The Regionalization of Chinese Business Networks:
A Study of Singaporean Firms in Hainan, China*

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This paper examines the central role of social and political institutions behind motivations and strategies of ethnic Chinese Singaporean investment in Hainan, China. Drawing upon 22 case studies of Singaporean firms in Hainan, we show that Singaporean investment in Hainan is embedded in Chinese business networks and their associated institutions. At the personal level, direct investments are largely motivated by the cultural attachments of Singaporean Hainanese to Hainan. Their small- and medium-sized joint ventures largely reflect the characteristics of ethnically-based Chinese business networks that stress connections, or guanxi. Similarly, the influence of social organizations (e.g., clan associations) and government institutions (e.g., public and quasi-public agencies) on Singaporean investment strategies in Hainan reveals the significance of ongoing social relations institutionalized at the broader societal level. Key Words: embeddedness, institutions, Chinese business system, Singapore investment, Hainan, China.

Introduction

In an increasingly competitive and interdependent global economy, firms are constantly compelled to maintain their competitive advantages through dynamic organizational and operational strategies. Today, one significant competitive strategy commonly adopted by firms is to engage in investments across national boundaries (Dunning 1993; Caves 1996; Dicken 1998). Through this process of pursuing foreign direct investments (FDI), a national firm is transformed into a transnational corporation (TNC), defined as “[a] firm which has the power to coordinate and control operations in more than one country, even if it does not own them” (Dicken 1998, 8). The worldwide operations of these TNCs potentially allow them to reap advantages arising from national differentials and therefore to remain globally competitive. The opening of China to the global economy since December 1978 created tremendous market and investment opportunities for TNCs from outside of the Asia Pacific region. To date, ethnic Chinese investors from East Asia (e.g., Hong Kong, Macau, and Taiwan), Southeast Asia, and other parts of the world, are the most important source of foreign investment in China (The Economist 1992; East Asia Analytical Unit 1995; Lin 1997; Hayter and Han 1998; Hsing 1998; Huang 1998). The extensive and powerful system of Chinese business networks is also recognized as the main driving force behind some of the world’s fastest growing economies in East and Southeast Asia (Sender 1991; Whitley 1992; Kao 1993; Yeung and Olds 2000).

As a city-state in Southeast Asia with a majority ethnic Chinese population, Singapore has shown a strong propensity to establish close economic relationships with China. This is supplemented by Singapore’s recent drive towards the regionalization of its national firms to maintain its competitiveness in the global economy. The promotion of overseas investment was mounted when Singapore registered its first gross domestic product (GDP) decline since independence in 1985. Then the Economic Committee for Overcoming Recession identified overseas investment and the development of offshore business opportunities as a long-term solution to the lack of investment and market opportunities in Singapore. Singapore is constrained by its small domestic

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population and market size, as well as limited labor and land which accentuate the need to develop an external economy (Yeung 1998a, 1999a). Since the establishment of official diplomatic relationships between China and Singapore in October 1990, Singaporean investment in China has increased substantially (Kanai 1993; Cartier 1995; Lu and Zhu 1995; Tan 1995). An investment strategy involving the direct participation of Singapore’s government-linked companies (GLCs) in China’s industrial development has evolved. Singaporean investment in China has extended spatially from the traditional ancestral regions of Fujian and Guangdong to various Sino-Singapore industrial parks in such non-ancestral locations as Suzhou, Wuxi, Ningbo, and Sichuan in China (Fig. 1). These patterns of regionalization result largely from the political arrangements and inter-firm collaborations of large GLCs, local firms, and foreign companies in Singapore. Much less public and research attention has been paid to the role of social and business networks in influencing the spatial organization of Singaporean investment in China.

This public and intellectual lacuna originates primarily from what economic sociologist Mark Granovetter (1985, 483), called the “undersocialized” view of economic action most commonly held by neoclassical economists. To them, economic action such as cross-border investment is determined by abstract economic logic of costs and benefits. The “economic” sphere therefore has an independent and self-driven existence outside all other spheres of social life. We do not subscribe to this view of economic action. In fact, there is now an increasingly significant call by economic geographers to re-examine the concept of the “economic” itself (Dicken and Thrift 1992; Thrift and Olds 1996; Lee and Wills 1997; Schoenberger 1997). Using the concept of networks, economic geographers and sociologists show that economic action is often embedded in webs of ongoing social relations constituted in and through space (Yeung 1994a, 1998b; Dicken et al. 1998; see also Swedberg 1990; Granovetter and Swedberg 1992; Smelser and Swedberg 1994). As argued by Thrift and Olds (1996, 322), “[t]he topological presupposition of the network is now in common usage in the social sciences as the emblem of an ambition to produce flatter, less hierarchical theories of the economy.” These network theories have indeed placed a much greater emphasis on the social and institutional foundations of economic transactions in today’s global economy.

In this paper, we aim to provide insights into these social and institutional mechanisms through which Singaporean firms have invested in China, with a particular emphasis on the province of Hainan (see Fig. 1). Specifically, we evaluate the extent to which social and cultural reasons have attracted Singaporean investment to Hainan. We adopt an institutional perspective and theorize the embedded relationships between cross-border investments and Chinese business networks (see also Yeung 1998e). We argue that social ties and business networks between Singaporean Hainanese and their counterparts in Hainan have been institutionalized at different levels. We define institutions as social structures organized through common purposes and shared values. These institutions range from family ties to clan associations to state agencies. At the personal level, familism is an important attribute inscribed in the cultural institutions of ethnic Chinese through shared family and/or clan norms and values. Many family-oriented business transactions between Singapore and Hainan are embedded in these forms of cultural institutions. Beyond the family domain, trust and guanxi (defined as connections and interpersonal relationships) between business partners also provide the necessary social relations to sustain cross-border economic activities. At the broader societal level, such voluntary organizations as chambers of commerce and clan associations serve as the institutional mechanism to reduce the “friction of distance” and potential problems in the Hainan operations by Singaporean firms. Together, these important social and cultural institutions play a significant role in shaping the investment strategies and economic organization of Singaporean firms in Hainan. These firms include relatively small-scale personal businesses (loosely organized by kinship relationships), medium-scale joint ventures and large-scale investments by modern corporations.

The next section briefly outlines the historical linkages between Singapore and China to set the social and geographical contexts of this paper. This is followed by an exposition of an institutional framework in organization studies. The main empirical section examines the vari-
Figure 1: The location of Singaporean investments in Hainan, China. Source: Authors’ field research.
ous linkages between Singaporean firms and Hainan on the basis of this institutional framework. Our analysis is based on 22 case studies and field interviews. The concluding section summarizes the findings and highlights some implications for future research into the cross-border operations of Chinese business networks.

Historical Linkages between Singapore and China

During the nineteenth and early twentieth centuries, Chinese immigrants arrived at Singapore from traditional emigrant areas in the southern coastal provinces of China such as Guangdong, Fujian, and Hainan. The breakdown of Singaporean Chinese in terms of their dialect groupings is given in Table 1. Historically, Singaporean Chinese have maintained strong linkages with their immediate family members or close relatives in China (Cheng 1985, 1990; Wang 1991; Xing et al. 1991; Yen 1995). They continuously exchanged letters, sent remittances, and actively contributed donations for various social purposes (e.g., building schools) (Cheng 1990). Chinese clan associations in Singapore also extended their activities into their home villages, districts, prefectures, and provinces to keep emigrants informed of their motherland’s prevailing situation. During the politically unstable periods of the 1950s and the 1960s, an important institution contributing to the continual commercial relations between Singapore and China was the Bank of China. In the absence of China’s official diplomatic representation in Singapore prior to 1981, the Bank of China served as a semi-official representative of China and facilitated commercial, trade, and other contacts between the two countries (Chin 1988).

Prior to the 1980s, Singaporean investment in China was minimal due to the fear of Communist China, Cold War tensions, and the sensitivities of neighboring Southeast Asian countries. Singapore’s commercial linkages with China were mainly conducted through trade. Since 1980, the level, variety, and extent of Sino-Singaporean contacts has increased as a result of political and economic changes in the region (e.g., the economic reform of China and the normalization of diplomatic relations between China and Singapore’s neighboring countries). Total trade with China experienced dramatic increases in the last two decades (see Fig. 2). Singaporean companies also ventured more into direct investment projects in China (see Fig. 3). During the 1983–1996 period, Singapore invested some US$6.17 billion in China (measured by actual realized FDI value) and was ranked fifth largest foreign investor after Hong Kong (US$101.3 billion), Taiwan (US$14.9 billion), U.S. (US$14.2 billion), and Japan (US$14.0 billion) (Sun 1998, Appendix A). In terms of cumulative Singaporean equity investment abroad by 1995, some S$2.4 billion or 6.6% went to China (Department of Statistics 1998, Table 5.13). This placed China as the fourth largest recipient of Singapore’s equity investment abroad, after Malaysia (S$7.3 billion), Hong Kong (S$5.1 billion), and Indonesia (S$3.4 billion). In 1996, Singapore’s investment in China surged some 44% to S$5.3 billion, placing China as the third largest host country for Singapore’s investment abroad (The Straits Times 1998).

Early investment from Singapore was spatially concentrated in southern coastal cities and provinces. During the 1980s and the 1990s, these provinces became key centers of economic growth. Five special economic zones (SEZs) were established in these provinces: Shenzhen, Zhuhai, Xiamen, Shantou, and Hainan. The first three SEZs were launched in 1980, Shantou in 1981, and the latest, Hainan in 1988. Previously a part of Guangdong, Hainan Island was redesignated as a province and granted the status of a SEZ in 1988 as an attempt by Beijing to resolve its “Hainan problem” (Feng and Goodman 1995). The Beijing

Table 1: Dialect Groupings of Chinese Residents in Singapore

<table>
<thead>
<tr>
<th>Number</th>
<th>%</th>
</tr>
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<tbody>
<tr>
<td>Total (Chinese residents in Singapore only)</td>
<td>2,102,795</td>
</tr>
<tr>
<td>Hokkien</td>
<td>886,741</td>
</tr>
<tr>
<td>Teochew</td>
<td>461,303</td>
</tr>
<tr>
<td>Cantonese</td>
<td>319,322</td>
</tr>
<tr>
<td>Hakka</td>
<td>153,942</td>
</tr>
<tr>
<td>Hainanese</td>
<td>146,629</td>
</tr>
<tr>
<td>Foochow</td>
<td>35,883</td>
</tr>
<tr>
<td>Kenghua</td>
<td>19,776</td>
</tr>
<tr>
<td>Shanghainese</td>
<td>16,676</td>
</tr>
<tr>
<td>Hockchia</td>
<td>13,065</td>
</tr>
<tr>
<td>Others</td>
<td>49,458</td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Singapore (1991)
government intended to make Hainan a “testing ground for many of the comprehensive, market-based reforms whose implementation throughout China is planned over the medium term” (Cadario et al. 1992, vii).

Apart from enjoying all privileges granted to other SEZs, Hainan was bestowed with freedom to adopt a more liberal economic system because the Beijing government wanted to attract as many foreign investors as possible to help “kick-start” its sluggish economy. Hainan was encouraged to have a “small government and large society,” implying less involvement by state-owned enterprises and minimal government intervention in the economy (Cadario et al. 1992). For example, in order to set up a new firm, an investor in Hainan today needs only to register once at the Administrative Bureau of Industry and Commerce without seeking approvals from other ministerial units (Feng and Goodman 1995, 24). Another example is that a developer can buy a piece of land below 100 mu (approximately 6.67 hectares) from the county government without seeking prior approval from the provincial government (field interview, February 1998).

Ethnic Chinese abroad were the most important source of foreign capital in Hainan even before the establishment of the People’s Republic of China (PRC) (Xing et al. 1991; Dangdai Zhongguo de Hainan 1993; Feng and Goodman 1995, 1997). They introduced many important tropical cash crops and founded modern factories, schools, and hospitals. Many enterprises in Hainan were established through capital remitted by ethnic Chinese of Hainan origin living abroad. The declaration of Hainan as a separate province and SEZ in 1988 re-energized the Hainanese communities around the world. These Hainanese abroad now take a more direct investment strategy to help Hainan’s growth and development (East Asia Analytical Unit 1995). Today, ethnic Chinese abroad account for more than 80% of total investment in Hainan (Feng and Goodman 1995, 76). In terms of realized foreign investment, Singapore was...
ranked third in 1996 (see Table 2). In relative terms, Singapore’s investment in Hainan is as important to the host province as that in Guangdong, Fujian, and Jiangsu. In fact, Singapore’s investment in these latter provinces hardly exceeds that from Hong Kong, Taiwan, and the U.S. (Yeung 2000c).

An Institutional Framework for Analyzing Business Networks and Overseas Investments

There is now a significant body of empirical study examining Singapore’s investment in China (Pang and Komaran 1985; Lim 1990; Cartier 1995; Lu and Zhu 1995; Tan 1995; Yong 1995). Among other relevant literature on the regionalization of Singaporean firms, most work included some discussions of Singapore’s FDI in China (e.g., Kanai 1993; Lee 1994; Pang 1994, 1995; Yeung 1998a, 2000c). Table 3 shows the determinants of Singaporean investment in China as suggested by various studies. We identify, however, several weaknesses in these earlier studies. First, they placed too much emphasis on the role of the home country government (i.e., the influence of public and quasi-public agencies). Much less empirical research was done on the historical linkages between Singaporean Chinese and their ancestral lands that may have motivated Singaporean investment in the southern coastal provinces. Second, most studies have examined Singaporean investment in two large provinces in south China (Guangdong and Fujian) and Jiangsu (which hosts Singapore’s Suzhou Industrial Park). Other provinces and regions in China received less attention from these studies.

Third, there is a bias of empirical studies towards manufacturing industries (e.g., Lee 1994) at the expense of service industries (e.g., tourism, hotels, real estate, etc.) and primary industries (e.g., agriculture and plantations). Finally, the explanatory matrix of most studies focuses on economic reasons such as cost reduction and market potential in China. Virtually none of them examines the role of social and institutional mechanisms in facilitating Singaporean investment in China.
We do not intend to suggest an alternative explanatory framework for the organizational dynamics of Chinese business (see Jamann 1994a; Menkhoff 1994; also Limlingan 1986; Chan and Chiang 1994; Brown 1995; East Asia Analytical Unit 1995; Lasserre and Schütte 1995; Hodder 1996; Weidenaum and Hughes 1996; Yeung 1998c). The purpose here is to construct an explanatory framework relating existing analytical features of Chinese business organizations, the institutional environment in which they operate and their investment strategies in China. We draw upon the recent work by Orrù et al. (1997) that explores the economic organization of East Asian capitalism (Hamilton 1991; Brown 1995; Westney 1996; see also Powell and DiMaggio 1991). We argue that economic and organizational activities should not be viewed as being separated from, but rather as embedded within society. The analytical focus here is on the institutional environment and the socially constructed normative world in which business organizations operate. In fact, this social and institutional embeddedness of firms is confirmed by recent studies in economic geography (Amin and Thrift 1994; McDowell and Court 1994; Schoenberger 1994, 1997; Gertler 1995; McDowell 1997; Clark 1998b; Cooke and Morgan 1998; Hudson 1998; Thrift 1998; Amin and Cohen-Det 1999; see Yeung 2000a). Schoenberger, for example, suggests that we should “consider how the firm is constituted as a society, how it constructs its identity, and the relationship between culture, identity, knowledge, and action” (1997, 108). To her, corporate cultures and managerial identities structure the institutional context in which inertia exists to prevent possible changes in corporate behavior and action.

What then constitutes this emerging institutional framework for analyzing business organizations? According to Orrù et al. (1997), there are four elements in an institutional theory of economic organizations. First, an institutional explanation begins with the premise that actors are not isolated and are not purely self-interested individuals conceived in neoclassical economic models. Any business activity such as an investment strategy or organizing business structures is not asocial, but is determined by the social behavior of individuals in society. Second, economic and organizational activities are socially embedded in that individual actors develop mutually agreeable means of business conduct and these practices are routinized through economic institutions. Organizational and ideological arrangements are developed to sustain these institutionalized economic patterns. Research into the role of culture and social norms in London, for example, shows that the economic behavior of traders and brokers continues to be locally embedded in their knowledge and information networks (Thrift 1994; Tickell 1996; Clark 1997). These networks provide the institutional foundation of economic transactions in London. The nature of this embeddedness of economic activities and organizations is determined by the institutional setting of a particular place. Orrù et al. (1997, 26) note that “[t]he networks of relations, social beliefs, gender and family structure, and other institutionalized forms of social order such as the state and religion vary across societies [and space].”

Third, as a “legitimating principle that is elaborated in an array of derivative social practices,” organizational logic informs us about business relations as well as social relations in other institutions of that particular society (Orrù et al. 1997, 26). The application of common organizational logic both across and between societal sectors results in the tendency for organizations within the same institutional environment to resemble each other. This institutional logic explains why, despite the homogenizing tendencies of globalization, national firms from different social and institutional contexts continue to exhibit enduring organizational differences (see Whitley 1992, 1998; Pauly and Reich 1997; Yeung 1998d, 2000c). In this paper, we identify different institutional spheres such as the family, the polity, and the economy. These different spheres tend to use similar logic to organize and structure economic interaction. Hence, exploring any sphere offers related explanations of a phenomenon in another domain (see empirical analysis in the next section). Fourth, an institutional perspective on economic action offers a multilevel and multidimensional analysis that takes into account the micro-level such as individual actors and agencies, as well as the broader macro-structural environment.

Based on these central tenets of an institutional framework, we examine the motivations of Singaporean investment in Hainan and the
nature of organizational structure in two broad interdependent domains—individuals/firms and institutions (Fig. 4). We argue that both investment strategies and organizational structures of Singaporean Chinese firms in Hainan are embedded in institutional environments comprising the family, the Chinese business system, voluntary organizations, and state institutions. These institutions influence the motivations and rationality of individual Singaporeans when they make decisions to invest in Hainan. We argue, therefore, that apart from the economics of FDI, the motivations and mechanisms of Singaporean investment in Hainan can be explained by institutional factors.

At the level of the family as a central social institution in Chinese societies (see Fig. 4), the importance of ancestry inscribed culturally in the mindset of Singaporean Hainanese suggests a sense of kinship attachment to Hainan. Similarly, the modes of foreign entry by Singaporean firms, particularly through joint ventures and cooperative strategies, reflect their embeddedness in strong ethnicity-based network relationships. Some joint ventures involving partnerships with local Chinese institutions also demonstrate the significance of guanxi in the business practices of Singaporeans in China. On the other hand, such social institutions as clan associations often help to create a favorable “atmosphere” to encourage Singaporean investment in Hainan. Liu’s (1998) recent study of the globalization of Chinese voluntary associations, for example, shows that these social institutions play a very important role in facilitating the globalization of Chinese business firms. As shown in Figure 4, political-institutional forces may also affect the conduct of Singaporean investors in Hainan who seek guanxi with host political actors. This process of institutionalizing bilateral business relationships between two countries has been termed “political entrepreneurship” (Yeung 1998a, 2000c).

**Institutional Influences and Singaporean Firms in Hainan, China**

In our study, we found that institutional forces have a significant influence on Singaporean investment in Hainan. These institutional forces emerge from different spheres of a society (see Fig. 4). In the following subsections, we examine how these spheres shape the strategies and motivations of Singaporean investment in Hainan. We start with cultural institutions and discuss the role of familism and business networks in influencing Singaporean investment in Hainan. We then proceed to examine the
significance of such broader organizational institutions as voluntary organizations and state institutions.

The Role of Familism and Ancestry in Singaporean Investment in Hainan

Our research shows the importance of familism in driving Singaporeans to invest in Hainan. Familism, and a sense of ancestry, are of paramount importance in the sociocultural system of ethnic Chinese. According to Redding (1990, 2), familism is a central value still well embedded in the mindset of most ethnic Chinese abroad. In an authoritative account of Chinese philosophy, Fung (1948, 21) describes the family system as a social system of China and ancestor worship as the basis of Chinese culture. This principle of familism extends to successful kin groups through the concept of lineage. Most settlements or villages in the southern provinces of China, including Hainan, are basically constituted of, and cemented by, one lineage originated from a common ancestor (Baker 1979, 49).

Filial piety, the core virtue of familism, also plays a part in inculcating a strong tradition of ancestral worship and kinship. Many Chinese business enterprises in Asia are indeed embedded in the principle of familism (see Brown 1995; Yeung 1997, 1998c, 1999b; Olds 1998; Tong and Yong 1998). Structurally, family ties are important in cementing the internal core of Chinese enterprises. In other words, familism tends to sustain ownership bonds. A good example is Sam Son Travel Service, currently managed by Mr. William Tan, a fourth-generation owner of the tour agency. Two other companies, Metropole Hotel and Hoe Leong, are currently managed by the children of the founding entrepreneurs. In Metropole Hotel, its Hainan subsidiary is managed by the wife of Mr. Lee (the founder-owner of Metropole Hotel) and some of his close relatives from the same lineage. Likewise, four brothers of the same family manage Hoe Leong’s regional subsidiaries in Hainan, Guangdong, Malaysia, and Indonesia. Both examples present a good case of strong intra-firm networks based on high level of trust embodied in family-based organizational structures.

Traditionally, Singaporean Hainanese maintained very close social relationships with Hainan even though they were geographically far apart. With the declining threat of communism and the establishment of the Chinese Trade Mission in Singapore in 1981, more Singaporean Chinese were allowed to visit China on personal social grounds. Since then, Singaporean Hainanese gradually embarked on “home-visiting” tours to their ancestral homeland in Hainan. These forms of personal attachment to Hainan reflect the importance of ancestry and familism in the cultural value of Singaporean Hainanese. Since the establishment of Hainan as a province and SEZ in 1988, a significant number of Singaporean Hainanese moved away from their traditional forms of sociopersonal linkages with Hainan and began to engage in direct investment in the island. A majority of 14 firms out of the 22 case studies belong to Hainanese owners. Most of them cited family reasons as one of their motivations to invest in Hainan. They also brought up sentimental reasons and nostalgic feelings for zhuguo or their “motherland.” However, this sense of attachment to their ancestry in Hainan varies across generations. The respondents’ place of birth and personal experiences play a part in determining the intensity of their emotional attachment to Hainan. In this study, two groups of Singaporean Hainanese with different levels of personal attachments are identified: 1) the older generation Singaporean Hainanese and 2) the younger generation Singapore-born Hainanese.

From our survey, one group of Singaporean investors in Hainan who are highly motivated by cultural reasons belongs to the older generation Singaporean Hainanese. They are either Hainan- or Singapore-born Hainanese. One commonality among them is that they have lived in Hainan for a significant period of time. These elder Hainan-born Singaporeans are mostly in their late 60s and possess strong nostalgic feelings for their ancestral villages and hometowns. Patriotism is another motivation for these “homeward” investments from Singapore. Some of these elders have retired and resettled in Hainan. They have invested mostly in small hotels or lodging apartments in their ancestral towns which are often the administrative towns of their ancestral villages. Sometimes, they live in their own small hotels for as long as six to twelve months each year.

Two Hainan-born Singaporean interviewees, Mr. Liang (Jinghua Hotel) and Mr. Foo (SINFenghuang Hotel) come from this group...
of resettler-elder investors. There are also numerous other unverified accounts of Singaporean Hainanese living in their ancestral hometowns on their own invested properties. Another group of Singaporean Hainanese who voiced personal feelings as one of their reasons for investing in Hainan is the younger generation Singapore-born Hainanese. Mr. Lim from Lion City Resort noted that:

Basically, we go there because we are Hainanese—number one. Number two, we also come from Wenchang—our roots are there—our ancestors from there. . . . Number three, the land is quite reasonable, beachfront, hard-to-come-by. (Interview in Singapore, 22 December 1997)

Another respondent, Mr. Hoe from Hoe Major Property, also cited social reasons for his investment in Hainan:

It’s a social reason because I am a Hainanese; some effects also because of my Chinese education. I want to see how I can contribute to my professional areas in Haikou. (Interview in Singapore, 26 January 1998)

Both respondents are first-generation Singapore-born Hainanese in their late 40s. Compared to their older Hainanese seniors, they do not possess a similar extent of nostalgic feelings for Hainan because of their lack of personal experience with their ancestral homeland. However, the fact that they revealed their obligatory feelings for Hainan shows the influence of Chinese culture as an institutionalized system in which they were raised. Their sense of attachment to Hainan may be strengthened indirectly by their parents and other Hainanese seniors. Due to their filial piety to their parents, the same family value of ancestral attachment is naturally extended to Hainan. For example, Mr. Lim followed his parents’ tradition of sending remittances to their relatives in Hainan. He believed that since his roots came from Hainan and his parents had the tradition of contributing to Hainan, he should be similarly inclined.

**Ethnicity-Based Business Networks of Singaporean Firms in Hainan**

Outside the family domain, two important aspects of familism, trust and connections, continue to form the basis for other personalized relationships among ethnic Chinese abroad. A strong guanxi can only be established and improved through personal and social interactions. Personal relationships developed among family, friends, classmates, or colleagues can be translated into strong business connections and networks in a Chinese business system (see Whitley 1992). Many authors observed the importance of trust and friendship in Chinese business networks (Menkhoff 1994; Jamann 1994a, 1994b; Tracy and Ip 1995; Weidenbaum and Hughes 1996; Yeung 1997; Haley et al. 1998; Tong and Yong 1998; see also Olds and Yeung 1999). Such culturally specific concepts as mianzhi or “keeping face” are used to support the extension of trust from the level of social hierarchy (i.e., family) to the level of community circles (i.e., non-kin acquaintance). Trust and friendship improve simultaneously over time.

Trust is an essential precondition for trade and investment. The reliance on trust and guanxi is particularly pronounced in doing business in China (Smart and Smart 1991; Davies et al. 1995; Yeung and Tung 1996; Luo and Chen 1997; Tsang 1998; cf. Guthrie 1998). From our research, a number of Singaporean Chinese investments engaged in one specific form of cooperative strategy—joint ventures. Joint ventures are established on the basis of dialect affiliation, business associates, and personal friends. For example, the Lion City Condominium project is a joint venture based on dialect affiliation. According to Mr. Hoe (one of the developers), “all of these 21 shareholders are Hainanese” (Hoe 1998). In the case of Haixin Investment Pte Ltd, a network of ten business friends from related industries (mainly construction and real estate industries) formed an investment company to jointly develop a parcel of land in Hainan. Although half of the shareholders are Hainanese, this network is not based entirely on dialect grouping, but also on business associations. Mr. Lim, the managing director of the Haixin, is a Hokkien. He was elected to be the managing director of the company because he has the highest relevant educational level (Bachelor of Commerce) and management capabilities. Mirroring their mutual trust and relationships, the decision-making process in this collaborative network is such that “all come down together to discuss and make decision” (Lim 1998). Lion City Resort is another joint venture that exemplifies the kind of guanxi bonds in Chinese business
networks. Mr. Lim and Mr. Foo are partners in this joint venture project. On how they came together in this investment, Mr. Lim replied that:

we went for [a] tour and Mr. Foo is my ex-teacher's brother. And then . . . we like the land . . . I was the one who proposed “Why don’t we buy the piece of land and do something?” (Interview in Singapore, 22 December 1997)

In this subsection, we examine how Singaporean Chinese business networks are embedded in the principle of trust and connections. These connections, however, are not limited to private business firms and businesspersons. They are also observed in business ties promoted by such voluntary organizations as clan associations and other social groupings, as well as state institutions. Benefits such as insider information about good business opportunities are often derived from memberships in these social/political institutions and having good connections with other members.

Ethnic Lineage, Clan Associations, and Commerce Associations in Singapore’s Regionalization

Early Chinese emigrants were detached from their customary methods of organization along kinship lines (Baker 1979; Hodder 1996; Liu 1998).10 In order to acquire the synergy of grouping, they had to find ways to connect with one another. Baker (1979, 170) noted that they “were well convinced of the value of kinship as an organizational principle, and looked to kinship models as they institutionalized their lives abroad.” As a result, several organizational models based on kinship, speech group affiliation, and strong regional allegiance were created in host countries to sustain the institutionalized social and cultural values of ethnic Chinese. Cheng (1985, 36) also argued that “it is obvious, then, that the establishment of associations outside China by the Chinese represents the transplanting of a Chinese tradition overseas.” Being an extended form of familism, lineage of the same surname ancestry was considered as one of the most important forms of institutional support for ethnic Chinese abroad. In Singapore, as well as among other places with Chinese inhabitants, the clan association is an important social institution that amalgamates scattered groups of related lineage, either bearing the same surname or from a common dialect group or ancestry locality. Historically, such Hainanese clan associations as the Singapore Hainan Hwee Kuan and other Hainanese clan associations bearing the same surname provided a good avenue for Hainanese emigrants to establish personal relationships with their fellow emigrants and to keep in touch with their mainland kin. Other social functions of these clan associations were “to provide mutual help, assistantships, bursaries, loans, and scholarships for the children of the members” (Cheng 1990, 59).

Another form of non-kin organizations is the chamber of commerce or social societies formed by businesspersons or other social leaders. As clan consciousness gradually lost importance, the younger generation Hainanese businesspersons have taken the initiative to form the Hainan Society to renew and sustain their groupings more on the basis of economic benefits. Unlike the traditional clan associations, the Hainan Society focuses more on introducing and establishing business connections among Singaporean Hainanese as well as linkages with China. At the broader institutional level, such non-governmental agencies as the Singapore Federation of Chinese Clan Associations (SFCCA) and the Singapore Chinese Chamber of Commerce and Industry (SCCCI) were established to coordinate and develop further social and economic linkages among all ethnic Chinese in Singapore, irrespective of their dialect affiliations.

One of the benefits of being members of these associations is the establishment of connections. Connections, in this case, exist in two forms: 1) connections with local (i.e., Singapore) businesspersons and 2) connections with foreign (i.e., Hainan) business and political parties. Recent studies of Chinese business (e.g., Cheng 1985; Yeung 1997; Liu 1998) acknowledge that participation in associations and other ethnic groupings can enhance one’s personal contacts and is vital for business expansion and greater cooperation. In addition, valuable overseas linkages with local Hainan institutions can be established via these associations. Connections with home villages, towns, and cities in Hainan have become a crucial business advantage for Singaporean businesspersons when investing in an imperfect legal and business environment (e.g., Hainan). In
our study, Singaporean investments such as the Lion City Condominium and some of Mr. Leong’s (of Great Link Investment) businesses in Hainan are embedded in social and clan associations. Most of the shareholders in the Lion City Condominium project are members of the Hainan Society. Being members of the Hainan society, they have benefited from receiving first-hand insider information about business opportunities in Hainan.

On the other hand, Mr. Leong holds an impressive portfolio of appointments with several social and commerce institutions in both countries (see Table 4). Through these appointments, he established many important personal contacts with Hainan’s top political figures (see Table 4B). According to Mr. Leong himself:

I was formerly the Director of Foreign Affairs Department of Hainan Hwee Kuan . . . Those [officials] who came from Hainan had to go through the Singapore Hainan Hwee Kuan. Hence, I got to know of their arrivals and had the chance to handshake with them. As a result, I got to know them personally. Because of my good relationships [guanxi] with these authorities, some of them had even appointed my company to provide information to their units and companies, such as corporate profiles and other printed materials. This Company and I were also appointed by Hainan Province Overseas Chinese Office to be their official “interaction point” [jiaoliudian]. (Interview in Singapore, 30 December 1997)

Because of these spinoff connections from his participation in Hainan Society, Mr. Leong established the Great Link Investment Pte Ltd to provide consultancy services for potential investors interested in Hainan. Mr. Leong himself also has several personal investments and is a shareholder of several Singaporean firms in Hainan (see Table 4C). His partnerships in the listed joint ventures are indirectly linked to his connections with important political figures in Hainan (see next section).

**State-Business Relations and Singaporean Investment Strategies**

Having guanxi with political figures is traditionally perceived as a very advantageous and powerful means of getting things done in China. The relatively more successful and faster implementation of investment ventures by Singaporean firms in various China-Singapore industrial parks (compared to those privately led
investments in Hainan) reflects the influence of active governmental participation. Similarly, the success of two prominent businesspersons (Mr. Han of Arklight Engineering and Mr. Leong of Great Link Investment), who have multiple investments and property assets, shows the advantage of having good political connections when doing business in Hainan. Interestingly, from our survey of Singaporean firms in Hainan, Singaporean Chinese entrepreneurs display little connections with their home country government and are often not aware of the Singapore government’s active promotion of regionalization. Instead, these Singaporean Chinese business people have actively searched for political alliances in the host country to facilitate their overseas investments.

Although the regionalization of Singaporean firms into other provinces of China is essentially a state-guided phenomenon, its materialization is highly uneven across all regions in China. From our research Hainan is clearly not given as much attention by the Singapore government for several reasons. One reason mentioned by our interviewees is the critical remarks made by Senior Minister Lee Kuan Yew during his visit to Hainan in 1993. SM Lee once expressed his reservations about the economic potential of Hainan due to its lack of infrastructure, underdeveloped economy, and irrelevant industries (relative to Singapore’s industrial structure). Its leading industries were tourism and agriculture. SM Lee perceived that Singaporean enterprises would not be able to benefit much from there and that one of Hainan’s key areas of attractions (i.e., agriculture) was not the strength of Singaporean firms. Hainan’s economic structure therefore did not attract Singapore’s governmental agencies to promote investments there. There is thus very little involvement from Singapore’s governmental or quasi-governmental institutions in Hainan.

Another reason is that government agencies in Singapore are less interested in supporting investments that do not belong to high-profile manufacturing industries or large infrastructure developments. Most Singaporean ventures in Hainan are relatively small-scale investments motivated by social and cultural reasons. Their level of contribution to Singapore’s high-tech economy is not as substantial when compared to other high-profile large-scale investments in China-Singapore industrial parks in Wuxi and Suzhou (see Cartier 1995; Yeung 1998a, 2000c). As pointed out by one respondent:

The Economic Development Board [main marketing arm of the Singapore government] only has an interest at the provincial level. They have no interest in city, county or low-level projects. They want to know the provincial head, maybe the city-mayor. It would be best if he’s from the central government. (Interview in Singapore, 30 December 1997)

Many owners of small and medium enterprises interviewed are also not aware of the Economic Development Board’s regionalization policies because either they do not qualify for Board’s supporting schemes or they have enough financial ability on their own to sustain their investments. Whereas small and medium enterprises pooled their investment capital through partnerships in joint ventures (e.g., Lion City Condominium, Lion City Resort, Haixin Investment), large corporations had very strong financial support from their parent firms or access to local and regional capital markets (e.g., APB, APP, Overseas Union Enterprise). Those retirees mentioned earlier transferred their personal savings to Hainan. Their intentions are mostly for retirement’s sake and not for expansionary reasons. As a result, they do not need much support from the Singapore government.

**Conclusion**

To put our study in perspective, an institutional approach to the study of economic activities and organizational structures “has provided an evolving framework of inquiry rather than a set of tested propositions” (Westney 1993, 75). Through an empirical inquiry into the motivations and strategies of Singaporean investment in Hainan, China, we argue that beyond conventional economic reasons, institutional embeddedness provides an important motivation and mechanism for these Singaporean ventures abroad. Based on a total of 22 case studies, we agree with Orrù et al. (1997, 299) that economic action is best understood as historically emerging, socially constructed and patterned behavior of individuals and groups. Our findings show the significance of social and cultural influence on Singaporean investment in Hainan. It is also evident that the investment strategies and practices of Singaporean Hainanese are
An understanding of the institutional differences between the two countries has important implications for Singaporean businesspersons as well as state agencies. For instance, one distinct institutional difference between the two countries is the strong embeddedness of business transactions in their respective institutional contexts. In a Chinese society, it is common for businesspersons or political figures to contract businesses through unwritten verbal agreements based on guanxi and xinyong or trustworthiness. However, in the Singaporean context, the governance structure of transactions is based on a set of highly effective legal codes and bureaucratic procedures. A number of interviewees responded that one has to follow the Chinese style of working when doing business in China. Hence, foreign businesspersons as well as government officers from Singapore should take into consideration these institutional differences in their business negotiating processes in order to ensure more successful business ventures in China.

This study also has implications for understanding the impact of the recent Asian economic crisis on Singaporean firms operating in the region. As the dominant form of capitalism in Asian countries, the Chinese business system is equally affected by the crisis (Yeung 1999c, 2000b). The increasing flow of “overseas Chinese” capital into China has brought great benefits and growth for its economy. The issue here is whether it is feasible for ethnic Chinese to take temporary shelter under the rather insulated Chinese capital market. From this study, lower factor costs (in all industries) in Hainan seem to offer a good option for tight-belted Singaporean firms that intend to expand and stay competitive throughout this regional crisis. As one of the respondents, Mr. Han, noted:

In 1984, the shipping engineering trade was badly hit by the economic recession then. A lot of companies closed down. My company was almost going to wind up. Since 1984, my US friends helped me with a large sum of US dollars. They loaned it to me. I calculated the money. Since Singapore’s economy is bad at that time, I decided to invest in China in 1984. (Interview in Singapore, 14 January 1998)1

China’s large domestic market also offers an alternative outlet for Singaporean firms to stay in production in the midst of declining demand in other Asian markets.

At the more conceptual level, the institutional framework in this study identifies and abstracts the distinctive features of the Chinese business system in Singapore and China. One implication is the extent of applicability of this institutional approach to the study of other geographical phenomena. The general logic behind this approach is that social and economic action is highly place-dependent and institutionalized through embeddedness in networks of ongoing relationships in society and space. Different geographical contexts, cultural and social processes (in this case, investment flows from Singapore to Hainan) place different constraints on our everyday social and economic behavior. In addition, a multidimensional analysis of both observable and underlying structures is possible within this framework. An institutional framework is thus useful in the study of outward investments from different economies because it allows an analysis to go beyond conventional economistic explanations of international production (Yeung 1994b). As exemplified so well in Thrift and Olds this institutional perspective helps us to reconfigure the “economic” in economic geography by “‘stretching’ its own definition so as to make itself more inclusive and more able to mix in company” (1996, 313).

Notes
1 The idea of bringing Singaporean style and experience of managing industrial estates to China was first discussed during a visit by the late senior Chinese leader, Deng Xiaoping, to Singapore in 1978. After numerous exploratory visits by Singapore's top leaders to China, including Senior Minister Lee Kuan Yew and Prime Minister Goh Chok Tong, Suzhou in Jiangsu was selected in 1993 as a site for the transfer of Singapore’s economic development software (see Yeung 2000c).
2 We used a qualitative personal interview method to collect information and a case study approach to analyze empirical data (Schoenberger 1991; Yin 1994; Yeung 1995; Clark 1998a). Our institutional framework requires a multilevel analysis that examines both macro- and micro-level phenomena. We selected multiple case studies for a comparative analysis of Singaporean investments in Hainan. Each case was carefully analyzed and those cases showing similar results or reasons were grouped together to draw meaningful conclusions. Specifically, all Singaporean firms having investments in Hainan were
selected as potential study subjects. In the preliminary selection, a list of 23 firms was compiled from a commercial directory (Singapore-China Trade and Investment Directory 97/98 1998), various newspaper articles, the Internet, and personal contacts. After telephone surveys were conducted to verify the authority of these firms, 17 firms were identified (along with their relevant person-in-charge). Six other firms were eliminated because their operations were no longer in existence in Hainan or they were unable to be contacted due to inaccurate or outdated information. Personal interviews were conducted with top executives from parent firms in Singapore (and in Hainan if the key executives were personally managing the operations there). During the interviews, a tape recorder was used whenever possible with the permission of the respondents. A total of 10 transcripts was completed. At the end of the interview, permission was sought from the interviewees to visit their business sites and to interview their local managers in Hainan by one of the authors in February 1998. From the initial list of 17 firms, all except three granted personal interviews. During the interviewing process, three further contacts were recommended and all were granted interviews. In total, 16 interviews were conducted. The remaining sampled firms used in this study were drawn from information collated through the locals and personal observations during the Hainan field trip and other printed materials such as newspapers and annual reports.

1 A branch of the Bank of China started operation in Singapore as early as 1936.
2 In 1995, the Singapore dollar's exchange rate was S$1.42 to US$1.
3 The lineage consists of a group of males all descending from one common ancestor, all living together in one settlement, owning some property in common, and all nominally under the leadership of the man most senior in terms of generation and age (Baker 1979, 49).
4 Multilineage settlements are also commonly found in southeastern China, where lineage organization is strongest (Baker 1979, 65).
5 A normal visa for a Singaporean is only valid for six months. These elders can renew their visa in Hainan for another three months, but only up to a maximum of two renewals. Thus, they usually have to return to Singapore after a year of residence in Hainan before they can apply again to return to Hainan.
6 These accounts were gathered from the local Hainanese during the field research in Hainan and from one of the authors' own relatives in Singapore.
7 Friendship is a synonym for guanxi.
8 It was only random individuals from within a family, lineage, village or county that emigrated abroad. Hence, there were often no families, no lineage, and no clans in the host countries.
9 Today, Mr. Han's shipping engineering company in Singapore is still in business. Due to his early entry into Hainan, he established a great deal of guanxi or connections. Currently, he owns several properties and a sack-making factory in Hainan.

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