Strategic Governance and Economic Diplomacy in China: The Political Economy of Government-linked Companies from Singapore

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Much of the recent literature on China has focused on the rationale and performance of private economic activities by ethnic Chinese entrepreneurs. In this literature on the so-called "Greater China" economic linkages, Chinese ethnicity and *guanxi* networks have occupied a privileged analytical role in explaining the governance of cross-border economic activities by these entrepreneurs from Hong Kong and Taiwan.[1] We know relatively little, however, about the nature and governance of other *non-private forms* of economic activities in mainland China that originate from other ethnic Chinese societies. In particular, two newly industrialised economies, Taiwan and Singapore, have several commonalties beyond the fact that they both have majority ethnic Chinese population. They also share a common developmental trajectory in which the state plays a very significant role in "governing the market".[2] Through their respective economic planning agencies and centralised political bureaucracy, the state in both economies is able to charter and govern the strategic orientation of their respective trajectories of national economic development. Since the late 1980s and the early 1990s, both states have

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1 See Robert Ash, and Y.Y. Kueh (1993), 'Economic integration within Greater China: trade and investment flows between China, Hong Kong, and Taiwan', *The China Quarterly*, No.136, pp.711-45. Hsing You-tien (1998), *Making Capitalism in China: The Taiwan Connection*, New York: Oxford University Press. Hsing You-tien (2003), 'Ethnic identity and business solidarity: Chinese capitalism revisited', in Laurence J. C. Ma and Carolyn Cartier (eds.), *The Chinese Diaspora: Space, Place, Mobility and Identity*, Boulder, CO: Rowman and Littlefield Publishers, pp.221-35. Carolyn Cartier (2001), *Globalizing South China*, Oxford: Blackwell.

2 Alice Amsden (1989), *Asia's Next Giant: South Korea and Late Industrialization*, New York: Oxford University Press. Alice Amsden (2001), *The Rise of "The Rest": Challenges to the West From Late-Industrializing Economies*, New York: Oxford University Press. Garry Rodan (1989), *The Political Economy of Singapore's Industralization: Nation State and International Capital*, Kuala Lumpur: Forum. Robert Wade (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton: Princeton University Press. Linda Low (1998), *The Political Economy of a City-State: Government-Made Singapore*, Singapore: Oxford University Press. Henry Wai-chung Yeung (2002), *Entrepreneurship and the Internationalisation of Asian Firms: An Institutional Perspective*, Cheltenham: Edward Elgar.

also been actively governing significant outflows of investments by national firms that often have direct or indirect government links. This phenomenon calls into question the nature and governance of this state-driven form of economic diplomacy, particularly when these outward investments are put into such a socialist transitional economy as mainland China.[3]

In this paper, I define *economic diplomacy* as interstate economic relations manifested through firm-specific activities. While these economic activities are conducted through national firms, they "carry" with them certain distinctive elements of political and diplomatic overtures. These economic-diplomatic activities therefore cannot be conceptualised as pure market-based transactions. Instead, they should be viewed as institutionally mediated interactions between different nation-states that go beyond profit maximisation and economic efficiency. This paper aims to consider the experience of the Singapore Government in governing its economic diplomacy with China in relation to massive investments in China by government-linked companies (GLCs) from Singapore. By "strategic governance", I mean the strategies and mechanisms through which state agencies in Singapore are able to control and manage their economic activities abroad (i.e. in China). Here, I argue that while certain modes of strategic governance of GLCs may be appropriate and effective in Singapore, these same strategies and mechanisms may not work in a foreign business system that has different configurations of political, social and institutional relationships. Much local adaptation and reconfigurations of governance mechanisms are therefore needed in order for Singapore's economic diplomacy to work in foreign land. In particular, I consider three localisation strategies apparent in my research into the governance processes of Singapore's GLCs in China: (1) partnering with private companies from Singapore; (2) engaging local partners in

[3] See, for example, Christopher M. Dent (2002), *The Foreign Economic Policies of Singapore, South Korea and Taiwan*, Cheltenham: Edward Elgar.

China and (3) subsidiary autonomy through setting up broad operating parameters by parent GLCs.

This paper is divided into two main sections. The next section develops the main conceptual framework for this paper by examining the nature of strategic governance and business systems in China and Singapore. The second section of the paper presents some detail information on Singapore's economic diplomacy with China through direct GLC investments. Through case studies, I examine the localisation strategies of seven GLCs in China. These case studies range from industrial park and property development to telecommunications and distribution of computers. The concluding section offers some implications for business strategy and public policy.

Configuring Strategic Governance and Business Systems in China and Singapore

Strategic governance and business systems: some theoretical issues

The late 1970s and early 1980s was generally seen as the period in which interest in the new economic sociology emerged as a response to the failure of neoclassical economics to explain economic (social) action and rationality.[4] As argued by Karl Polanyi, "[t]he human economy, then, is embedded and enmeshed in institutions, economic and noneconomic".[5] Modern organisations, therefore, were not seen merely as the result of economic rationality but also of social rationality. This view of modern organisations gave rise to the notion of the

4 Neil Smelser and Richard Swedberg (eds.) (1994), *The Handbook of Economic Sociology*, Princeton, NJ: Princeton University Press. Neil Fligstein (2001), *The Architecture of Markets: An Economic Sociology of Twenty-First-Century Capitalist Societies*, Princeton, NJ: Princeton University Press. Nicole Woolsey Biggart (ed.) (2002), *Readings in Economic Sociology*, Oxford: Blackwell. Mauro F. Guillén, Randall Collins, Paula England and Marshall Meyer (eds.) (2003), *The New Economic Sociology: Developments in an Emerging Field*, New York: Russell Sage.

5 Quotation from Karl Polanyi [1957] (1992), 'The economy as instituted process', in Mark Granovetter and Richard Swedberg (eds.), *The Sociology of Economic Life*, Boulder: Westview

socially constructed nature of modern organisations.[6] The new economic sociology was also heavily indebted to the moral economy school in economic history and political science.[7] Moral economists argued that economic rationality such as self-interest and utility maximising behaviour is not necessarily the only organising principle in society. They recognised that in many societies, the concern for primordial existence through morally organised principles such as subsistence and the safety-first principle is equally, if not more, important than economic rationality.[8] A final intellectual tradition to which the new economic sociology was indebted is the Marxist tradition of political economy. To many institutional sociologists, modern business organisations are not only the result of social actions, but also are very much embedded in ongoing power struggles and relations between social actors. Organisations are never neutral in ideological terms, but are always value-driven and power-laden in their functions as coordinators of social (economic) life.[9]

The conceptual underpinning of the new economic sociology rests substantially on the central argument of the *embeddedness* of economic (social) action: the argument that "the behavior and institutions to be analyzed are so constrained by ongoing social relations that to

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Press, p.34. Reprinted from *Trade Market in the Early Empires*, by Karl Polanyi, Conrad M. Arensberg and Harry W. Pearson, 1957, The Free Press.

6 Henry Wai-chung Yeung (1998), 'The social-spatial constitution of business organisations: a geographical perspective', *Organization*, Vol.5(1), pp.101-28.

7 For example, Amitai Etzioni (1988), *The Moral Dimension: Toward a New Economics*, New York: The Free Press.

8 See the classic work by James Scott (1976), *The Moral Economy of the Peasant*, New Haven: Yale University Press. James Scott (1985), *Weapons of the Weak: Everyday Forms of Peasant Resistance*, New Haven: Yale University Press.

9 See the new institutionalism literature in organizational sociology in Paul J. DiMaggio and Walter W. Powell (eds.) (1991), *The New Institutionalism in Organizational Analysis*, Chicago: University of Chicago Press. Paul J. DiMaggio (ed.) (2001), *The Twenty-First-Century Firm: Changing Economic Organization in International Perspective*, Princeton, NJ: Princeton University Press. Mauro F. Guillén (2001), *The Limits of Convergence: Globalization and Organizational Change in Argentina, South Korea, and Spain*, Princeton, NJ: Princeton University Press.

construe them as independent is a grievous misunderstanding".[10] When applied to the study of modern organisations, embeddedness refers to "the configuration of those relations of 'relative autonomy' and 'relative dependence' which exist between forms of economic and social organisation and the respective national frameworks of cultural and institutional value within which they are constituted. These configurations are an 'achieved' phenomenon. They are socially constructed, emergent, produced and reproduced".[11] Two key concepts are particularly important in analysing the social organisation of the economy and the embeddedness of economic (social) action: capital and structures. *Capital*[12] refers to "the economic and social resources that dominant groups use to maintain their control (and with which subordinate groups contest it)".[13] It is never a value-free means of coordinating economic (social) life as indicated in neoclassical economics, but an expression of ongoing power relations. *Structure* implies "the notion of social organization [i.e.] the ways in which formal and informal social relations mediate or constitute the operation of markets for goods and services". The market economy is not an amalgamation of individual atomistic decision-makings, but a structure constitutive of ongoing social relations. To address the issues of economic action and social life means a reconceptualisation of the key concepts of capital and structure because they are embedded in ongoing social relations.

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10 Mark Granovetter (1992), 'Economic action, and social structure: the problem of embeddedness', in Mark Granovetter and Richard Swedberg (eds.), *The Sociology of Economic Life*, Boulder: Westview Press, p.53. Reprinted from *American Journal of Sociology*, Vol.91, November, 1985, pp.481-510.

11 Stewart R. Clegg (1990), *Modern Organization: Organization Studies in the Postmodern World*, London: Sage, p.7.

12 The term "capital" does not refer to the super-structure that determines social action and societal development as argued by the Marxist perspective. Capital should be more properly referred to as a form of resources to maintain control and thus it bears no deterministic power in shaping social action and change.

13 Sharon Zukin and Paul DiMaggio (eds.) (1990), *Structures of Capital: The Social Organisation of the Economy*, Cambridge: Cambridge University Press, pp.2-3.

Given the notions that economic action is socially embedded and institutions serve as social agency, economic institutions are necessarily social constructions of reality.[14] In reality, there is a variety of ways of governing economic action. Instead of viewing economic institutions as a result of cultural beliefs and functional needs (the neoclassical economic explanation), the new economic sociologists argued that "economic institutions do not emerge automatically in response to economic needs. Rather they are constructed by individuals whose action is both facilitated and constrained by the structure and resources available in the social networks in which they are embedded".[15] This conceptualisation of economic institutions as social constructions represents a move from a concern with the social origins of economic action to the social organisation of economic action (in the form of economic institutions). It is this analytical concern with the social organisation of economic action, as manifested in modern complex organisations, that the new economic sociology (also known as "institutional sociology") has its greatest contribution to the study of business organisations and their strategic governance.[16]

In a series of empirically grounded theoretical work, Richard Whitley develops the notion that the social construction of business organisations explains the institutional context in which business systems are constituted. To him, business systems vary over time and space under different institutional contexts and "different kinds of business and market

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14 Richard Swedberg and Mark Granovetter (1992), 'Introduction', in Mark Granovetter and Richard Swedberg (eds.), *The Sociology of Economic Life*, Boulder: Westview Press, pp.1-26. Richard Whitley (1992), *Business Systems in East Asia: Firms, Markets and Societies*, London: Sage. Richard Whitley (1999), *Divergent Capitalisms: The Social Structuring and Change of Business Systems*, New York: Oxford University Press.

15 Mark Granovetter (1991), 'The social construction of economic institutions', in Amitai Etzioni, and Paul R. Lawrence (eds.), *Socio-Economics: Toward a New Synthesis*, Armonk, New York: M.E. Sharpe, p.78.

16 See the work of Charles Perrow (1986), *Complex Organizations: A Critical Essay*, Third Edition, New York: Random House. Charles Perrow (1990), 'Economic theories of organization', in Sharon Zukin and Paul DiMaggio (eds.), *Structures of Capital: The Social Organisation of the Economy*, Cambridge: Cambridge University Press, pp.121-52.

organization develop and dominate different market economies as a result of major variations in social institutions and constitute distinctive business systems".[17] Applying to the East Asian context, the focus of this approach is not so much on culture *per se*, but rather on the *institutional structures* of particular business systems that are socially constructed over time and space.[18] For example, Whitley's comparative analysis of business systems in East Asian countries (Japan, South Korea, Taiwan and Hong Kong) traces the development and characterisation of institutional contexts in these four different states to the pre-industrialisation and industrialisation eras to demonstrate the influence of institutions on the production and reproduction of successful business systems.[19] The social organisation of business firms in these economies, as a result, is largely shaped by these institutional structures. In the next two sub-sections, I examine how the institutional structures in mainland China and Singapore have different origins and evolutionary trajectories. These differences are highly significant in explaining the strategic governance of Singapore's GLC investments in China.

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17 Whitley (1992; 1999), op. cit. Quotation from Whitley (1992), p.7.

18 See some work by the culturalists in Gordon Redding (1990), *The Spirit of Chinese Capitalism*, Berlin: Gruyter. Robert W. Hefner (ed.) (1998), *Market Cultures: Society and Values in the New Asian Capitalisms*, Singapore: Institute of Southeast Asian Studies. See critique of these culturalists in Edmund Terence Gomez and Hsiao Hsin-Huang Michael (eds.) (2001), *Chinese Business in South-East Asia: Contesting Cultural Explanations, Researching Entrepreneurship*, Surrey: Curzon. Marco Orrù, Nicole Biggart and Gary Hamilton G. (1997), *The Economic Organization of East Asian Capitalism*, London: Sage. K.S. Jomo and Brian C. Folk (eds.) (2003), *Ethnic Business: Chinese Capitalism in Southeast Asia*, London: RoutledgeCurzon. Henry Wai-chung Yeung (2000), 'The dynamics of Asian business systems in a globalising era', *Review of International Political Economy*, Vol.7(3), pp.399-433. Henry Wai-chung Yeung (2004), *Chinese Capitalism in a Global Era: Towards Hybrid Capitalism*, London: Routledge. Edmund Terence Gomez and Hsiao Hsin-Huang Michael (eds.) (2004), *Chinese Enterprise, Transnationalism, and Identity*, London: RoutledgeCurzon.

19 See also Li Kui-Wai (2002), *Capitalist Development and Economism in East Asia: The Rise of Hong Kong, Singapore, Taiwan and South Korea*, London: Routledge.

Strategic governance and business systems in China

Mainland China has experienced tremendous political-economic transformations since the inauguration of economic reform in December 1978. The ways in which the economic dynamic is unleashed in China are also contingent upon the continuous unfolding of central-local politics at different spatial and organisational scales.[20] To date, much has been written on China's economic reform and its implications for institutional governance and economic development.[21] I intend to focus on one specific aspect of China's economic reform to contextualise my arguments on state-firm relationships in China – the shift of central-local politics in favour of local governments, local collectives and local enterprises.[22] This structural shift in post-Mao Chinese institutional context has very important implications for understanding the strategic governance of economic diplomacy in China. In particular, the key process in China's economic reform has been the decentralisation of "many decisions to the

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20 Andrew G. Walder (1995), 'Local governments as industrial firms: an organizational analysis of China's transitional economy', *American Journal of Sociology*, Vol.101(2), pp.263-301. Jean C. Oi and Andrew G. Walder (eds.) (1999), *Property Rights and Economic Reform in China*, Stanford, CA: Stanford University Press. David Zweig (2002), *Internationalizing China: Domestic Interests and Global Linkages*, Ithaca, NY: Cornell University Press.

21 Gordon White (1993), *Riding the Tiger: The Politics of Economic Reform in Post-Mao China*, Stanford: Stanford University Press. Barry Naughton (1995), *Growing Out of the Plan: Chinese Economic Reform, 1978-1993*, New York: Cambridge University Press. Huang Yasheng (1996), *Inflation and Investment Controls in China: The Political Economy of Central-Local Relations During the Reform Era*, Cambridge: Cambridge University Press. George C.S. Lin (1997), *Red Capitalism in South China: Growth and Development of the Pearl River Delta*, Vancouver: University of British Columbia Press. John R. Logan (ed.) (2001), *The New Chinese City: Globalization and Market Reform*, Oxford: Blackwell. Michael Webber, Mark Wang and Zhu Ying (eds.) (2002), *China's Transition to A Global Economy*, New York: Palgrave Macmillan.

22 See also Henry Wai-chung Yeung (1999), *The Political Economy of Singaporean Investments in China*, EAI Working Paper No.22, East Asia Institute, National University of Singapore, Singapore. Henry Wai-chung Yeung (2000), 'Local politics and foreign ventures in China's transitional economy: the political economy of Singaporean investments in China', *Political Geography*, Vol.19(7), pp.809-40. Yeung (2002), op. cit.

firm level, or at least to the local government level".[23] The restructuring of the state sector has contributed to the rise of *local* economic elites and cadre entrepreneurs who were former party secretaries in charge of SOEs and local governments.[24]

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) that are essentially undertakings by local municipal governments and their collective enterprises. Since 1985, a new diversity in organisational forms and a plurality of property rights has been witnessed in China.[25] Before 1985, private firms in China that employed more than seven workers would risk being shut down by the government any time. The new fiscal system introduced in 1985 allowed the local government treasury to retain profit taxes from locally controlled firms and some state firms. Other tax payments, such as the product tax and the value-added tax, were still shared with the central government. By the late 1980s, over 50% of the Chinese state budget was in the hands of local governments.[26]

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23 Roger H. Gordon and Li Wei (1991), 'Chinese enterprise behavior under the reform', *American Economic Review*, Vol.81(2), p.202.

24 James Tong (1989), 'Fiscal reform, elite turnover and central-provincial relations in post-Mao China', *Australian Journal of Chinese Affairs*, No.22, pp.1-28. Margaret M. Pearson (1997), *China's New Business Elite: The Political Consequences of Economic Reform*, Berkeley, CA: University of California Press. Douglas Guthrie (1999), *Dragon in a Three-Piece Suit: The Emergence of Capitalism in China*, Princeton, NJ: Princeton University Press. Cindy C. Fan (2002), 'The elite, the natives, and the outsiders: Migration and labor market segmentation in urban China', *Annals of the Association of American Geographers*, Vol.91(1), pp.103-24. Zweig (2002), op. cit.

25 See the classic work by Victor Nee (1992), 'Organizational dynamics of market transition: hybrid forms, property rights and mixed economy in China', *Administrative Science Quarterly*, Vol.37(1), pp.1-27. See also Lisa A. Keister (2000), *Chinese Business Groups: The Structure and Impact of Interfirm Relations During Economic Development*, Oxford: Oxford University Press. Zhang Zhihong (1999), 'Rural industrialization in China: from backyard furnaces to township and village enterprises', *East Asia*, Vol.17(3), pp.61-87. Douglas Guthrie (1997), 'Between markets and politics: organizational responses to reform in China', *American Journal of Sociology*, Vol.102(5), pp.1258-304.

26 Nee, ibid, p.1.

Within these “spaces of manoeuvring” and local corporatist initiatives, the role of *guanxi* or personal relationships in securing the assistance and support of cadres and local governments is particularly important.[27] Mayfair Yang has explained the historical emergence of *guanxi* as a sort of “buffer zone” against state repression and centralised control in China. She argues that as a result of “the extreme politicization of culture and the penetration of every aspect of life by state power, kinship and friendship ethics serves as a refuge for people”.[28] This *guanxi* polity therefore poses as “an alternative system of relational ethics and social integration subverting and displacing state structures. Thus the power of official channels, state rules, and state regulations are neutralized”.[29] To show the importance of building good relationships with people at the ground level, Yang has quoted from an interviewee:

> An official such as a country magistrate may have a high position. Especially from the viewpoint of an ordinary peasant in his county, a county magistrate seems very powerful. However, he may not have authority over the area where you want something done, so he is useless to you. A lower-level official or even a clerk who is

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27 For other recent studies of *guanxi*, bureaucracy and politics in China, see Frank Pieke (1995), ‘Bureaucracy, friends and money: the growth of capital socialism in China’, *Comparative Studies in Society and History*, Vol.37(3), pp.494-518. Lucien W. Pye (1995), ‘Factions and the politics of guanxi: paradoxes in Chinese administrative and political behaviour’, *The China Journal*, No.34, pp.35-53. David L. Wank (1996), ‘The institutional process of market clientelism: *guanxi* and private business in a south China city’, *The China Quarterly*, No.147, pp.820-38. David L. Wank (1999), *Commodifying Communism: Business, Trust, and Politics in a Chinese City*, Cambridge: Cambridge University Press. Alan Smart (1997), ‘Oriental despotism and sugar-coated bullets: representations of the market in China’, in James G. Carrier (ed.), *Meanings of the Market: The Free Market in Western Culture*, Oxford: Berg, pp.159-95. Douglas Guthrie (1998), ‘The declining significance of *guanxi* in China’s economic transition’, *The China Quarterly*, No.154, pp.254-282. For a critique of this “new guanxi scholarship”, see Mayfair M.H. Yang (2002), ‘The resilience of guanxi and its new deployments: A critique of some new guanxi scholarship’, *The China Quarterly*, No.170, pp.459-76. Fan Ying (2002), ‘Questioning guanxi: definition, classification and implications’, *International Business Review*, Vol.11(5), pp.543-61. Thomas W. Dunfee and Danielle E. Warren (2001), ‘Is guanxi ethical? A normative analysis of doing business in China’, *Journal of Business Ethics*, Vol.32(3), pp.191-204.

28 Mayfair Mei-Hui Yang (1994), *Gifts, Favors and Banquets: The Art of Social Relationships in China*, Ithaca, NY: Cornell University Press, p.158.

29 Ibid, p.308.

directly in charge of something is in a better position to help you. So, high social position, or [high] political positions are not always necessary to get things done.[30]

On the role of *guanxi* in TVEs, Yang further notes that a "rural enterprise must rely on rural government for a host of things... Obtaining these favors requires an adeptness in the art of guanxi".[31] This is because local government normally controls access to workers, scarce inputs, credits, appointment of managers, investment decisions and even production plans (see case studies below). Local party officials also directly appoint managers of these TVEs, sometimes in exchange for their personal favour or to extend their personal economic gain by placing their friends and cronies in the management. This has led Walder to argue that "government at the lower levels [in China] are able to exercise *more effective control* over their assets than are governments at higher levels".[32] Another reason for the reliance on *guanxi* than on legal contracts or formal channels for resources is related to the lack of well-specified structure of property rights and supporting institutions and the low priority by state banks and official sources of credit to private enterprises in China's socialist redistributive economy.[33] John Child notes that "[w]hile the owners of collective enterprises are defined more precisely as all the people who belong to them, the situation remains confused since there is a wide range of *de facto* positions in regard to their property rights".[34] As such, those new hybrid institutional arrangements (e.g. TVEs, local enterprises and private firms)

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30 Ibid, p.73.

31 Ibid, p.77.

32 Walder (1995), op. cit., p.270, original italics.

33 See Nee (1992), op. cit., Jin Dengjian and Kingsley E. Haynes (1997), 'Economic transition at the edge of order and chaos: China's dualism and leading sectoral approach', *Journal of Economic Issues*, Vol.31(1), pp.79-101. Che Jiahua and Qian Yingyi (1998), 'Institutional environment, community government, and corporate governance: understanding China's township-village enterprises', *Journal of Law, Economics, and Organization*, Vol.14(1), pp.1-23. Luo Yadong (2000), *Multinational Corporations in China: Benefitting from Structural Transformation*, Copenhagen: Copenhagen Business School Press.

34 John Child (1994), *Management in China During the Age of Reform*, Cambridge: Cambridge University Press, p.20.

represent a temporary solution to the problem of weak market structures and incomplete market transition to socialist capitalism in China. What then is the evolutionary trajectory of the strategic governance of government-linked companies in Singapore?

Strategic governance and business systems in Singapore

The Singapore economy inherited by the newly elected Peoples' Action Party (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.[35] The resource-deficient small state subsequently chose to rely on foreign capital to gain quick economic growth in order to legitimise its political domination. Other than creating institutional structures, the state also employed other measures to make Singapore more attractive to foreign investment because "as an NIE operating in a turbulent world with many manufacturing location options, [Singapore] can survive successfully only if state intervention structures local and regional conditions to fit the requirements of international capital".[36] First, the state regulated the labour market by disciplining the labour force with the Trade Union (Amendment) Bill in 1966 and the Employment Act in 1968 and the Industrial Relations (Amendment) Act.[37] These labour market regulations resulted in the creation of a highly disciplined and depoliticised labour

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35 Ruth McVey (1992), 'The materialization of the Southeast Asian enterpreneur', in Ruth McVey (ed.), *Southeast Asian Capitalists*, Ithaca: Cornell University Southeast Asia Program, pp.7-33. Thomas Menkhoff (1993), *Trade Routes, Trust and Trading Networks - Chinese Small Enteprises in Singapore*, Saarbrucken, Germany: Verlag breitenback Publishers.

36 Ho Kong Chong (1994), 'Industrial restructuring, the Singapore city-state, and the regional division of labour', *Environment and Planning A*, Vol.26(1), p.48.

37 See details in Rodan (1989), op. cit. W.G. Huff (1995), 'The developmental state, government, and Singapore's economic development since 1960', *World Development*, Vol.23(8), pp.1421-38. Henry Wai-chung Yeung (1999), 'Regulating investment abroad? The

force in Singapore, allowing its smooth entry into the periphery role of the emerging new international division of labour spearheaded by transnational corporations (TNCs).

The state took up a heavy responsibility for the provision of public infrastructure through major state-owned enterprises.[38] 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 government-linked companies (GLCs) in the regionalisation drive since 1993. In fact, public investment in the industrial sector started as early as 1963 when seven public enterprises in manufacturing were established: Sugar Industry of Singapore Ltd., National Grain Elevator Ltd., Singapore Textile Industries Ltd., United Industrial Corporation Ltd., Singapore Polymer Corporation Pte Ltd., Jurong Shipyard Ltd. and Ceramics (M) Pte Ltd.[39] Most of these enterprises were established to respond to perceived large domestic markets. Rodan 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".[40]

Temasek Holdings was set up on 25 June 1974 to hold and manage the S$345 million equity invested in 36 companies.[41] It served as a holding company to monitor activities of its companies, to collate all the information of various government investments and to keep the Minister for Finance and the cabinet informed about the performance of these companies. Its

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political economy of the regionalisation of Singaporean firms', *Antipode*, Vol.31(3), pp.245-73.

38 See Rodan, ibid. Low (1998), op. cit. Henry Wai-chung Yeung (1998), 'The political economy of transnational corporations: a study of the regionalisation of Singaporean firms', *Political Geography*, Vol.17(4), pp.389-416. Henry Wai-chung Yeung (2000), 'State intervention and neoliberalism in the globalising world economy: lessons from Singapore's regionalisation programme', *The Pacific Review*, Vol.13(1), pp.133-62. Yeung (2002), op. cit.

39 Rodan, ibid, Table 3.2.

40 Rodan, ibid, p.77.

41 *The Straits Times*, 25 June 1999, p.74.

present chairman, S. Dhanabalan who was a former cabinet minister, recalls that "there was no supervisory function [for Temasek Holdings]. Each company had its own management who were accountable to its own board... The Government's main interest was to make sure the right people were in charge and after that the management was to chart its own course. That approach carried on in Temasek".[42] By 1979, Temasek Holdings had adopted a new and more active approach: (1) to provide focus and direction to its companies; (2) to foster closer co-operation among the companies; (3) to seek out new investments and (4) to consider mergers with profitable companies. By 1983, the state had directly invested in 58 diverse companies with a total paid-up capital of S$2.9 billion. These companies in turn wholly-owned or partially-owned some 490 firms in Singapore.[43] Some of these large state-owned enterprises have grown significantly since then to become leading corporate conglomerates in the Singapore economy.

During the 1980s and the 1990s, Temasek Holdings began to shed its stake in non-strategic and viable companies through public listing and other forms of divestment. The main purpose then was to promote marketisation and to allow the private sector to play a bigger role in the Singapore economy. Through privatisation since the late 1980s, many former large state-owned enterprises have been listed in the Stock Exchange of Singapore (e.g. Singapore Airlines, Keppel Corporation, Sembawang Holdings and so on). Singapore Airlines, as one of the most successful local corporations, constituted as much as 5% of Singapore's GDP in its peak. These former state-owned enterprises have since been known as government-linked companies (GLCs) because the state still retains significant influence over their management control primarily through four state-owned holding companies – Temasek Holdings, Singapore Technologies, MinCom Holdings and MND Holdings.

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42 Ibid.

43 Huff (1995), op. cit., p.1428.

By the late 1990s, the public sector and GLCs accounted for about 60% of Singapore's GDP.[44] As at 31 May 1999, the market capitalisation of first-tier public listed GLCs controlled by Temasek Holdings alone was S$88 billion or 25% of total market capitalisation of the Stock Exchange of Singapore. The share of Temasek Holdings in these GLCs amounted to S$47 billion or 13% of total market capitalisation.[45] Table 2.10 lists companies that were divested by Temasek Holdings between 1985 and 1998. It should be noted that six GLCs in Table 1 had a combined market capitalisation of S$164 billion by the end of 1999. Some of the GLCs are top players in their respective industries: Singapore Telecom (telecommunications), Keppel Corporation (shipyard and infrastructure), SembCorp Industries (shipyard and marine industries), DBS Groups Holdings (banking and property development), Singapore Airlines (airlines), Neptune Orient Lines (shipping), and Singapore Technologies (high-tech manufacturing). There may also be companies controlled by Temasek Holdings that are not included in the table.

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Table 1 here

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In more recent years, Temasek Holdings started to invest in new strategic or risky ventures and in companies that would bring foreign skills and technology and access to foreign markets. When the regionalisation programme was launched in 1993, Temasek Holdings supported the Singapore government's long-term policies by co-investing with private companies abroad and by asking its companies to go regional, in particular in China and in Indonesia (see case studies below). Its role remained as a *facilitator* to provide more focused direction to subsidiaries and associated companies and to foster closer coordination and

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44 Ministry of Finance (1993), *Interim Report of the Committee to Promote Enterprise Overseas*, Singapore: MOF, p.39. See also Kulwant Singh and Ang Siah Hwee (1998), *The Strategies and Success of Government Linked Corporations in Singapore*, Research Paper Series #98-06, Faculty of Business Administration, National University of Singapore, Singapore.

cooperation among its companies. In 1998/9, Temasek Holdings experienced winds of change and became more proactive in governing its companies in order to nurture world-class companies through effective stewardship and commercially driven strategic investments. This strategic change in corporate governance occurred because of two reasons. First, one of the controversial issues for corporate governance in Singapore was the unwieldy diversification by some GLCs both in Singapore and abroad before the Asian economic crisis of 1997/1998. Temasek Holdings chairman, S. Dhanabalan, remarks that "we have made it clear to Temasek companies that while we have no objection to them diversifying into other areas, we want them to discuss with us and convince us that they need to go in that direction".[46]

Second, a much-anticipated report by the Committee on Singapore's Competitiveness has called for an active role by GLCs in spearheading the development of more world-class companies from Singapore.[47] The reorientation of Temasek Holdings, as a key holding company of most GLCs, towards more proactive corporate governance was therefore timely. Temasek chairman notes that "we have to strike a balance. I don't want to give the impression that we are going to be very intrusive in our stewardship role".[48] Changes planned or implemented include: (1) closer monitoring of their diversification plans to ensure that they capitalise on what they know best; (2) specifying performance benchmarks to ensure they focus on the correct targets; (3) limiting the terms of the chairmen and directors to ensure fresh thinking prevails at the top and (4) keeping separate the appointments of the chairmen and the chief executive officers to ensure that their boards retain an objective view of proposals brought before them by the senior management.

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45 Quoted in *The Straits Times*, 25 June 1999, p.74.

46 Quoted in *The Straits Times*, 25 June 1999, p.1.

47 Ministry of Trade and Industry (1998), *Committee on Singapore's Competitiveness*, Singapore: MTI.

48 Quoted in *The Straits Times*, 25 June 1999, p.1.

By the late 1980s, the PAP-dominated state had become much stronger politically and economically. The domestic economy had experienced unprecedented growth for several decades. As the global economy was becoming more competitive, Singapore began to realise that heavy reliance on foreign TNCs was no longer useful to attaining its long term strategic goals of sustainable growth.[49] It was necessary to respond to this new global competition by developing its indigenous economic capabilities that can tap into growth potential in other countries. One of such strategies is to regionalise its firms to capture the booming regional market, spearheaded by state-owned enterprises. Kanai notes that "no matter what Singapore does in terms of business promotion policy, it is an unavoidable fact of modern economic life that Singapore will face keener competition from its neighbors as a center for regional manufacturing or service industry operations. So it would seem better for Singapore to promote the outward regional expansion of its own private sector, and in the process capture for itself some of the benefits of the region's dynamic development".[50] 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.[51] This national strategic thrust was subsequently known as Singapore's "Regionalisation 2000".

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49 Alexius A. Pereira (2000), 'State collaboration with transnational corporations: the case of Singapore's industrial programmes (1965-1999)', Competition and Change, Vol.4(4), pp.1-29.

50 Takao Kanai (1993), 'Singapore's new focus on regional business expansion', *NRI Quarterly*, Vol.2(3), p.41.

51 For some empirical studies of outward investment from Singapore, see Philippe Régnier (1993), 'Spreading Singapore's wings worldwide: a review of traditional and new investment strategies', *The Pacific Review*, Vol.6(4), pp.305-12. Lee Tsao Yuan (1994), *Overseas Investment: Experience of Singapore Manufacturing Companies*, Singapore: McGraw-Hill. Samuel Bassey Okposin (1999), *The Extent of Singapore's Investments Abroad*, Aldershot, Hants: Ashgate. Yeung (2002), op. cit., Alexius A. Pereira (2003), *State Collaboration and Development Strategies in China: The Case of the China-Singapore Suzhou Industrial Park*, London: RoutledgeCurzon.

However sound this idea of regionalisation is, the extent of Singapore's outward investment was relatively limited before the early 1990s. As shown in the next section, Singapore's foreign direct investment (FDI) in the 1980s was quite limited and 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 U.K.[52] In 1990, only 2,293 (6%) of 36,573 companies in Singapore had regionalised their operations.[53] Even among the Asian NIEs, Singapore compared very unfavourably in terms of its extent of transnational operations.[54] 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: (1) the regionalisation of government-linked companies (GLCs) and companies set up by statutory boards and (2) "political entrepreneurship" through which the state opens up overseas business opportunities for private capitalists and negotiates the institutional framework for such opportunities to be tapped by these Singaporean firms.[55]

GLCs have become one of the primary instruments through which the state inaugurates the regionalisation drive and extends its economic diplomacy to host country nation-states. Together with statutory boards, they serve as partners to private sector

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52 Ministry of Finance (1993), op. cit., p.20.

53 Ibid, p.70.

54 See Henry Wai-chung Yeung (1994), 'Transnational corporations from Asian developing countries: their characteristics and competitive edge', *Journal of Asian Business*, Vol.10(4), pp.17-58. Henry Wai-chung Yeung (ed.) (1999c), *The Globalisation of Business Firms from Emerging Economies*, Two Volumes, Cheltenham: Edward Elgar. Yeung (2002), op. cit.

companies in overseas ventures by selling their expertise to the private sector; forming joint ventures and consortia and leading in large infrastructural projects.[56] First, a private company is often unable to undertake an overseas project because of its lack of expertise in some parts of the project. GLCs and statutory board companies may often have the requisite expertise that can be sold to the private sector. Second, the sale of expertise brings limited benefits to the GLCs or statutory board companies. They can make greater use of public sector capabilities by entering into consortia or joint ventures with private sector companies. This form of state participation in the regionalisation drive involves equity stakes in the ventures. The state becomes therefore a "quasi-entrepreneur". Third, for large infrastructural projects that require substantial investments and expertise and resources, the GLCs and statutory board companies are ideally endowed with these expertise and resources. Most of these projects also have long gestation and payback periods that are unattractive to private sector capital. The state can thus play a leading role by holding majority equity stake in the joint ventures. Here the state becomes a full entrepreneur in its own right. How then does the state govern its economic diplomacy with and activities in mainland China? What are the contradictions encountered by GLCs in a business system radically different from Singapore? How do GLCs resolve these contradictions emanating from their activities in China? These are the key empirical issues to be discussed in the next major section.

Governing Singapore's Economic Diplomacy in China

Singapore investments in China: general patterns

Before we examine the strategic governance of GLC investments in China, it is useful to provide some background information on the spatial and temporal patterns of Singapore

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55 Henry Wai-chung Yeung (1998), 'The political economy of transnational corporations: a study of the regionalisation of Singaporean firms', *Political Geography*, Vol.17(4), pp.389-416. Yeung (2002), op. cit., Pereira (2003), op. cit.

56 Ministry of Finance (1993), op. cit., pp.42-43.

investments in China. This sub-section first starts with Singapore statistics and then looks at host Chinese sources for triangulation purposes. Since the official launch of Singapore's regionalisation programme in 1993, the focus of FDI by Singaporean firms, in particular government-linked companies (GLCs), has been China and Indonesia because they were seen as emerging markets with strong potential for growth (see Table 2). During the 1993-1995 period, Singapore's FDI in China grew over five-fold from S$444 million to S$2.4 billion. If we include loans granted to affiliates in China, the 1996 figure shows that Singaporean firms invested some S$5.3 billion in China (9.6% of total outward investment from Singapore), almost double that in 1995. From a relatively insignificant destination for outward investment from Singapore throughout the 1980s, China emerged as the third largest recipient country of Singaporean investments by 1996. Between 1998 and 2001, China topped the list of host countries of Singapore's FDI. By the end of 2001, Singapore's total stock of foreign equity investment stood at S$257 billion, out of which S$131 billion was direct investment. China was the largest host country, accounting for 13% of Singapore's direct investment abroad.[57] A detailed report by the Department of Statistics notes that more than half of new investments in Asia in 1996 went to China.[58] This increase has contributed to the diminishing role of Hong Kong as the base to tap into the Chinese market. The same report also offers further details into the sectoral distribution of Singaporean investments in China. Some 55% of activities by Singaporean firms in China were 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.

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Table 2 here

57 Data are downloaded from http://www.singstat.gov.sg, accessed on 25 August 2003.

58 Department of Statistics (1998), *Singapore's Investment Abroad*. Singapore: DOS, p.5.

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While the home country data are useful, they show neither the importance nor the geographical distribution of Singaporean investments in the host country. We need to consult such Chinese sources as *Almanac of China's Foreign Economic Relations and Trade* and various provincial statistics. With US$17.0 billion cumulative realised FDI in China between 1979 and 2000, Singapore ranked fifth after Hong Kong (US$170.3 billion), the U.S. (US$30.0 billion), Japan (US$27.8 billion) and Taiwan (US$26.2 billion).[59] Their share of total cumulative FDI was respectively 48.9% (Hong Kong), 8.6% (the U.S.), 8.0% (Japan), 7.5% (Taiwan) and 4.9% (Singapore). In 2002 alone, Singapore ranked sixth in terms of realised FDI value (US$233.7 million), after Hong Kong (US$1.8 billion), the U.S. (US$542 million), Japan (US$419 million), Taiwan (US$397 million) and South Korea (US$272 million).

This increasing extent of Singapore investment in China is significant since Singapore is a relatively small economy compared to Taiwan, the U.S. and Japan. The U.S. and Japan were also the world's first and second largest investors in 1997.[60] Compared to Hong Kong, Singapore's FDI in China is relatively small because as much as 30-40% of Hong Kong FDI in China might be accounted for by affiliates of foreign firms and mainland Chinese firms.[61] Similarly, much of the early Singapore FDI in China has been routed through Hong Kong that explains why Hong Kong has been the second largest recipient of Singapore FDI throughout the 1980s and the 1990s (see Table 2). Compared with data from Singapore, we can conclude that whereas China is an important destination of FDI from Singapore, Singapore is also an important foreign investor to China.

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59 These data are reported in *China Investment Report 2000* (http://www.chinafdi.org.cn, accessed on 20 September 2003).

60 UNCTAD (1998), *World Investment Report 1998*, New York: United Nations.

61 See Linda Low, Eric D. Ramstetter and Henry Wai-chung Yeung (1998), 'Accounting for outward direct investment from Hong Kong and Singapore: who controls what?', in Robert E. Baldwin, Robert E. Lipsey and J. David Richardson (eds.), *Geography and Ownership as Bases for Economic Accounting*, Chicago: University of Chicago Press, p.144.

Agents of Singapore's economic diplomacy: GLC operations in China

Having painted a broad picture of Singaporean investments in China, we still do not know much about GLCs as specific *agents* of economic diplomacy that remain crucial to our understanding of their strategic governance in China. In this paper, I examine seven specific GLC operations in China (see Table 3).[62] Table 3 has summarised the main problems faced by GLCs operating in China. These problems can be classified into three areas: (1) the lack of resources resulting from "the appendage mind-set"; (2) the lack of autonomy and decision making capabilities to cope with rapidly changing business systems in China; (3) unfamiliarity with local business requirements and conditions in China. These problems are clearly related to the different configurations of political, social and institutional relationships in a foreign business system (i.e. China). These significant differences in operating business systems contribute to serious contradictions in the strategic governance of Singapore's economic diplomacy in China. National firms from Singapore, in particular government-linked companies, are largely embedded in Singapore's national business system in which there is a clear domination of state-business relationships in favour of the former. The state also has a direct role to play in the strategic governance of these GLCs (see Temasek Holdings earlier).

GLCs in Singapore are therefore used to the procedures and practices of home-country business operations where the "rules of the game" are fairly well defined, transparent and straightforward. As Singapore is both a city and a nation-state, GLCs are very much

62 The empirical data presented in this section originate from personal interviews with subsidiaries and affiliates of Singapore GLCs in China during May-June 1998. These interviews were completely unstructured and all taped. Their duration ranged from one hour to several hours. I managed to interview the top executives of all 7 GLC operations in Guangdong province and Jiangsu province, China. For two of these GLC operations, I also interviewed the top executives from their parent companies in Singapore. For the purpose of anonymity and confidentiality, the interviewees and their company information reported in this paper are examined as a group rather than as individual executives or companies. Case studies are used in this section to *illustrate* the strategic governance of GLC activities in

embedded in a political economy in which the national agenda intersects with urban and local interests – a phenomenon unique to city-states (Olds and Yeung, forthcoming). These GLCs also enjoy enormous financial support from and cosy relationships with their parent companies (i.e. Temasek Holdings) and local banking institutions.[63] When they internationalise and invest in China, these GLCs tend to transfer their existing business mindsets and practices to the host countries and to disregard the unique configurations of host country business systems. The lack of appreciation of these host country institutional systems and power structures has created tremendous problems for GLCs from Singapore.

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Table 3 here
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Is there then any prospect for governing Singapore's economic diplomacy in China that is mediated through GLC operations? I focus on some of the strategies adopted by GLCs to strengthen their chances of success in China. While the above case studies have shown that differences in home-host country business systems can substantially explain the contradictions faced by GLCs operating in China, they do not necessarily imply that all GLCs (and firms) are structurally determined by the business systems in which they are embedded. Indeed, these dynamic agents of economic diplomacy – though strongly embedded in home-country institutional contexts – are nevertheless capable of self-transformation to adapt strategically to host country conditions. Their home-country parent institutions (e.g. Temasek Holdings and relevant ministries of the Singapore Government) are also learning and adapting to a new business system in China such that their strategic governance processes might be reconfigured. The success of ethnic Chinese business firms in Southeast Asia, for

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China. They are meant neither as empirical proofs nor for wider generalizations. See also Yeung (2002), op. cit.

63 Natasha Hamilton-Hart (2000), 'The Singapore state revisited', *The Pacific Review*, Vol.13(2), pp.195-216. Natasha Hamilton-Hart (2002), *Asian States, Asian Bankers: Central Banking in Southeast Asia*, Ithaca, NY: Cornell University Press. Yeung (2002), op. cit.

example, has been hailed as an exemplar for this argument.[64] Similarly, I argue that whilst strongly embedded in the home country business system because of historical path-dependent trajectories, some GLCs from Singapore are clearly capable of transforming their governance structures and processes in order to localise their China operations.

Strategic governance of Singapore's economic diplomacy in China

Three localisation strategies are apparent in my research into the strategic governance processes of GLCs in China: (1) partnering with private companies from Singapore; (2) engaging local partners in China and (3) subsidiary autonomy through setting up broad operating parameters by parent GLCs. The first two strategies are related to partnership that, if well organised and executed, may substantially reduce the risks and rigidities of GLC operations in China. GLCs in China indeed experience severe governance constraints by virtue of their equity and management links to the Singapore Government, e.g. stricter internal regulations and appointments of chief executives by government institutions. Enrolling active private partners from Singapore or local partners in China therefore can lower the necessity for these GLCs to come into direct contact with the complexity and multiplicity of China's business system. These private-sector partners are also able to offer useful strategic advice and guidance on business dealings in China, leaving GLCs to focus on the internal governance of their operations in China (i.e. the third strategy). Sometimes, GLCs from Singapore set up broad operating parameters for their China operations. The idea is to reduce direct control and intervention from the headquarters in Singapore and to grant substantial autonomy to managers in China. This complementarity or synergy in governance can therefore be achieved without significant loss of "face" or actual costs to any party. Whereas GLCs gain from

64 See, for example, Redding (1990), op. cit., Whitley (1992), op. cit., Yeung (2004), op. cit., Henry Wai-chung Yeung and Kris Olds (eds.) (2000), *Globalization of Chinese Business Firms*, New York: Macmillan.

partners' experience and practices, the latter benefit from the reputation and recognition of GLCs inside and outside China as key agents of Singapore's economic diplomacy abroad.

To elaborate on the first strategic mode of governance, Temasek Holdings and other GLCs have entered into the China market by *partnering with private sector companies* from Singapore. In 1994, Temasek Holdings invested in a residential property development project in Beijing. The project was a cooperative joint venture between a Singapore consortium led by family-controlled Hong Leong Holdings and their Chinese partner (Beijing East Suburb Agriculture Industry Commerce United Corporation). The project achieved good reputation from its beginning among investors in the U.S., Europe, Japan and Taiwan for two reasons. First, these investors were impressed by the involvement of Kwek Leng Beng's Hong Leong Group that had already achieved worldwide acclaim in its hotel businesses.[65] In many ways, Kwek is a truly transnational entrepreneur defined by his tremendous personal experience and expertise in property development, finance and hotels, his vast networks of connections and resources, and his ability to capitalise on these family and business networks to develop his foreign ventures. Since he took over the helm of the Hong Leong Group from his father in the early 1990s, he has expanded the Group to become a Chinese family conglomerate with truly global operations. He was also consistently placed on the *Forbes* list of the world's richest billionaires during 1997-2003: 45th in 1997 and 236th in 2003.[66] The participation of Temasek Holdings further boosted the image of the project as a clean and credit-worthy investment. Second, though required by the Chinese law, the local Chinese partner did not contribute any equity to the Beijing project. Instead, it guaranteed the project's profitability. The Chinese partner also did not interfere in the decision-making of the project, contributing further to investors' confidence. By June 1998, 50% of the Beijing project had been completed and over

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65 See further case studies in Yeung (2002; 2004), op. cit..
66 Yeung (2004), op. cit., Table 1.6.

75% units had been sold. This was quite a remarkable achievement, given the serious downturn in property markets throughout Asia in the midst of its worst-ever crisis.

The division of labour in this Beijing project reflects synergies from GLC participation and family networks and trust relationships. Temasek Holdings asked Kwek for good projects, came to evaluate Kwek's suggestions and got involved in the Beijing project. A key Kwek family member in Hong Kong said that "they [GLCs] have money, but no expertise in running projects".[67] Kwek's Hong Leong Group in Singapore owns 51% of the project, split equally between Hong Leong Holdings and its 100% owned subsidiary in Hong Kong – Hong Leong International (HK). In Hong Kong, Kwek tapped into his brother-in-law's expertise in and familiarity with property development in Hong Kong and China. Kwek also requested operational assistance from his Malaysian cousin, Quek Leng Chan, whose Malaysian branch of the Hong Leong Group has grown substantially into one of the biggest conglomerates in Malaysia, with an annual turnover of US$1.3 billion. First, were Quek Leng Chan's Dao Heng Bank in Hong Kong handled all financial transactions and insurance related to the Beijing project.[68] Dao Heng Bank also arranged all purchase loans and financing. Second, building materials of the Beijing project were acquired through Hong Leong Industries in Malaysia. Together, Temasek Holdings was able to benefit from this "triangular family network" or "total group effort" among members of the Kwek/Quek families and companies of the Hong Leong groups in Singapore, Malaysia and Hong Kong.

The second strategy is to localise GLC investments in China through *co-opting suitable local Chinese partners*. Although virtually all GLCs in Table 3 have local partners in their China ventures, not all of them have succeeded in their cooperative joint ventures, e.g.

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67 My interview in Hong Kong on 11 June 1998.

68 Quek's Dao Heng Bank was acquired by another GLC bank from Singapore, the Development Bank of Singapore, in April 2001.

the China-Singapore Suzhou Industrial Park project.[69] The central issue in these joint ventures concerns not only the compatibility of partners' objectives, but also more importantly the governance processes of the ventures. Since these partners are often local municipal authorities and their collective enterprises, it is imperative for GLCs from Singapore to acknowledge and respect the huge vested interests of their *local* Chinese partners who in return will support and help the projects with their local networks and connections. This assistance by the local partner is crucial in view of China's changing political economy and decentralisation of economic decision-making to local governments and bureaucrats (see earlier section). As one general manager of a GLC in China observed,

> In the local government, different district has got different characters. Different project again has got different character because different department has got different person in-charge of your project... And of course on the other hand, China being China, we've got to have very good *guanxi* with them [so] that they are comfortable with you and can really help each other... I would say they would actually support you even if that is something not within their portfolio.[70]

One GLC project in Table 3 has not only co-opted good local partners, but also capitalised on their local partner's strength in developing the project to an eventual success. The original consortium was formed to bring together a number of GLCs and statutory boards from Singapore to "test" the China market and its changing business system.[71] China then needed Singapore's expertise in particular type of infrastructural and logistical development. The project was formed as an equity joint venture, 30% from the Singapore consortium and 70% from the Chinese partner. Both parties signed an agreement so that the Singapore consortium would manage the main operation of the project for the first four years. After the initial four years, the Chinese partner would take over the general manager position and the Singapore consortium would second a deputy general manager. The joint venture company

69 See further case studies in Yeung (2002), op. cit., Pereira (2003, op. cit.
70 My interview in China on 30 June 1998.
71 My interview with the Singaporean deputy general manager in China on 12 June 1998.

would pay the salary of this Singaporean deputy general manager. This governance arrangement could minimise conflicts of interests and potential suspicion from the Chinese partner. As my interviewee remarked that:

> If I'm paid by [my GLC in Singapore], then the first thing is that the Chinese companies will be suspicious. Who am I working for? [My GLC] may make use of my time to do business for them which I don't think is fair. So it's good that the [joint venture] company pays me so I'm more independent. A lot of [Sino-Singaporean] joint ventures become sour because the Singapore expatriates spend time doing their parent companies' business. It's not wrong, but they're suspicious.[72]

The project was more akin to software transfer through which the Chinese partner could gain know-how in developing and managing such infrastructure and the Singapore consortium could make reasonable profits and establish good reputation and economic diplomacy. My interviewee said that "one thing is that they have local advantages. They have the land and the contacts. They know the local people. They just don't have the technical know-how. Once they do, they'll run the things".[73] By the late 1990s, there was long established personal trust relationship between the Chinese general manager and the Singaporean deputy general manager. As the chief operating manager, the Singaporean was now able to react very quickly to demand by customers because of his direct access to Chinese partners and local governments. This responsiveness and flexibility was also built on trust relationships between the Singaporean deputy general manager and the Singapore consortium. He noted that:

> The pace of getting things approved is so fast that we can serve our customers well. If my customers request to rent a van from me which costs about half a million, by Singapore standard, you have to go through up and then come down. [It will take] almost 2 months. How do I serve the customer? Immediate. So that's the kind of pace we're talking about. We've developed a new land now. I bought a contract. We've been through this. From bidding, I told them "I want to bid by tonight and tomorrow morning we'll have a meeting and we'll decide. I want you to start work 3 days later". That kind of pace that we're going is very fast. We can't be slow. I have a customer who's waiting to rent a 7,000 square meters of land from me. He said "I don't mind paying you higher, but I want this date".[74]

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72 Ibid.

73 Ibid.

74 Ibid.

The governance of this joint venture project was also significantly different from GLCs in Singapore because a lot more leeway was given to both general managers. The joint venture contract made this governance structure mandatory in that the Chinese partner would appoint the general manager. The Singaporean deputy general manager therefore felt that he had been given significant "space" to manage the operation: "freedom of expression, when you talk to client, I can make promises and I can deliver. That's very important. I don't have to refer [like in Singapore]. There and then I can make promises and I make conditions and prices. Of course, I do this with the full knowledge of what I'm doing and put in the company's risk".[75] It is vitally important to minimise direct confrontation with the Chinese partner over business matters because it would destroy the working relationship and cooperative atmosphere of the ventures.[76] My interviewee realised this and pointed out that "It comes straight down to the line. If you have a fight with one of the partners, then the people will not feel easy. Whatever you do, you'll not feel right even though it's for the good of the company. I think it's straightforward. I always tell people, to invest in China, a good partner is very important. A lot of companies come in and make losses".[77]

In a related way, the third strategy for GLCs in China is to adapt its governance structure to local conditions in China and to offer more autonomy to their managers in China by *setting up broad operating parameters*. This transformation in GLCs' strategic governance is significant because of tighter control and coordination in Singapore's business system. It also allows much greater flexibility and responsiveness in their China operations. Most GLCs in Table 3 require consensus decision-making, particularly for strategic issues. Their managers in China accept this governance process because they believe this procedure is to safeguard

75 Ibid.

76 Compare this with the Suzhou-Singapore Industrial Park experience described in Yeung (2000; 2002), op. cit. and Pereira (2003), op. cit.

shareholders' interests (i.e. public funds) by preventing fraudulence, individualism and so on. But sound corporate governance capable of adapting to China's complicated and, yet, changing business system should be no more than this. Once these broad parameters have been established at the GLC group level, Singaporean managers in China want a sense of ownership and trust from the headquarters in Singapore to operate successfully in China. As one interviewee said,

> we are given a certain schedule, a certain target. It's up to us to put a certain proposal for resources and management structure for the board [in Singapore] to approve. Once they approve, the money comes in, the resources comes in and then we just try to operate within the parameters approved by the board of directors. Yes, there are certain mandates and certain parameters.[78]

Another Singaporean deputy general manager of a joint venture in China between a GLC and a family firm from Singapore has also been given substantial authority in making decisions. He is in fact authorised to act on all documents from local banks, government and business correspondence on behalf of the joint venture's general manager who is also the managing director of the family firm in Singapore. He said that "for increase in costs or contract disputes, we refer to Singapore. Other than that, for any amendment or finance issues, we settle it here. As far as local matters, involving local governments or contractors, we settle here".[79] A major GLC's director in China has similar strong trust relationship with his CEO in Singapore. When he needs to award contracts worth up to millions of RMB in China, the director said that he would call his CEO in Singapore and ask "I need to make this decision, is it OK with you?". He further noted that "if he [CEO] says yes, I'll just go ahead with it. That's how I manage the business".[80]

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77 My interview with the Singaporean deputy general manager in China on 12 June 1998.

78 My interview in China on 30 June 1998.

79 My interview in China on 1 July 1998.

80 My interview in China on 28 June 1998.

Conclusion

This paper has addressed the strategies and mechanisms through which state agencies in Singapore are able to govern their economic diplomacy in China. Through the concepts of strategic governance and business systems, I have explained the contradictions in the China operations by government-linked companies from Singapore – agents of economic diplomacy. These contradictions are particularly related to the lack of resources resulting from "the appendage mindset", the lack of autonomy and decision making capabilities by GLC managers in China and GLCs' unfamiliarity with local business requirements and conditions in China. They are a consequence of the ways in which GLCs are strongly embedded in Singapore's unique business system in which the state plays a strong role in business and economy. When these GLCs venture into China, they are confronted with a drastically different business system in which state control has been rescaled in favour of local governments and their business associates rather than the central government in Beijing. Having said that, not all GLCs in China fail to appreciate this changing central-local politics and the different configuration of social and economic environments in China. Some GLCs have managed to adopt specific governance strategies to enhance their survival chances through partnership with private companies from Singapore and/or local partners in China and setting up broad operating parameters to allow for local autonomy and flexibility. This study has therefore shown that while business organisations embedded in different business systems tend to be governed differently and to behave differently, the empirical landscape of economic-organisational change is often not as static as predicted in this heated debate on the convergence-divergence effects of globalisation.[81] These organisations are dynamic capitalist

[81] See Colin Crouch and Wolfgang Streeck (eds.) (1997), *Political Economy of Modern Capitalism: Mapping Convergence and Divergence*, London: Sage. Paul N. Doremus, William W. Keller, Louis W. Pauly and Simon Reich (1998), *The Myth of the Global Corporation*, Princeton, NJ: Princeton University Press. Mauro F. Guillén (2001), *The Limits of*

institutions that often engage in self-transformation to *participate* in different business systems.[82]

What has become clear in this paper is that *local contingency* plays a key role in shaping the empirical outcome of strategic governance of foreign ventures in China. Although the case studies in this paper are based on economic diplomacy mediated through Sino-Singaporean GLC joint ventures, my arguments are largely applicable to other Sino-foreign JVs and wholly owned foreign ventures in China. In fact, GLCs with strong political leverage and good *guanxi* at the local level tend to survive better in China's harsh and uncertain business system. This environmental context results from the decentralisation of economic decision making from the central government to local authorities. Given the continual processes of marketisation and economic reform in China in the 21st century, this phenomenon of local corporatism is likely to persist for a foreseeable future. A report on China's economic reform by the London-based International Institute for Strategic Studies argues that "[a]s 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".[83] This endurance of *guanxi* and local politics in China has important implications for the strategic governance of foreign economic actors and organisations. The rule of the game is not to avoid local politics while engaging in economic diplomacy in China, but rather to embrace them and to take advantage of them. This neglected aspect of the localisation of globalising strategies becomes

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Convergence: Globalization and Organizational Change in Argentina, South Korea, and Spain, Princeton, NJ: Princeton University Press. Peter A. Hall and David Soskice (eds.) (2001), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press.

82 See Peter Dicken (2003), *Global Shift: Reshaping the Global Economic Map in the 21st Century*, Fourth Edition, London: Sage. Jamie Peck and Henry Wai-chung Yeung (eds.) (2003), *Remaking the Global Economy: Economic-Geographical Perspectives*, London: Sage. Yeung (2004), op. cit.

critically important under conditions of persistent market imperfections that characterise the continuous economic dynamism of mainland China today.

83 Quoted in *The Straits Times*, 4 February 1999, p.38.

TABLE 1. Summary of Divestments by Temasek Holdings in Singapore

Companies	Date of Divestments	Share by Government (%) Before	Share by Government (%) After	Market Capitalisation (end of 1999)
Cerebos Pacific	November 1985	45.0	0.0	-
Natsteel (relinquished controlling interest)	September 1986	19.7	8.2	-
United Industrial Corpoation	September 1986	10.9	0.0	-
SNP Corporation (1st company on SESDAQ)	January 1987	100.0	63.0	-
	Nov 1988 – Dec 1993	63.0	49.0	
Neptune Orient Lines	May 1987 – June 1993	62.0	32.6	S$18 billion
Singapore Airlines	December 1985	77.0	63.0	S$21 billion
	June 1987	63.0	56.3	
Chemical Industries (FE)	July 1987	22.9	0.0	-
Acma Electrical Industries	January – March 1988	12.2	0.0	-
Hitachi Electronic Devices (Pte) Ltd	August 1988	15.0	0.0	-
Yaohan Singapore Pte Ltd	November 1988	15.0	0.0	-
Philips Petroleum Singapore Chemicals	December 1988	25.0	0.0	-
Keppel Corporation	Jan 1989 – June 1993	58.5	31.7	S$30 billion
Denka (S) Pte Ltd	March 1989	20.0	0.0	-
The Polyolefin Company (S) Pte Ltd	April 1989	25.0	0.0	-
Ethylene Glycols (S) Pte Ltd	April 1989	50.0	0.0	-
Petrochemical Corporation of Singapore Pte Ltd	April 1989	20.0	0.0	-
Singapore Telecom	November 1993	100.0	89.2	S$38 billion
	July 1996 – March 1998	89.2	78.2	
SembCorp Industries	-	-	57.9	S$29 billion
DBS Groups Holdings	-	-	15.5	S$28 billion
PSA Corporation	-	-	100.0	-
Singapore Technologies	-	-	100.0	-
Media Corporation of Singapore	-	-	100.0	-
Singapore MRT	-	-	100.0	-
Singapore Power	-	-	100.0	-

Sources: *The Straits Times* (25 June 1999: 74; 29 April 2000: 62).

TABLE 2. Cumulative Outward Direct Investment from Singapore by Host Countries, 1981-2001 (in S$million)

Host Countries	1981	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Asian Countries	1289.9	1721.4	1836.5	1908.5	1963.6	1968.4	7013.3	7401.5	9209.3	11480.0	17358.0	21511.0	32389.0	37316.6	-	-	-	-
ASEAN	1078.5	1133.3	1155.8	1180.5	1216.0	1138.4	3567.1	3995.6	4896.7	5933.8	9680.0	12467.0	18022.6	17924.8	-	-	-	-
Brunei	3.7	52.9	50.0	54.2	57.4	56.6	66.2	69.4	88.5	91.2	77.0	37.0	88.8	73.9	-	-	-	-
Indonesia	39.5	65.0	67.7	58.6	59.8	53.3	224.8	267.3	328.1	517.3	1997.0	3448.0	3914.9	5722.2	4485.0	5507.0	5462.0	6912.0
Malaysia	1006.9	971.8	985.6	1008.4	1030.8	971.6	2790.1	3121.1	3916.5	4656.7	6500.0	7305.0	10753.0	8973.7	8610.0	8517.0	9754.0	10413.0
Philippines	18.4	22.4	22.5	14.3	22.5	22.8	97.7	89.7	106.3	230.6	382.0	521.0	1073.4	934.1	-	-	-	-
Thailand	10.0	21.2	30.0	45.0	45.5	34.1	388.4	448.1	457.4	438.1	723.0	860.0	1558.7	1219.0	-	-	-	-
Hong Kong	181.8	460.7	497.9	539.9	545.2	581.4	2266.2	2368.6	3051.1	4025.6	4940.0	5089.0	6326.5	7257.3	7668.0	10405.0	8508.0	9261.0
Japan	0.3	5.0	6.0	16.1	16.7	33.9	51.8	73.5	75.8	109.4	171.0	382.0	482.7	535.1	-	-	-	-
China	-	57.6	93.8	101.4	79.1	47.4	239.7	220.0	282.6	444.1	1533.0	2445.0	5339.6	8960.4	12186.0	14296.0	15710.0	16542.0
South Korea	-	-	-	-	14.8	15.9	-	-	-	-	-	-	-	-	-	-	-	-
Taiwan	12.9	32.9	37.8	26.0	54.3	86.0	494.8	287.0	349.5	354.5	496.0	530.0	594.5	657.7	-	-	-	-
Others	16.2	31.9	45.2	44.6	37.5	65.4	393.7	456.7	553.6	612.7	1034.0	1128.0	2257.5	1981.2	-	-	-	-
European Countries	50.7	89.3	167.2	358.2	303.4	203.4	1095.4	1397.6	1480.2	1549.7	2200.0	3844.0	6736.1	11391.4	-	-	-	-
Australasia	62.6	176.9	175.6	217.8	166.1	138.3	1889.0	1957.3	1969.1	1867.9	999.0	1116.0	4025.6	3205.7	-	-	-	-
Canada	-	17.6	17.6	17.6	29.0	73.4	-	-	-	-	-	-	-	-	-	-	-	-
United States	31.8	66.1	65.4	69.3	107.7	160.0	689.7	1303.9	1589.5	1755.1	1681.0	2036.0	2851.1	2962.7	3064.0	4197.0	6187.0	6580.0
Other Countries	242.9	185.9	335.4	390.1	424.1	400.2	2934.3	3123.6	3493.1	4587.4	7527.0	8359.0	9710.6	15764.2	-	-	-	-
Total	1677.7	2257.2	2597.7	2961.5	2993.9	2943.7	13621.7	15183.8	17741.3	21240.2	29765.0	36866.0	55712.4	70,640.5	75,622	92,720	98,291	131,189

Note: Data for 1981-1989 refer to direct investments abroad (D1) that are the amount of paid-up shares of overseas subsidiaries and associates held by companies in Singapore. Data for 1990-1995 refer to direct equity investments (D2) that are direct investment (D1) plus the reserves of the overseas subsidiaries and associates attributable to these companies. For overseas branches, the net amount due to the local parent companies is taken as an approximation of the magnitude of direct investment. Data for 1996-2001 refer to total direct investment abroad (D3) that are D2 plus loans granted to affiliates.

Sources: Department of Statistics (various years), *Singapore's Investment Abroad*. Singapore: DOS.

TABLE 3. Case Studies of Ventures by Singapore's Government-Linked Companies in China

GLC investments in China	Year of establishment	Key shareholders from Singapore	Key Chinese partner(s)	Amount of investments	Major problems	Keys to success
China-Singapore Suzhou Industrial Park (CSSIP)	• contract in 1993 • opened in 1996	• Singapore Suzhou Township Dev't Co. (SSTD) comprising 20 statutory boards, GLCs and listed private firms and 4 foreign TNCs	• China Suzhou Industrial Park Co. (CSIPC) comprising 11 state-owned enterprises	• up to US$20 billion	• slow progress • competition from Suzhou New District	• the "Singapore experience"
Wuxi-Singapore Industrial Park (WSIP)	• contract in 1994 • opened in 1996	• Singapore Technologies Industrial • Temasek Holdings • JTC International	• Wuxi Municipality	• about US$150 million	• not available	• good working relationships with local partner
DBSLand in Shanghai	• established in 1995	• DBSLand	• China Overseas Holdings • Hua Rui Property Development	• not available	• not available	• reputation from DBSLand and DBS Bank • good product and pricing
Shanghai Sing Straits Land	• established in 1995	• Sing Development • Temasek Holdings • Keppel Land	• city authority	• about US$100 million	• local requirements	• reliance on local partners
Chiwan Oil Supply Base in Shekou	• established in 1984	• Sembawang Maritime • JTC • Jurong Shipyard	• China Nanshan Development Co.	• US$20 million	• attitude of local staff • over-reliance on oil business	• management by local partners • diversified use of infrastructure
ST Computer Systems in Guangzhou	• established in 1997	• Singapore Technologies Industrial	• none	• project value of US$2 million	• appendage attitude by HQ • lack of resources	• tapping into group synergies • use of non-Singaporean staff
Singapore Telecom in Suzhou	• established in 1996	• Singapore Telecom	• Zhong Shan Holdings	• US$18 million	• delay by competitor and regulator • mistrust with regulator	• better services to clients • holding back further investments

Sources: Interview data and company reports.