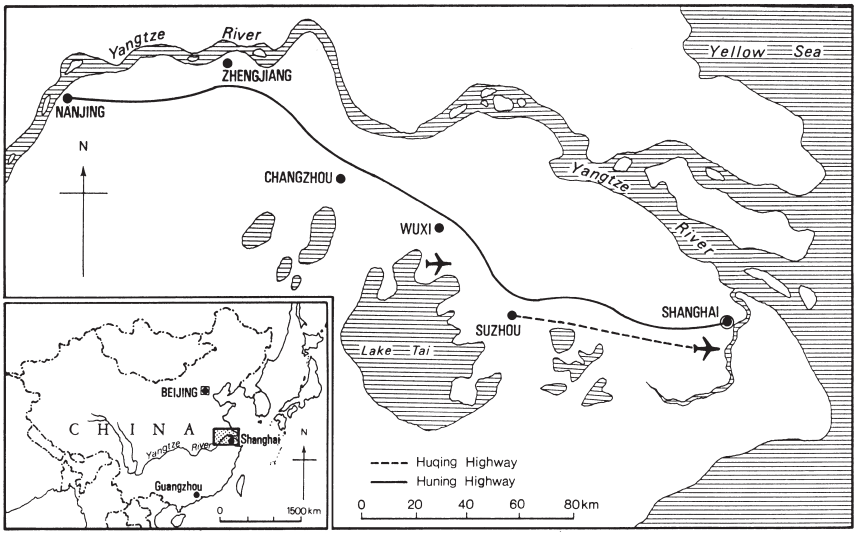

Fig. 2. The location of Singapore industrial parks in Wuxi and Suzhou in the Jiangsu Province, China.

(Economic Development Board, 1995, pp. 20–21). These projects therefore received highest political blessings at the national level from both the home- and host-country governments. In practice, however, I found that the WSIP is relatively more successful than the CSSIP because of the alignment of mutual interests and interdependence between the Singapore and the Chinese partners in the former project. Located at the economic heart of Jiangsu Province in China, the WSIP offers good infrastructure facilities and an ideal environment for high-tech manufacturing. To date, the WSIP has already completed Phase I of development that is equivalent to 10% of the 1000 hectare master plan.[7] Phase II is almost completed with another 131 hectares of factory space. The occupancy rate is about 70% with at least 35 foreign firms, many of which are such leading TNCs as Siemens, Seagate, National/Panasonic, Sumitomo Electric, KEC, ALPS, and so on. This is considered good performance in the midst of the 1998/1999 Asian economic crisis. According to my interviewee, the success of the WSIP has been attributed to two factors. First, Singapore's strong track record in building and operating industrial parks efficiently (see Rodan, 1989; Low, 1998), that is the "Singapore label" proves to be a strong brand name when foreign firms choose specific industrial parks for their manufacturing operations. My interviewee believed that "having the Singapore presence is a plus point. A number of tenants are here because this park has the Singapore image. This is the main reason why they preferred to come here. They believed in Singapore's management and we've developed it here."

Second, and more importantly, the role of the Singapore government in the WSIP

[7] All information on WSIP is based on an interview with a top executive in WSIP on 29 June 1998.

is gradually reduced over time. This proves to be very useful in allowing the WSIP management to develop flexibly their full commercial capabilities and to match their interests with that of local governments and business partners. During the inception stage, the Economic Development Board of Singapore, a powerful statutory board of the Singapore government, was active in assisting and promoting the WSIP. Such top Singapore government officials as Deputy Prime Minister Lee Hsien Loong were also present during the signing ceremony of major tenants. Today, however, the WSIP has moved on to become a viable venture on its own merits. My WSIP interviewee noted that "it's a truly commercial venture. It's not fair for us to always bring in the [Singapore] government support. With this visibility, it's not fair to investors from other countries, like China. I think these ventures must be able to stand on their own, to survive, and to compete." One key dimension of this relative autonomy and independence from the Singapore government is that it allows the local partner of the WSIP, the Wuxi Municipal government, to benefit fully from the joint venture. Instead of viewing the WSIP as a top-down venture agreed at the Singapore–Beijing level, the Wuxi Municipal government has been fully supportive in the initial conception and the subsequent implementation of the industrial park project. Because of the absence of vested interests in similar infrastructural projects in the Wuxi municipality at the beginning of the WSIP, the local partner has taken the project seriously and given the WSIP management a lot of support and autonomy. To the local partner, the success of the WSIP will bring in both financial rewards and symbolic prestige. In financial terms, the WSIP venture can be an important source of revenue for the Wuxi Municipal government in an era of decentralisation and economic reform. In symbolic terms, the success of the WSIP will further enhance the political position of Wuxi cadres at the levels of the provincial and the central governments. This satisfaction of mutual interests is an important dimension of the good performance by the WSIP.

Through frequent liaison with local officials from Wuxi City, the WSIP management also gains good support from the local partner. My interviewee commented that "one good thing is that the local partners leave it to us to do it the Singapore way. Otherwise, things may not turn out as good. So they give us the leeway and we do the job our way. There must be a certain amount of trust involved and we do not disappoint them." This relative autonomy allows the WSIP to develop its infrastructure speedily. In fact, according to another interviewee who is the director of a SINTNC in the WSIP, their choice of the WSIP over the CSSIP was very much because of the swiftness and flexibility of the WSIP management. Although this SINTNC's main customers were located in Shanghai which is nearer to the CSSIP, the WSIP was chosen for its rapid pace of development and support from the Wuxi municipal government. The WSIP has therefore turned local politics to its competitive advantage by gaining support from its local partner and ensuring a smooth implementation of a Singapore-styled industrial park development.

To understand the important role of local politics and political rivalry in explaining the daunting problems confronting foreign ventures in China, I now turn to the high-profile China–Singapore Suzhou Industrial Park (CSSIP) that has the symbolic support from top Chinese and Singaporean statesmen. By early 1997, the CSSIP project

began to face mounting pressures of poor profitability and slow implementation, although it was officially inaugurated slightly later than the WSIP on 26 February 1994. The project started in May 1994 when Keppel Corporation, a major GLC with shipyard background, led a consortium of 24 Singapore companies to form the Singapore–Suzhou Township Development Company (SSTD). Ten of these 24 Singapore companies were government-linked companies and statutory boards and their share was S$115 million (US$67.6 million) (*The Straits Times*, 15 January 1998). The China Singapore Suzhou Industrial Park Development Company (CSSD) was a S$75 million (US$44 million) joint venture between the Singapore consortium, SSTD (65%), and their Chinese counterpart, China Suzhou Industrial Park Company (CSIPC), which comprises 11 state-owned enterprises mainly from Suzhou (35%). It aimed to develop an industrial township covering an area of approximately 70 square kilometres. The total cost of the township was estimated to be S$30 billion (US$17.6 billion) and it would take about 20–30 years to complete. When fully developed, the township could support a population of 600,000 and provide employment for more than 360,000 people.

By June 1998, four years after the initial launch of the Suzhou township project, it became clear that the loss-making developer CSSD could not expect to make money in the near future (*The Straits Times*, 18 April and 19 June 1998; *Far Eastern Economic Review*, 4 March 1999). The park has been experiencing yearly losses averaging US$23–24 million since establishment and is further expected to chalk up accumulated losses of US$90 million by the end of 2000 (*The Straits Times*, 15 September 1999). Although by the end of March 2000, cumulative contractual investment in the CSSIP reached US$7 billion (*The Straits Times*, 18 April 2000), it was still far below the US$20 billion target. About US$3.5 billion of these investment commitments were realised and it was unclear how much more would be utilised in the context of the Asian economic crisis. In term of physical development, the CSSD had prepared 11 square kilometres (about 15.7% of the total master plan) for occupation by tenants. On 28 June 1999, the Singapore government signed a memorandum of understanding with the Jiangsu government to cut its stake in the Suzhou Industrial Park project from 65% to 35%. It also agreed to hand over the management and control of the project to the Chinese government on 1 January 2001 (*The Straits Times*, 29 June 1999). Both governments reassured investors that the new management would be committed to the CSSIP and would continue to provide the same high level of services that investors had come to expect. It was apparent, however, that the strongest selling point of the CSSIP, i.e. “the Singapore experience”, will vanish by 2001.

According to a top executive from the CSSD interviewed in Suzhou on 3 July 1998, two main problems confronted the CSSD and their CSSIP project: (1) differences in partners’ objectives and (2) complex involvement of different levels of governments. The first main problem of the SIP originated from *the different and conflicting objectives* held by key partners of the Singapore Suzhou township (interviewed in Suzhou, 3 July 1998). As noted recently by Singapore’s Senior Minister Lee Kuan Yew (*The Straits Times*, 1 October 1999), the mutual identity of interests at the central governments between Beijing and Singapore was not shared

by the working parties on the ground (i.e. local governments). On the one hand, the central government at Beijing wanted Singapore to help to transfer its software or know-how in developing a township, replete with factories, commercial complexes, housing and social amenities that could then be replicated throughout China. On the other hand, the major local partner, the Suzhou municipal government, was interested in the hardware and took profit-making as the top priority of the township project. S. M. Lee further commented that "Suzhou does not want to go around to build 100 industrial parks in China. They just want more factories, more jobs, more money, and more promotions in Suzhou . . . *There was no identity of goals at that level*" (quoted in *The Straits Times*, 1 October 1999; my emphasis). This conflict of partners' interest at the local level is clearly an institutional outcome of "fiscal politics" in a shifting central–local relationship during an era of decentralisation and local autonomy in China (see Section 2). It also explains the rivalry between local states in China and foreign states/TNCs.

From Singapore's perspective, however, the township represented the first ever transfer of Singapore's economic management "software" to another country. As evident in the high level of personal involvement by leading statesmen from Singapore, the Singapore government had put its stakes, in the forms of reputation and credibility, into the CSSIP project. Comparing the CSSIP with the WSIP, my interviewee from the CSSD noted that:

> No. It is not even similar. Wuxi one [WSIP] is GLC-led and a joint venture. There is no direct government involvement. In that sense, you know, you don't have to deal with the government. It is a pure commercial deal. Whatever decision is needed, the board of directors will settle. Here in CSSIP, whatever decision needs approval from not only the board, there is a wider perspective. In that sense it makes the project more complicated (Interviewed in Suzhou, 3 July 1998).

Profitability, though an important objective, was not the most important concern (compared with the WSIP). Rather, it was the reputation and credibility of the Singapore government's track record in township development and management that must be guarded at all costs.

> We are quite different from any other companies. I guess some things are quite sensitive because we are like any normal company. In the sense that your ultimate objective is to make profit and whatever mean you use, it doesn't matter. So long as you do not cause embarrassment to the company. You can be above table, under table, back door, front door or whatever you can think of, but not for us. Number one we cannot embarrass the Singapore government. . . . The [CSSIP] project represents the country [Singapore]. But the company [CSSD] doesn't. But yet people will associate the company with the country (Interviewed in Suzhou, 3 July 1998).

The strict adherence to Singapore government's guidelines has resulted in a very responsible and accountable institutional set-up in the CSSIP. For example, an article

by China's official Xinhua News Agency in December 1998 noted that "through strict laws and regulations, and drawing on Singapore's experience of honest and clean government, not a single civil servant in the [CSSIP] 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 Straits Times*, 11 December 1998). The subtle but important difference in objectives accounted for major perception differences by the two parties, contributing to protracted conflicts and slow implementation of the project.

The second main problem confronting the CSSIP was *the complex involvement of different government authorities* at different spatial scales, further complicating the park's business development. My interviewee commented that:

> It is a complex thing. And here is not just the local government because it is between the two countries. So Beijing is involved. Jiangsu [provincial government] and Nanjing [provincial government] are involved. So people here are under microscopic examination. So you can imagine. When you are under microscopic examination, what do you do? Your behavior is different. Again it is no more like a private company and the local government kind of relationship [e.g. WSIP]. In that kind of business sense, I do whatever I can to please the local government and it will provide whatever to facilitate my business (Interviewed in Suzhou, 3 July 1998).

Because so many levels of government (central, provincial, municipal, and district) were involved in the CSSIP, it became very difficult to please everybody and delay in the project implementation was inevitable (compared with the WSIP). Whereas the central government wanted to show their commitment to Singapore's kind offer of "software transfer", local government authorities preferred to squeeze as much from the CSSIP project as possible in order to fulfil their capital accumulation objectives. One of the main sources of tension was the diversion of promotional efforts and resources of the Suzhou municipal government from the CSSIP to a rival industrial park, the Suzhou New District (SND). This was clearly perceived by the Singapore government as a sign of lack of commitment by local Chinese partners. Interestingly, the SND had existed since 1989, long before the proposal to establish SIP in 1994. As a competitor of the SIP, the SND received land and infrastructure investments on special terms (*The Straits Times*, 7 April 1998). It was also given the same official status as the SIP by local authorities. This contrasts with the official instruction from President Jiang to Jiangsu's provincial party secretary and Suzhou's city mayor that the SIP is the "top priority of all priorities" as a national and government-to-government project (*The Straits Times*, 10 March 1998).

Because of its significantly lower charges and the favourable attention granted by the Suzhou government, the SND became a formidable competitor to the CSSIP. As late as March 1999, Singapore was still submitting a detailed proposal to the Chinese central government on how to resolve the outstanding conflicts in Suzhou (*The Straits Times*, 14 May 1999). By June 1999, it was clear that the Singapore government had lost faith in the commitment on the part of the Chinese and decided to complete

only a portion of the SIP, leaving the rest of the project to its Chinese partners. Senior Minister Lee Kuan Yew openly declared that "obviously we are not happy because we are not getting the kind of attention which we were assured that we would get, special attention. Indeed, what we are getting now is competition. Having learnt how we are doing it, they can always duplicate it and offer it at a lower rate of land" (quoted in *The Straits Times*, 10 June, 11 June and 4 August 1999). The Singapore government's lack of understanding of the importance of local politics in China has led to a significant loss in both financial costs and international reputation. As of 1 August 1999, Singapore's statutory boards and government-linked companies invested some US$147 million in equity and loans. Other Singaporean companies also invested another US$65.5 million. An additional US$24.2 million investment in the SIP came from non-Singaporean TNCs in the Singapore consortium, CSSD.

Performing guanxi politics in China

The above problems faced by government-linked companies in China are by no means unique. In fact, many of these misunderstandings and incompatible objectives are also found among JVs between private sector SINTNCs and TVEs in China. In this section, the case of Wuxi Paper is analysed to examine the role of local politics in shaping the processes of private-sector driven Singaporean JVs in China.[8] In theory, these SINTNCs should face fewer problems than government-linked companies in China because they are not burdened by political baggage like the CSSIP project. In practice, however, local politics continues to play a significant role in shaping their establishment in China. The main difference in terms of their outcome is that private firms from Singapore have more flexibility in incorporating *guanxi* politics to resolve their problems. In the case of Wuxi Paper, a joint venture between SIN Paper, a public listed SINTNC (51%), and a local TVE in Wuxi (49%) in 1994, problems with local partners presented the most formidable obstacle to the growth and development of the JV. Here, the JV became the key site of local politics where conflicting interests and misunderstandings dominated day-to-day management. Despite the strong competitive advantage of SINTNC in Singapore's printing industry (as evident in it being awarded the Singapore Quality Class), Wuxi Paper was unable to measure up to performance expectations primarily because of major problems with local partners.

Wuxi Paper was established in 1994 under peculiar circumstances. While Wuxi Paper represented SIN Paper's long-term strategic base to tap into the enormous market potential in China, the choice of Wuxi and the local partner was made on the basis of an introduction by a Chinese staff employed in SIN Paper. The Wuxi relative of this Chinese staff knew of one new TVE project in Wuxi that had just built a new factory and brought in new printing machines. Although almost confirming a factory site in Shanghai at that time, SIN Paper decided to inject its 51% equivalent

[8] All names of companies and individuals in this section are disguised to protect the interests and anonymity of my interviewees and their companies.

of equity into a joint venture with this Wuxi TVE, thinking that Wuxi Paper was a ready-made printing factory with an existing customer base. What SIN Paper did not realise was that Wuxi Paper had serious cash-flow problems. The interesting question here is why did the TVE experience a cash-flow problem? My interviewee, the general manager in Wuxi Paper sent by SIN Paper, said that it was because of massive decentralisation of decision making to local and village governments and the availability of easy credit from state banks to enable these TVEs to grow during the early 1990s as discussed in Section 2. In fact, the Chinese factory manager of Wuxi Paper before the formation of the JV knew nothing about printing at all, and Wuxi Paper had one state-owned enterprise in Wuxi as their only customer. The decision to construct the printing factory and to purchase new machinery and equipment was linked to potential *personal* gain by the factory manager and his cronies in the TVE. My interviewee noted that:

> . . . because of their party background or relationship that they held, they are employed. So once they are there, they like to use their power because that is the time they can convert the power exchange into money. If they don't use that, then when can they do so because after 3 or 4 years, they may be assigned to other new position whereby they can't exercise their power (Interviewed in Wuxi, 6 July 1998).

These local party cadres and their cronies believed that it was through construction and acquisition of hardware that they could make money by abusing their power in the TVE. My interviewee explained that "if they buy machine or they build the factory, then from there they can get a kick back from suppliers. If it's production, they can't. Usually production is in the trading side and you have to do a lot of work, whether you got return or your money back or not."

It becomes clear now that Wuxi Paper's cash-flow problem did not originate from its lack of competitive products. Indeed, its machines were all in good condition. The entry of SIN Paper into this JV with the TVE, however, was problematic from its inception. On the Chinese side, there was no sense of urgency to start production in any serious manner because the "rent" or profits from the start-up phase had already been extracted. Now that the Chinese managers had no more executive power over financial and acquisition matters, they had little incentive to develop the business. From SIN Paper's perspective, its market penetration and presence in China depended significantly on the success of Wuxi Paper in catering to the requirements of existing customers, if any, and in attracting new customers. In fact, Wuxi Paper's foreign-firm customers in China rejected all its early batches of printing products because of problems with quality. The inevitable outcome of this JV dilemma was that the commitment of the local partner determined the performance of the venture. Naturally, SIN Paper made various complaints about the deputy general manager (DGM) from the TVE to local governments that were responsible for the TVE. But nothing much changed. To understand the role of local politics in this exchange between SIN Paper and local government, we need to understand the decision-making structure in China's local village authorities.

Decision making in China's village conglomerates is highly centralised in the hands of a single leader or several leaders (Chen, 1998). There are often three parallel structures in these villages: (1) the Party committee; (2) the villagers' committee; and (3) the business organisation (TVE). The boundaries of these structures are practically very blurred so that a Party secretary may concurrently run the villagers' committee and a TVE. In the case of Wuxi Paper, the Singapore partner found it very difficult to get rid of the Chinese DGM who created a lot of problems. My interviewee recalled again that "firing people when they don't listen, I think, is quite difficult because the [town] government own 49% of the shares. So they just can't wipe them off." Removing a manager linked to local governments meant that this DGM could only be promoted in order to save him from the loss of "face" (or embarrassment), an important aspect of Chinese *guanxixue* or the art of social relationships (see Yang, 1994). The outcome was staggering when the DGM was removed from Wuxi Paper just to run the town authority that owned 49% of Wuxi Paper.

Since the removal of the Chinese deputy general manager, SIN Paper has been able to move on with product development and marketing in Wuxi Paper and increased its equity stake in Wuxi Paper to 90%. Today, customers of Wuxi Paper are 100% foreign companies or joint ventures from Japan, Guangzhou, and local governments. Wuxi Paper is also the only printing company in China that supplies to all three top bubble-gum manufactures in China. It is profitable if machine depreciation is excluded. These results are good in view of strong competition from state-owned enterprises in Shanghai that are endowed with strong local connections and good imported machines. The Wuxi Paper case clearly shows that local partners and their politics can make or break JVs in China. Local politics do not necessarily pose an "internalisation" problem for foreign firms entering into one of the fastest growing markets in the world. Some affiliates of SINTNCs in my study have performed well in China primarily because they know how to turn local politics to their advantage by performing good *guanxi* politics and developing political leverage.

Conclusion

The successful establishment of international business ventures in China is highly contingent upon an appropriate understanding and leveraging of local politics and the collusion/rivalry tendencies of local governments. This rise of the local state in political governance results from the recent rescaling of China's political economy in the context of major economic reforms. Although they are the necessary conditions of business success in China, the competitive advantages of foreign firms are insufficient to explain why only a fraction of them have succeeded. Local contingency plays a key role in shaping the empirical outcome of foreign ventures in China. The case studies in this paper are based on Sino-Singaporean joint ventures. My arguments are, nevertheless, largely applicable to and confirm similar findings in other Sino-foreign JVs and wholly-owned foreign ventures in China (e.g. Aiello, 1991; Eng & Lin, 1996; Hsing, 1998). In fact, among many such SINTNCs in China, those

with strong political leverage and good *guanxi* at the local level tend to survive better in China's harsh and uncertain business environment. This environmental context results from the decentralisation of economic decision making from the central government to local authorities. In other words, institutional change in China's political economy has significant implications for business practice and state–TNC relationships at the local level.

Given the continual processes of marketisation and economic reform in China in the new millennium, this phenomenon of local corporatism, defined as active participation of local governments in profit-making (and rent-seeking?) business ventures, is likely to persist in the foreseeable future (see also Wank, 1996; Tsang, 1998). A recent report on China's economic reform by the London-based International Institute for Strategic Studies argues that "as such attitudes and behaviour spread among officials and their children, it is increasingly difficult for the central state to impose its will, especially given the close-knit, mutually protective nature of provincial elites and their business allies" (quoted in *The Straits Times*, 4 February 1999, p. 38). In this sense, the political economy of international investments in China, I believe, continues to provide an important explanatory framework for understanding the processes and outcome of transnational corporations operating in a transitional economy characterised by tremendous economic transformations, rapid social change, and immense political control.

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