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# Globalization and the Rise of China: Their Impact on Ethnic Chinese Business in Singapore

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## Abstract

The purpose of this paper is to make attempt to assess the impact of globalization and the rise of China on ethnic Chinese business in Singapore. Globalization poses both threats and opportunities to all businesses. The major threats are the financial crisis and the severe competition on a global scale. The opportunities, among others include a much larger international market which allows the enjoyment of economies of scale and specialization. The existence of a virtual market on global scale also provides ample opportunities for ethnic Chinese business to exploit for their economic gains. Ethnic Chinese businesses in Singapore, despite their structural weaknesses, were able to weather the storm of the Asian Financial Crisis with government assistance. The rise of China with its open door policy also provides ample opportunities for these businesses to exploit their ethnic advantage in their investment in China. Nevertheless, the ventures also brought about painful experience, arising from cultural differences. Of significance is the stiff competition provided by mainland Chinese businesses in the third country's markets, not to mention the issues of hollowing-out effect and offshore outsourcing. In the face of globalization and the rise of China, the focus of the Singapore government policy is to enhance these ethnic Chinese businesses' capabilities so that they can be effective partners in a tripartite alliance among government-linked corporations, multinational corporations and SMEs in their venturing abroad, especially investment in China.

# 1 Introduction

Globalization is not a new phenomenon. As far back as the Tang Dynasty in the 7$^{th}$ Century, trade routes of the Silk Road had brought together Eastern and Western civilizations through trade. Since the visit of Marco Polo to China in the 13$^{th}$ Century, global economic integration had accelerated, amidst interruptions during the First and Second World Wars in the early part of the 20$^{th}$ Century. However, globalization continues to be a rising trend, with occasional outbursts of protectionism and anti-globalization rhetoric. From the historical perspective, World Bank (2002) identifies three major waves of globalization. The first wave of globalization occurred in the period 1870-1914, resulting from decreases in tariff barriers and transportation costs with the advent of steamships and railways. The progress of globalization ended abruptly by the outbreak of the First World War, starting from 1914. International trade was severely disrupted. After the war in 1918, the Great Depression of the 1930s gave rise to protectionism among major trading countries. Again, globalization was in disarray when the Second World War broke out in 1942. After the war in 1945, the second wave of globalization which took place between 1945 and 1980 ignited a hope for acceleration in economic integration at a global scale. With falling transportation costs and a reduction in trade barriers among developed countries, there was a sharp increase in international trade in manufactured goods, apart from the usual primary commodity trade. Of significance was the spread of agglomeration economies arising from clustering of related industries in specific locations, thus facilitating vertical and horizontal integration within an industry. The other important occurrence during this period was the emergence of multinational corporations (MNCs) in facilitating international trade and capital flows. Globalization process went into a new peak after 1980 when information and communication technologies breakthroughs cut communication costs dramatically. Together with digitalization, information-based activities are ‘weightless” so that inputs and outputs can be traveled vast distances at virtually not cost. At the same time, transportation costs were cut further with the rise of containerization and airfreight. All these led to the third wave of globalization since 1980. This wave of globalization was characterized by a spread of trade and financial liberalization not only in developed countries but also in developing nations. The consequence of this liberalization was the massive capital flows in the form of direct foreign investment (DFI) and portfolio investment from developed countries to the emergent economies. The international trade also focuses more on manufactured goods and services. While globalization brings benefits to many countries, it has also brought about financial crises, poverty and inequality among and within countries.

In the face of globalization, Singapore, which is a small open economy, has taken the challenge by further liberalizing its financial sector since the Asian Financial Crisis in 1997. The country also has signed several Free Trade Agreements (FTAS) with a number of its major trading partners, notably the United States, Japan and Australia. Negotiation on FTAs with China has just begun in 2005. Apart from trade and capital movement, Singapore has been adopting an open door policy of attracting foreign talents. MNCs also play a vital role in the national economy, contributing significantly in output, employment and economic restructuring since Independence in 1965.

Nonetheless, the most important impact of the third wave of globalization was the intense competition at a global scale, and the occurrence of financial crises with their contagion effects. Against this background, there are a number of issues raised as regard to the sustainability of overseas Chinese businesses[1] in general, Singapore's ethnic Chinese business in particular, as viable business organizations, especially after their setback in the Asian Financial Crisis (AFC) in 1997. Overseas Chinese businesses have been characterized by their inherent structural weaknesses, such as family-owned, over-reliance on '*guanxi*', conservative and investment concentrating in traditional sector, such as real estate and property, banking and hotel industry. With globalization and its stiff competition on a global scale, it is doubtful that these overseas Chinese businesses are able to withstand such an onslaught.

The purpose of this paper is, therefore, to examine the impact of globalization in general, and the rise of China in particular, on ethnic Chinese business in Singapore. Generally, public policy in Singapore has been tilted towards economic liberalization and the immediate challenge facing ethnic Chinese business here is how to adapt to such an increasingly competitive environment. Secondly, with the rise of China, it is interesting to find out how do these ethnic Chinese businesses in Singapore exploit 'ethnic advantage', if any, in their investment in China. The paper is divided into five parts. After the Introduction, the paper examines the extent to which ethnic Chinese businesses in Singapore have been affected by globalization, and their adjustment in the face of such

[1] In this paper, I use the phrase "overseas Chinese firms or businesses" to refer to those ethnic Chinese businesses or firms outside mainland China. For firms or businesses owned by ethnic Chinese in Singapore, "ethnic Chinese firms or businesses" will be used to differentiate them from "Chinese firms or businesses" owned by mainland Chinese. The phrases are chosen just for convenience, and do not carry any connotations.

challenge. The third section gives an account of possible threats and opportunities that China may pose as a global economic power to ethnic Chinese businesses in Singapore. In the face of globalization and the rise of China, the fourth section reviews existing government policies in enhancing capabilities of ethnic Chinese businesses through upgrading and restructuring efforts. Finally, several concluding remarks are made in the last section.

## 2 Globalization and Its Impact on Ethnic Chinese Business

The pace of economic globalization has accelerated since the first half of 1990s, with the launching of the World Wide Web (WWW). Specifically, economic globalization, as defined by the International Monetary Fund (IMF) (2000), is "a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labour) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions of globalization…" With technological advances, especially in information and telecommunication technologies, economic globalization is characterized, among others by the following features:

- High degree of mobility in factors of production
- High level of connectivity through internet and telecommunication
- Economic integration of markets, especially financial markets
- Economic inter-dependence among nations
- Economies of scale and specialization

- High degree of standardization and homogenization
- Important role of MNCs in trade and investment
- More information being produced and transmitted with high speed
- Markets are highly competitive on a global scale
- Formation of virtual markets

Mussa (2000) has identified three major factors that have affected the process of economic globalization. The first is the sharp reduction of transportation and communication costs through marked improvements in technology and innovation. This has facilitated trade of goods and services, as well as factors of production on a larger and more global scale. The communication of useful knowledge and technology through telecommunications and the internet also intensifies with increasing momentum and greater speed than ever before. Secondly, the tastes of individuals and societies for the benefits of economic integration have taken the advantage of lower costs of transportation and communication. Finally, public policies such as economic liberalization also exert influence on the pace of economic globalization. A classic example is the open door policy of China which has helped integrate its economy with that of the world since 1978. Apparently, globalization exerts its main impact through four channels, namely (1) through trade in goods and services; (2) through movement of capital and integration of financial markets; (3) through human migration; and (4) through communication of knowledge and technology.

With this rapid increase of globalization in the 1990s, views were that overseas Chinese businesses with their structural weaknesses will not be able to withstand the onslaught of severe competition on a global scale. Chan, Ronnie (2000) notes that ethnic

Chinese firms with their problematic cultural traits, especially hierarchical management style and distrust of non-family members, are expected to encounter various problems amidst the increasingly more competitive international environment. These problems include lack of positioning in global industries, lack of growth drivers such as technology, brand name, etc., and succession problems. Moreover, overseas Chinese businesses, in their state-business relations, were implicated for corruption, nepotism and cronyism. Some writers (Backman, 1999) have even argued that the Asian financial crisis in 1997 was due to the secretive and corrupt Chinese business networks as well as the inherent structural weaknesses of overseas Chinese family businesses.

All in all, overseas Chinese business system, as typified in the literature (Chan, 2000; Hamilton, 1996; Redding, 1990); Weidenbaum, Murray, and Hughes, 1996; Yoshihara, 1988) has the following major characteristics:

- Basically family-owned with pervasive ownership and control
- Owners display overwhelmingly entrepreneurial spirit.
- Attach importance to establishing business networks through '*guanxi*'
- Small to medium size under direct control of the family
- Big business conglomerates are under family control, and each of these conglomerates comprises a network of small to medium enterprises.
- Investment tend to confine to traditional sectors such as wholesale and retail trade, banking, real estate and property sector, and hotel industry.

## 2.1 Characteristics and Structure of Singapore Chinese Business

The above characterization of overseas Chinese business implies that ethnic Chinese firms are homogenous, no matter where they operate, including Singapore. Such a stereo-type description about overseas Chinese business is, more often than not, gravely misleading[2]. As Gomez and Benton (2004) observed, there is "a large assortment of Chinese business firms in terms of size, types of ownership and management, and areas of operations." Ethnic Chinese business in Singapore is a classic example.

In Singapore, ethnic Chinese business may be classified into three categories (Chan and Ng, 2004), depending on their respective cultural traits. The more culturally oriented Chinese group belongs to the first and second generations of Chinese immigrants from mainland China, and their outlook as a group is predominantly traditional and conservative. Some of these firms may have absorbed non-family members only after their long service in the company. Even then, the final business decisions of these firms ultimately hinge on family members. A majority of this type of ethnic Chinese businesses are small in size and traditional in outlook. According to a survey conducted by the Singapore Chinese Chamber of Commerce and Industry (SCCCI), they spend less than 2% of their business expenditure on IT (Straits Times, 2004).

The second group has a long business history and has evolved into big business conglomerates. Once they are listed on the stock exchange, family ownership may be diluted somewhat but their management control is still in the hands of the founding or family members. These ethnic Chinese business enterprises are involved in a host of industries ranging from light manufacturing, real estate and property, to hotels and

[2] Chan and Ng (2000) and Menkoff and Sikorski (2002) provide clarifications on some of the myths about overseas Chinese business in Southeast Asia.

banking. An increasing number of these big business conglomerates even diversify their business into computer technology, telecommunication and e-business. Socially, these ethnic Chinese businesses are long-time members of SCCCI, clan associations and alumni bodies of previous Chinese schools. These associations provides a vast business networks through which they get their clients, contractors and suppliers.

The big ethnic Chinese conglomerates in Singapore usually expand their business operations mainly through mergers and acquisitions. A classic example is the United Overseas Bank (UOB) owned by Wee Cho Yaw family (Tschoegi, 2001). UOB was founded in 1935 by Wee Keng Chiang (Wee Cho Yaw's father) and his six friends under the name of the United Chinese Bank (UCB). UCB changed its name to UOB in 1965 when Wee Cho Yaw was the managing director. In 1971, UOB acquired 53% of Chung Khiaw Bank (CKB) and then 55% of Lee Wah Bank in the following year. In 1974, Wee Cho Yaw took over the chairmanship of UOB. In its drive for expansion, UOB acquired 70% of the Far Eastern Bank in 1984. To further expand its banking business, UOB acquired 87% of the Industrial and Commerce Bank in 1987. By 1999, all the banks acquired earlier were merged under the umbrella of UOB group. In 2002, UOB, in its tussle with the Development Bank of Singapore (DBS), a government-linked corporation, over the acquisition of the Overseas Union Bank (OUB), finally turned out to be the victor. UOB is one of the big three banks in Singapore.

Apart from mergers and acquisitions, ethnic Chinese business conglomerates in Singapore have also been expanding their business operations by venturing abroad since 1970s. The general strategy adopted is through multiplication of their parent firms in other parts of the world. For instance, food courts were set up in cities in China and

Australia, emulating the mode of operation of a typical food court in Singapore. OSIM and BreadTalk have expanded their business in healthcare equipments and bakery business respectively in China. Other modes of expansion include joint ventures, chain stores and franchise.

The third group of ethnic Chinese businesses in Singapore, in contrast to the earlier two, is less culturally oriented, and mostly does not depend on traditional family lineage. Most of them are English educated with engineering background. They may have worked previously with multinational corporations (MNCs) or Government-linked corporations (GLCs), and now they venture out on their own to become sub-contractors or suppliers to their former employers. Their core businesses include mainly computer technology, e-commerce and knowledge-based operations. They belong to the emerging group of technopreneurs whom the Singapore government is anxious to nurture.

Because of its heterogeneous characteristics, ethnic Chinese business in Singapore as a group displays three distinct types of management practices (Tsang, 2002). Traditional Chinese family business (CFBs) depends very much on family lineage in terms of ownership and control. The owner of a CFB has the final say as he is considered as knowledgeable about all aspects of business operations. The traditional CFB would normally send its family members abroad to be in charge of its overseas operations. Networking is an essential part of business operations and is done by mostly by family members, usually the boss. The approach of traditional CFBs to investment overseas, notably in China, is considered as "informal and unstructured". Unlike CFBs, the non-CFB approach to business displays a high degree of formalization and structured in business organization and operations. Management decisions are usually made at their respective headquarters based on detailed and systematic reports sent from their subsidiaries overseas. There is also a systematic rotation of assigning expatriate managers overseas. In between CFBs and non-CFBS lie the semi-CFBs. The semi-CFBs will recruit professionals to in be in charge of business operations. The top management normally adopts group decisions made by both family and non-family members.

## 2.2 Opportunities, Threats and Financial Crisis

Globalization poses both threats and opportunities to the ethnic Chinese businesses in Singapore. With globalization, ethnic Chinese businesses can exploit cheaper labour and resources in any part of the world for their business expansion and diversification. Secondly, with economic liberalization on a global scale, the world is the market. Globalization provides ample opportunities for ethnic Chinese businesses to exploit in the knowledge-based economy. Unfortunately, CFB are not ready to exploit the full potential of e-commerce and e-business, because of their conservatism. Unlike CFB, semi-CFB and non-CFB (especially the larger ethnic Chinese businesses) are making significant in-road to commit to their investment in computer technology, information and telecommunication industry

Globalization also poses threats to ethnic Chinese business in Singapore. With rapid growth in the information and communication industry, they have to face more severe competition in the domestic as well as host countries' markets. This is because of the increasingly competitive environment arising from the new technology which enables MNCs to constantly seek new or unexploited markets. They also create new needs among different target consumer groups. Of no less significance is the penetration of virtual market on the internet. Their potent force is the intensification and acceleration of commodification through international branding. Specifically, MNCs place a heavier focus on seeking to condition children and young people to construct their identities around brands. However, these threats can turn into opportunities for ethnic Chinese businesses if they join alliance with MNCs as partners, suppliers or even sub-contractors. If possible, the ethnic Chinese business should also attempt to establish its own brands, just as what their counterparts in some of GLCs did. A good example is Singapore Airline.

The more serious threat of globalization is the occurrence of economic crisis. The Asian Financial Crisis in 1997 for instance has been called the "first crisis of globalization" (Higgott, 1998: 2). The crisis with their contagious and systemic effect, spread from Thailand to other part of East Asia. The crisis was a combination of simultaneous currency attacks, banking crisis and stock market crash. Despite the ferocious nature of the crisis, most of the ethnic Chinese businesses in Singapore were able to weather the crisis, in part with assistance from the Singapore government through cost-cutting policy measures[3]. Yeung (2000) argues that their embedded business networks had helped them to diversify their business beyond their core businesses and also across borders well before the eruption of the crisis. They operate like MNCs and compete without fail in the global market. For instance, Kwek Leng Beng and his Hong Leong Group have expanded their business worldwide well before the crisis. The business conglomerate's activities range from banking and finance, real estate and property to hotel industry. In particular, Kwek family made a significant inroad into

[3] The measures included, among others, a drastic cut on employers' contribution to the Central Provident Fund (CPF) and a general wage cut.

global hotel businesses through acquisitions of hotels in the United Kingdom (UK), the USA and New Zealand (Yeung, 2002b). His CDL Hotels International now owns 117 hotels, spanning 13 countries in Europe, USA, Australia, New Zealand and Asia.

The two prominent ethnic Chinese family-controlled international banks, the Oversea-Chinese Banking Corporation (OCBC) and the United Overseas Bank (UOB) also made their marks in the business history of Singapore. These two banks own a vast number of bank subsidiaries and branches all over Asia, Australia and Canada (Tschoegl, 2001). According to a survey of 2000 largest multinational corporations published in 2005, there were 13 Singapore corporations in the list of which OCBC, UOB and City Development owned by Kwek family were the only three privately owned business enterprises; the rest were GLCs owned by the Singapore government (Lianhe .Zaobao, April 4, 2005, p. 1).

Some of these ethnic Chinese firms in Singapore also engaged in pre-emptive measures through product and geographical diversification, tapping into global capital market and using non-equity investments. These measures have enabled the ethnic Chinese business continue to grow despite the crisis.

Tracy (2000) attributes the success of ethnic Chinese businesses in overcoming the adversity during the crisis to the transformation and restructuring of these Chinese enterprises from “ersatz capitalism” to technopreneurship, involving high-tech and high value added industries. Such metamorphosis does not just cover the big ethnic Chinese business corporations such as Creative Technology, but also numerous start-up companies seeking to exploit the new computer and internet-based economy. Although the extent of the metamorphosis in Singapore is way behind Taiwan, the emergence of such trend is encouraging, especially with the support and assistance by the Singapore government since 1990.

A majority of ethnic Chinese businesses was able to weather the storm for another two reasons. One was the concentration of new investments to China since 1996, with the Singapore government taking the lead in that direction. Such a move is considered as fortunate in that China was not adversely affected by the crisis. The other reason is that, unlike chaebols in South Korea, ethnic Chinese businesses (especially Chinese SMEs) do not traditionally rely much on international financial markets for their funding (Lever-Tracy and David, IP, 2002). Their main sources of funds come from their own family business resources and through public fund by listing on the stock exchange. The issues of currency mismatches and the moral hazard problem arising from international lending were not much of a concern to the ethnic Chinese businesses. At most, they suffered loss of business deals in those countries that were adversely affected by the crisis, especially in Indonesia and to a lesser extent, Malaysia. According to Tracy (2000), the vast majority of the largest Chinese business families in the Southeast Asian region have survived the crisis, albeit with a reduction in wealth as well as in both the size and scope of their business conglomerates.

## 3 Rise of China as an Economic Power and Its Impact

With open door policy since December 1978, globalization has given China a golden opportunity to become an international economic power. Initially, China abolished trade plans, decentralized trade, reduced tariffs and more importantly, unified its dual exchange rate system in 1994. China also allows convertibility of its currency for current account transactions. However, the most crucial step was its accession to the World Trade Organization (WTO) on December 11, 2001. With the accession, China made wide-ranging commitments to liberalize its markets in exchange for the various rights it now enjoys under WTO rules. These commitments include lower trade barriers. Tariff reduction in China has, indeed, shown a long-term decline between 1982 and 2002. According to one estimate cited by Rumbaugh and Blancher (2004), unweighted average tariffs declined significantly from 55.6% in 1982 to 12.3% in 2002. On a weighted average basis, the tariff reduction was even more spectacular, from 40.6% in 1992 to 6.4% in 2002. Apart from lower tariffs, the trade regime in China has become more transparent (Yang, 2003). As a result, China's trade expanded remarkbly, with exports expanding from US$10 billion on average in the late 1970s to US$593 billion in 2004. Imports to China also increased rapidly, from $42 billion in 1985 to $561 billion in 2004. In 2004, China overtook Japan as the third largest trading nation after the United States and the European Union. Its exports amounted to 9% of total world exports and its imports contributing 8.1% of the total world imports (see Table 1).

China also embarked on an ambitious policy programme to attract foreign direct investment (FDI) for its economic growth. After its first introduction of a law governing joint ventures in 1979, China began to attract an increasing inflow of FDI, notably from the Newly Industrialized Economies (NIEs), comprising Hong Kong, Korea, Singapore and Taiwan. Special Economic Zones (SEZs) with generous tax incentives were set up in the southeast coast of the country as its first experiment in attracting FDI. The experiment was extremely successful and the model was emulated in other provinces. The surge of inflows of FDI to China only started in the early 1990s, following Deng Xiaoping's tour of the southern coastal areas where he reaffirmed China's commitment to economic reforms and open door policies to the outside world (Tseng and Zebregs, 2002). In 2002, total FDI inflows reached US$53 billion, as compared to an average of US$28.3 billion for the whole of 1990s, and only US$2.3 billion on average per year in the second half of 1980s.

Table 1: World Trade: 2004 Leading Exporters and Importers
(Excluding intra-EU (25) trade)

| Rank | Exporters | Value (US$ billion) | % share | Annual % change |
|---|---|---|---|---|
| 1 | Extra-EU(25) exports | 1,203 | 18.2 | 20 |
| 2 | United States | 819 | 12.4 | 13 |
| 3 | China | 593 | 9.0 | 35 |
| 4 | Japan | 566 | 8.5 | 20 |
| 5 | Canada | 322 | 4.9 | 18 |
| 6 | Hong Kong | 266 | 4.0 | 16 |
| 7 | South Korea | 254 | 3.8 | 31 |
| 8 | Mexico | 189 | 2.8 | 14 |
| 9 | Russia | 183 | 2.8 | 35 |
| 10 | Taiwan | 181 | 2.7 | 21 |
| 11 | Singapore | 180 | 2.7 | 25 |
| 12 | Malaysia | 127 | 1.9 | 21 |
| 13 | Saudi Arabia | 120 | 1.8 | 28 |
| Rank | Importers | Value (US$ billion) | % share | Annual % change |
| 1 | United States | 1,526 | 22.0 | 17 |
| 2 | Extra-EU(25) imports | 1,280 | 18.4 | 20 |
| 3 | China | 561 | 8.1 | 36 |
| 4 | Japan | 455 | 6.5 | 19 |
| 5 | Canada | 276 | 4.0 | 13 |
| 6 | Hong Kong | 273 | 3.9 | 17 |
| 7 | South Korea | 224 | 3.2 | 26 |
| 8 | Mexico | 206 | 3.0 | 16 |
| 9 | Taiwan | 168 | 2.4 | 32 |
| 10 | Singapore | 164 | 2.4 | 28 |
| 11 | Switzerland | 112 | 1.6 | 16 |
| 12 | Australia | 108 | 1.5 | 21 |
| 13 | Malaysia | 105 | 1.5 | 26 |

Source: World Trade Organization (WTO)

### 3.1 Economic Impact on Singapore Ethnic Chinese Business

China's success in promoting trade and investment has been a concern not only to the developed countries such as the United States, but also developing countries, especially its neighbors in East Asia. This is because China, with its huge domestic market and cheaper cost of labour, is able to attract huge amount of FDIs, to the disadvantage of the Southeast Asian region (Phar, 2002a). China also poses as a formidable competitor in the international market. Apart from trade and FDI diversion, some of the economies, such as Taiwan and the Southeast Asia nations also suffer from 'hollowing out' of their domestic investment. Moreover, developed countries and NIEs lose jobs with significant increases in unemployment in certain sectors, following a rise in outsourcing some of their jobs to China.

One serious concern with the rise of China is the potential competition in the international market place for manufactured goods either for consumption or as intermediate inputs in third countries' markets. Lall and Albaladejo (2004) use correlation coefficients between export structure of China and that of East Asian countries as a measure of competition among them (see Table 2). From the table, mainland China's export structure has changed drastically between 1990 and 2000. By 2000, its export structure resembled almost that of Taiwan in 1990. In relation to Singapore, China's export structure was totally different from that of Singapore in 1990. However, by year 2000, the correlation coefficient rose sharply from 0.1 in 1990 to 0.42 in 2000. This implies that China has become increasingly a potent competitor to Singapore in the international market as China moves up the technology ladder. The competition between the two countries is not so much in the resource-based and low technology sector (see Table 3). Singapore lacks of natural resources, and its resource-based industry which comprises mainly oil refineries and food and beverage processing, depends largely on imported raw materials. The oil refineries are, indeed, a source of energy supplies to China. As for the low technology sector, Singapore had re-allocated this sector to its neighbouring countries in the 1970s and 1980s. Apparently, the real competition between the two countries occurs mainly in the medium technology sector. As China catches up in the high technology sector, such upgrading will represent a challenge to Singapore in general and ethnic Chinese businesses in particular. According to Lall and Albaladejo (2004), 23.5% of Singapore exports encountered direct threat from China in 2000, while another 40.4% faced partial threat from the same competitor.

Table 2: Correlation Coefficients of Mainland China and Regional Export Structure (3 digit SITC)

| | Mainland China 1990 | Mainland China 2000 |
|---|---|---|
| Korea 1990 | 0.38 | 0.64 |
| Korea 2000 | | 0.43 |
| Taiwan 1990 | 0.34 | 0.83 |
| Taiwan 2000 | | 0.53 |
| Singapore 1990 | 0.10 | 0.42 |
| Singapore 2000 | | 0.41 |
| Malaysia 1990 | 0.28 | 0.24 |
| Malaysia 2000 | | 0.44 |
| Thailand 1990 | 0.30 | 0.52 |
| Thailand 2000 | | 0.51 |
| Indonesia 1990 | 0.38 | 0.07 |
| Indonesia 2000 | | 0.33 |
| Philippines 1990 | 0.23 | 0.38 |
| Philippines 2000 | | 0.33 |

Source: Lall and Albaladejo (2004) table 4.

Table 3 Technological Structure of Manufactured Exports 2000 (%)

| | China | Korea | Taiwan | Singapore | Malaysia | Thailand | Indonesia | Philippines |
|---|---|---|---|---|---|---|---|---|
| Resource-Based | 9.5 | 11.7 | 4.4 | 14.9 | 13.1 | 18.4 | 33.7 | 6.5 |
| Low Technology | 44.9 | 17.1 | 23.8 | 6.5 | 9.6 | 21.5 | 31.3 | 11.9 |
| Medium Technology | 21.2 | 34.0 | 25.5 | 17.4 | 17.8 | 23.8 | 17.5 | 11.6 |
| High Technology | 24.4 | 37.1 | 46.3 | 61.2 | 59.4 | 36.3 | 17.4 | 70.0 |

Source: Lall and Albaladejo (2004) table 3.

With regards to FDI, Singapore has not suffered much from a diversion in FDI as experienced by other Southeast Asian countries, nor has it experienced a severe 'hollowing out' effect as has happened in Taiwan and Hong Kong. Little diversion in FDIs in the Singapore case is mainly due to the different types of foreign investment that Singapore has attracted, as compared to that of China. Singapore attracts mostly high-tech and high value added type of investment while China is more interested in industries with relatively low technology and most of these FDIs are labour intensive. In fact, the two different types of foreign investment that each country attracts are complementary to each other resulting in vertical integration and an increase in intra-trade between the two countries. Goldman Sachs (2003) reports that about 80% of intra-regional exports to China are intermediate and capital goods and raw materials, with the remainder directly for domestic consumption. Rumbaugh and Blancher (2004) also report that about half of China's imports are for processing and re-exporting. Ethnic Chinese businesses that are suppliers or sub-contractors to MNCs in Singapore have somewhat benefited indirectly from this vertical integration and intra-regional trade.

The case of “hollowing-out” effect is not much of an issue in Singapore either. The phenomenon of “hollowing out” had already occurred in the 1970s and 1980s when the labour-intensive industries and light manufacturing such as textiles and garment industries were forced to re-structure or re-allocate to the neighboring countries, notably Malaysia and Indonesia. During that time, ethnic Chinese businesses which were actively involved in these sectors were adversely affected. Secondly, the “hollowing-out” phenomenon is restricted to those electronics industries of a lower level in the supply chain where MNCs and not ethnic Chinese business are heavily involved. However, the outsourcing issue is severely felt in the IT sector, although the outsourcing to China is somewhat less serious as compared to that to India which has a high standard of English. But, as China’s standard of English improves, ethnic Chinese businesses involved in the IT sector are expected to be adversely affected.

The rise of China as an economic powerhouse also gives rise to vast opportunities to Singapore in terms of trade and investment. Ethnic Chinese businesses with their cultural affinity with mainland China can exploit these opportunities through deployment of their “ethnic advantage” (Chan and Tong, 2000; Dahles, 2005). In addition, the Singapore government took initiative in promoting Singaporean investment into China, after its regionalization drive in 1993. GLCs with support from the government provided the much needed leadership in investing in China. Through government to government relations, Singapore used its reputation in “honesty and straightforwardness” in business dealings (Bolt, 2000) to display its “political entrepreneurship” in investing in China.
The classic example is the establishment of the Suzhou Industrial Park (SIP) in Jiangsu Province through the co-operative effort of the two governments. As a result, total direct

investment in China rose significantly from S$1.7 billion in 1994 to S$16.5 billion in 2001.

Historically, ethnic Chinese business in Singapore has been investing in China since the 1970s. For instance, Hock San Yuen Food Manufacturing which manufactures food and beverages, invested in Qingdao as early as 1975 (Yeung, 2002a). Sunwa Construction and Interior Pte. Ltd., another Singapore Chinese firm, also set up a garment factory in Guanzhou in 1979. The firm then moved its plant to Shenzhen in 1981. However, most of these investments are confined to light manufacturing, such as appliance manufacturing and food processing. After the strong encouragement from the Singapore government in early 1990s, large ethnic Chinese enterprises began to exploit such opportunities in a big way. However, they were again involved mainly in low cost manufacturing, hotels and real estate (see Table 4). Only in recent years did these companies forge strategic alliance with GLCs and MNCs in high-tech industries such as computer technology and electronics. Of significance is the increasing investment on the part of large ethnic Chinese business conglomerates, in the services sector of China, especially in tourism, education, medical and transport services as well as infrastructure. Bolt (2000) notes that the sectoral pattern of Singapore's investments reflects both China's domestic needs and Singapore's economic strengths. He also notes that unlike Taiwan and Hong Kong, Singapore investment has not resulted in widespread network of manufacturing operations, mainly because of a lack of domestic entrepreneurs who are actively engaged in manufacturing. This is understandable as Singapore was originally a trading nation which developed later into an international financial centre. Manufacturing activities, especially electronics, are conducted mainly by MNCs while labour-intensive industries were re-allocated out of Singapore since 1970s.

Table 4: Singapore's Distribution of FDI to China by Activity

| Activity | 1990 | | 2000 | |
|---|---|---|---|---|
| | S$ million | % of activities | S$ million | % of activities |
| Manufacturing | 115.4 | 48.1 | 7,999.1 | 68.3 |
| Construction | 0.3 | 0.1 | 84.2 | 0.7 |
| Commerce | 49.1 | 20.5 | 561.3 | 4.8 |
| Transport and communication | 48.3 | 20.2 | 590.6 | 5.0 |
| Financial services | 1.7 | 0.7 | 547.9 | 4.7 |
| Real estate | - | - | 1,366.5 | 11.7 |
| Business services | 6.2 | 2.6 | 90.2 | 0.8 |
| Others | 18.7 | 7.8 | 477.6 | 4.1 |
| Total | 239.7 | 100.0 | 11,717.4 | 100.0 |

Source: Singapore's Investment Abroad, 1990-1991 & 2000-2001

Singapore will benefit further from the on-going liberalization in China's services sectors, following its commitments under the WTO accession. According to the original schedule, China will fully open all of its markets to full international competition from foreign service providers in a number of key services areas over a span of five years, from 2002 to 2007 (Whalley, 2003). These areas include distribution, financial services, telecommunications, professional business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, and travel and tourism. All barriers to entry and all conduct barriers for domestic and foreign entries will be removed subsequently. China is also planning a progressive approach towards foreign ownership and geographical coverage of licenses for the liberalization of services sector. Doubt has been cast on the feasibility of the full implementation of these commitments, especially in the areas of banking, insurance and telecommunications. Even then, such liberalization represents ample opportunities for Singapore ethnic Chinese businesses to exploit through direct investment. Prior to China's accession to WTO, a significant number of the ethnic Chinese businesses already have substantive investments in some of the services sectors, especially in banking, tourism and hotel businesses, and distribution and transport services. For instance, UOB and OCBC have four bank branches each in major cities such as Shanghai, Beijing and Guangzhou (Tschoegl, 2001). Ethnic Chinese businesses can make a significant stride in the services sector of China but this requires a strategic alliance among GLCs, the big ethnic Chinese enterprises and MNCs to penetrate into the Chinese services market, especially in the areas of banking, insurance and telecommunications.

### 3.2 Ethnic Advantage and Investment in China

The emphasis on investment in China in Singapore's regionalization drive in the 1990s was due to the four major factors. The first factor was the rapid rise of China as an economic powerhouse and the rise would provide ample opportunities for Singapore to create its external wing. Secondly, Singapore has a long history of investing in the Southeast Asian region and any impetus to increase investment further would not lead to much headway. Thirdly, investment in India would not lead to anyway either as the economic reform there was still in its infant stage. More importantly was the realization on the part of the government that "the fast-growing relationship and contact with China soon began to transform the Chineseness [4] of Singapore from an unavoidable and unfortunate liability to an important and immensely profitable asset" (Vasil, 1995: 133).

[4] According to Tan (2003: 751), Chineseness refers to the Singaporean perspective of the political elite placing increasing importance and prominence on the Chinese language and culture within the political and social-cultural discourse.

This is illustrated in a speech by the Minister of Home Affairs Wong Kan Seng who stated that Singapore could take advantage of its familiarity in the Chinese culture and language in investing China. He added,"Singapore's policy towards China is based only on the simple fact that China is a geopolitical reality. We must live with it and it is in our national interest to have good relations with China. It is also where the greatest economic opportunities lie. If we invest in China, it is because there is money to be made there" (Petir, 1994:51). This provides excellent opportunities for ethnic Chinese enterprises in Singapore to exploit their dual identity as ethnic Chinese and Singaporean (Chan and Tong, 2000; Dahles, 2005). On the one hand, they can play out their Chinese identity to enhance *guanxi* with Chinese government officials and mainland Chinese businesses. At the same time, they, as Singaporeans, can exploit the fact that their being different from mainland Chinese, and pose themselves as attractive business partners and associates. On top of that, Singapore ethnic Chinese business can even use "brand state"[5] to enhance their business reputation (Tan, 2003).

As noted earlier, the shift from de-Chineseness in the 1960s and 1970s to re-engagement of Chineseness since 1990s is, in part, motivated by economic factors relating to the rise of China (Tan, 2002). In addition to tapping on cultural affinity and good political ties with China, the other strength of Singapore is its straddling between the East and the West. In this way, Singapore can serve as a gateway between China and the West (which includes mainly Europe, the United States and Australia) to serve its national economic interest. With the rise of India as an economic power, Singapore again attempts to exploit both its Indian and Chinese cultural affinity on each side respectively

[5] A state uses its own history, geography, and ethnic motifs to construct its own distinct image that can be utilized for transnational influence and knowledge arbitrage (Peter van Ham, 2001).

to serve “a gateway for China and a bridge to India” (Buenas, 2004). As Senior Minister Goh Chok Tong said, “Just as our Chinese businessmen enjoy special *guanxi* in China, our Indians too have special knowledge, understanding of local culture and family, and business connections with India. “ (Koh, 2005:9). In fact, India (with an average growth rate of 7.5% between 2002 and 2005) has stamped its mark as the third preferred foreign investment destination after China and the United States. This excellent economic performance represents ample opportunities for the Singapore business community to take advantage of a middleman and serve the two giant economies, a bridge to boost more economic co-operation among the three countries. Singapore can also serve a facilitator and even collaborator to the two economies in their respective regionalization drives (Chuang, 2005b). In 2004, there were 1,100 mainland Chinese companies (150 in 1995) that have their registered offices in Singapore, with 54 of them or 9% of total companies listed in the Singapore Exchange (Lianhe Zaobao, 2004a; 2004b). High-tech Chinese companies such as Cytech, Bio-treat, ChinaCast, China Petrotech and Guangzhao have also raised substantial amount of fund in Singapore by issuing their IPO (Initial Public Issues) in Singapore Exchange (Lianhe Zaobao, 2004c). In 2004, 14 Singapore listed Chinese companies conducted road shows in Hong Kong, London and New York (Lianhe Zaobao, 2004d).

In short, Singapore is well-placed to serve as a conduit for Chinese companies venturing into international markets. Mainland Chinese companies can leverage on Singapore’s extensive regional and global distribution networks to reach out to markets in Southeast Asia and beyond. Singapore-based Chinese companies with substantial high value-added activities anchored in Singapore can also enjoy greater access to other markets by leveraging on Singapore's network of FTAs with New Zealand, Australia, Japan, EFTA and the US.

The exploitation of ethnic advantage by the Singapore government and ethnic Chinese businessmen for economic interest seems to work well in the case of investment in China. According to an international survey conducted by Grant Thornton International, one-in-five Singapore companies polled have a business presence in China, among the highest in the region (Chuang, 2005a). However, there are economic and social costs involved (Chan and Tong, 2000). The most glaring example is the Suzhou Industrial Park (SIP) which started in 1994. By 1997, it had become obvious that the project was not doing well. In December 1997, Lee Kuan Yew publicly expressed dissatisfaction with the Chinese side, citing "different work habits' and competition from the Suzhou New District (Bolt, 2000). By 1999, dissatisfaction on the part of Singapore came to a head. George Yeo claimed that the problems in Suzhou were due to cultural differences, demonstrating how different Chinese and Singaporeans really are. He concluded that China would always be different from Singapore. "Thus a project initially dubbed as "Singapore II" came to symbolize the stark differences between Singapore and China…". (Bolt, 2000:141).

Tension and differences between Singapore and China are not limited to SIP. The more Westernized government officials and businessmen in Singapore are generally bureaucratic and cautious in their investment decisions. This inhibits Singaporean entrepreneurship and investment in an unstructured environment such as that of China. This differentiates Singapore ethnic Chinese companies from other overseas Chinese companies from Taiwan and Hong Kong. For instance, ethnic Chinese business firms from Singapore will invest mainly in those projects that are supported by the Singapore government or negotiated by local ethnic Chinese business conglomerates. This is in direct contrast to Taiwanese investments which tend to involve less capital, are made by small to medium sized companies, are flexible and lower in profile. More importantly, there is a conspicuous absence of their government involvement in investment in China.

From a national perspective, the Singapore government cannot play the Chinese card all the time. It has to take into account the internal imperatives and external implications. Internally, Singapore must not let involvement with China and Chinese culture to alienate its non-Chinese population. Externally, it has to be sensitive to its neighbours, especially Malaysia and Indonesia. Even though Singapore now is more confident than before, it still needs to re-balance its act. As a matter of sensibility and political correctness, while encouraging ethnic Chinese Singaporeans to invest in China, it never fails to mention that India also represents an incredible market for Singapore to invest. Prior to the Asian Financial crisis in 1997, Indonesia was often mentioned as another key area for investment opportunities. However, after the crisis, little mention was made with regards to investment in Indonesia as the economy has not fully recovered, amidst adverse consequences arising from the tsunami in December 2004. In the ASEAN forum, Singapore also never fails to encourage other ASEAN countries to invest in China for their benefit. Such a call is to address suspicion on the part of its ASEAN neighbours about Singapore's investment in China. In a nutshell, Singapore has to prove beyond doubt that its investments in China are purely based on economic ground and also for its national interests. Nothing emotional is involved.

## 4 Government Policy towards Ethnic Chinese Business

In Singapore, the People's Action Party (PAP) government's attitude towards ethnic Chinese business has shifted from one of non-intervention and political alienation in the 1960s and 1970s into a closer one with firm commitment to strengthen the latter's capabilities since 1990. The shift is due to economic, political and social imperatives in the development process of Singapore.

### 4.1 Three Legs with an External Wing

In the first decade since Independence in 1965, the ruling PAP government adopted a non-interference policy with political alienation towards ethnic Chinese business (Vasil, 1995; Rodan, 1989; Huff, 1994; Ng, 2002; Chan and Ng, 2004). This was due to a differing view on Chinese culture and language between the PAP government and the Chinese clans and associations as well as the Chinese Chamber of Commerce and Industry (SCCCI) as a group. The latter group considered the promotion of Chinese culture and language to be part and parcel of a multi-racial and multi-cultural society. The PAP government, on the contrary, considered such a move as racially sensitive in view of "internal ethnic imperatives as well as the regional geographical compulsions" (Vasil, 1995: 34). This led to the government to adopt a "two-legged policy" with emphasis on GLCs and MNCs as the two pillars for promoting economic development. Ethnic Chinese businesses were left alone with non-interference from the government.

After a successful industrialization drive in the 1960s and 1970s, the problem of labour shortage became increasingly serious. Economic restructuring was badly needed to address this issue as the success of economic restructuring hinged on the close co-operation of local private enterprises, which had been involved heavily in labour intensive industries. A majority of these local enterprises were owned by ethnic Chinese, who were still somewhat unhappy with the government's cultural and language policy. Any restructuring of these industries would definitely lead to grievances which, if not handled carefully, could be exploited by opposition parties for their political gains. The PAP government took the initiative in 1976 to engage these ethnic Chinese businesses by providing financial and technical assistance. However, local private enterprises still played as a "second fiddle" to the MNCs and GLCs in economic development during the period 1976-84. Only after a deep recession in 1985 did the government realize the importance of developing local private enterprises for economic growth. Firstly, the labor shortage problem still lingered with no sign of abatement. Secondly, overdependence on MNCs could be dangerous as these MNCs might re-allocate their plants to elsewhere if the business costs were to rise further. Finally, local private enterprises especially SMEs could be restructured and upgraded to become potential co-partners, suppliers and sub-contractors to GLCs and MNCs. Such a tripartite alliance would enhance the resilience and competitiveness of the Singapore's national economy.

The three legged strategy was finally adopted in 1989 by implementing the SME Plan to nurture local SMEs into more viable enterprises so that they could become effective co-partners in the development process. In the meantime, the government also announced the setting up the Growth Triangle which covers Singapore, the Riao Archipelago of Indonesia and Johor of Malaysia. One of the purposes of the Growth Triangle is to allow local enterprises (including MNCs) to re-allocate their labour intensive plants in neighbouring countries to relieve domestic labour pressure. In 1993, the Singapore government, after deliberating over the choice between globalization or regionalization for over more than half a decade, finally decided to adopt a regionalization drive with emphasis on investment in China. The promotion of outward investment to the region was necessary for Singapore as Singapore had completed the 'factor-driven' phase of economic development whereby domestic resources, especially labour resources, had been fully utilized. It was ready for Singapore to enter into the next phase of economic development which is the investment-driven stage whereby outward investment is promoted to form an 'external wing' of the national economy.

## 4.2 Government Assistance to SMEs

As noted earlier, the Singapore government has been providing financial and technical assistance since 1976 to SMEs, which were owned mainly by ethnic Chinese. However, most of these assistance were either ad hoc in nature or under-utilized because of their bureaucratic procedures in application. In 1989, the government introduced the SME Master Plan with a more systematic approach towards assisting SMEs. The promulgation of the Plan was to address a number of issues. Firstly, it is important to recognize that SMEs comprise more than 90% of total establishments, employ 51% of the workforce and generate 34% of total output and yet their productivity is about half that of non-SME establishment. Any increase in the productivity of this sector will release a significant amount of labour and land resources for other productive uses. Secondly, SMEs is now recognized as the third "leg" of the national economy. This third "leg" is expected to serve as suppliers, service providers and subcontractors in the national supply chain. This “leg” is also expected to be part of strategic alliance in the creation of the external wing. Any weakness in this leg will make the country a limp. Finally, SMEs could join GLCs and MNCs in regionalization drive. With the majority of SMEs being Chinese family owned, they possess some sort of cultural affinity which can be exploited for creating a viable external wing. As most of these SMEs had significant influence on HDB heartland, any initiative to assist them will help improve regime maintenance. When the master Plan was promulgated, the promotion of entrepreneurship was not such an urgent issue yet.

However, with rapid development in computer and telecommunications technology, especially the World Wide Web (WWW), the economic landscape has been drastically transformed from the old economy to the new economy, called the Knowledge-Based Economy (KBE). With this new development, the KBE presents vast opportunities to be exploited and at the same time poses serious threats to SMEs. In a KBE environment, entrepreneurship is critical for innovation and creativity generation. However, Singaporeans, especially the younger ones (because of their comfortable and stable jobs with MNCs and government services), have lost their entrepreneurial drive that their forefathers had a few decades ago. They tend to be *‘kiasu’* or loss averse. The KBE environment also brought with it pockets of structural unemployment in various industries. One source of the structural unemployment arises from re-allocation of MNCs plants to low cost countries such as China and Vietnam. The high-tech industries which still remain in Singapore require different and higher as well as new levels of skills which the Singapore workers are not well-equipped. The increase of productivity through innovations as a result of the exponential growth in information and communications technologies, especially in the field of knowledge management, may also be translated into retrenchment of outmoded employees, and at the same time better use of more productive ones. The more serious type of structural unemployment is the retrenchment of white collar workers following a widespread of outsourcing either within the economy or to other countries. If this issue of structural unemployment is not resolved amicably, it may have serious repercussion on regime maintenance.

Experience in the 1990s especially after the Asian financial crisis exposed the structural weaknesses of SMEs, in particular their capabilities in coping with the KBE environment. With these structural weaknesses, SMEs would not be able to be effective partners in venturing abroad and play a supporting role in the industry cluster. The government is therefore committed to develop and build up the capabilities of SMEs to enhance their competitiveness. With this background, SME 21 (www.spring.gov.sg) was announced in January 2000 with three major targets for the year 2010, as follows:

- Doubling of productivity of the retail sector from S$28,000 to $56,000 per worker;
- Trebling of local SMEs with sales turnover of S$10 million and above from 2000 to 6000; and
- Quadrupling of local SMEs with e-commerce transactions from 8,000 to 32,000

In implementing SME 21, the first step is to restructure the institutional framework as to facilitate assistance to SMEs. Foremost, the Standards, Productivity and Innovation Board (SPRING Singapore)[6] has been appointed as the champion agency for SMEs. All the previous assistance schemes to SMEs were consolidated into eight

[6] A statutory board previously known as the Productivity and Standards Board (PSB).

schemes under SPRING Singapore[7]. Any matters relating to investment abroad are under the purview of International Enterprises Singapore (IE Singapore). One good example is the International Partners Programme (iPartners) whereby IE Singapore tries to be a match maker between local and foreign partners. However, any investment incentive schemes such as Overseas Investment Incentive will be under the Economic Development Board's (EDB) purview.

In their latest move, IE Singapore and SPRING Singapore have teamed up to launch BrandPact which will help local enterprises to use branding as a tool for enhancing competitiveness. The programme is also aimed at raising the understanding and awareness of branding among SMEs in Singapore (Hooi, 2005). In addition, the Enterprise Development Centres (EDCs), which is a joint initiative between SPRING and six major business chambers and industry associations, will also be established over the next few years. In this case, the government would provide funding to defray up to 70% of the set-up costs for the EDCs. These EDCs will also offer consultancy and advisory services to help SMEs upgrade, expand and venture overseas, and also organize activities to help enhance the capabilities of SMEs.

On the whole, the government has been adopting a holistic approach in nurturing SMEs (Lim, 2005). Broadly, there are three dimensions to the approach. At the national level, the government will strive to improve the business environment in Singapore with an aim to foster a pro-business environment. Secondly, the government would provide broad-based assistance to SMEs to help them build up their capabilities and expand

[7] The schemes include Local Enterprise Finance Scheme (LEFS), Micro Loan Programme, Variable Interest Loan Scheme (V-Loan), Local Enterprise Technical Assistance Scheme (LETAS), Loan Insurance Scheme, Domestic Sector Productivity Fund, Enterprise Investment Incentive (EII) Scheme and SPRING SEED.

business opportunities. Under this framework, the government will launch the Enterprise One Stop Service (or EOS) at end of 2005 to better assist SMEs. EOS will enable the government to reach out to more SMEs and increase their awareness of the assistance schemes available to them. Finally, the government seeks to develop vibrant industry clusters in which key players across the entire value chain can work closely together. The aim is to enhance the capabilities of the industry cluster as a whole and in this instance, the industry and business associations will be asked to be heavily involved.

## 5 Concluding Remarks

Unlike the stereotype of overseas Chinese business as typified in the literature, ethnic Chinese business firms in Singapore are not homogenous. Any attempt to characterize overseas Chinese business into a stereotype would be gravely misleading. Moreover, any exaggeration and glorification of Chinese business success arising from Chinese business networks, would only lead to unnecessary jealousy, anxiety and political tension in the Southeast Asian region. This is especially true when one tries to link monetary wealth with political powers (Phar, 2002b).

Yoshihara's (1988) penetrating analysis on overseas Chinese business may be incisive and enlightening. However, his observation of overseas Chinese business system as "Ersatz Capitalism" may not be at all true. As Winn (1998) has shown, large Chinese enterprises in Hong Kong and Taiwan have invested heavily in information and telecommunication industries. Even Singapore Chinese companies which have invested in the real estate previously have also diverted part of their resources to invest in high value and high-tech industries. Nevertheless, Yoshihara's observation may still apply to many traditional small family businesses whose capability in coping with globalization may be in question.

With globalization, opportunities are abundant but threats can be suicidal. As the Asian Financial Crisis in 1997 has shown, globalization induces global integration which may carry with it systemic and contagious effect of a financial crisis. Such effects may be able to cause a total collapse of the world economy. Surprisingly, ethnic Chinese businesses in Singapore, in particular the larger ones, are able to withstand the onslaught of the Asian Financial Crisis. The main reasons are that ethnic Chinese businesses have diversified their businesses long ago not only in terms of geographical areas, but also in terms of industry. In other words, they “don’t put all eggs in one basket.” Of no less importance is their relative concentration of their investment in China which happened to be insulated from the contagion effect of the Asian Financial Crisis[8].

Investment in China by ethnic Chinese enterprises in Singapore was considered as politically sensitive in the 1960s and 1970s. Internally, Singapore is a multi-racial and multi-cultural society. Any tilt towards Chineseness might cause uneasiness and tension among the non-Chinese constituents. Only after the establishment of diplomatic relation with China in 1990[9], did Singapore made a bold move in encouraging ethnic Chinese businesses to invest in China, especially after 1993 when regionalization initiative was officially launched. The official argument for such a move is that the decision to invest in China is based purely on economic ground. The use of cultural affinity and ethnic

[8] China was insulated from the Crisis mainly because of its exchange control, i.e. non-convertibility of Reminbi for capital account transactions. In other words, short-term capital flows were prohibited such that currency speculators had no way to attack the currency.
[9] Singapore was the last country among the ASEAN nations to establish diplomatic relation with mainland China. This was to avoid suspicion that Singapore would be the “Third China Republic” after mainland China and Taiwan.

advantage is instrumental for pursuing Singapore's national interest. Despite the re-engagement of Chineseness, Singapore is still very cautious in its endeavor and finds ways to re-balance its act whenever opportunities arise.

The past experience of Singapore's investment in China in the 1990s indicates that the investments were not without tension and conflict. The case of the Suzhou Industrial Park illustrates clearly how different Singapore Chinese are from those in the mainland China. Chan and Tong (2000) note that "…a Singaporean Chinese is like them and not like them; or he is like them now, but not like them later…" Culturally they are the same and yet they are not exactly the same. The exploitation of "ethnic advantage" for investment in China in this respect may be over-exaggerated.

The Singapore government's attitude towards ethnic Chinese businesses has changed from one of political alienation to one of firm commitment to assist them. A holistic approach has been adopted to ensure its effectiveness. The success of converting traditional Chinese family business (also include other ethnic businesses) into viable and resilient business structures hinges on the business enterprises' sheer determination in developing their capabilities. These capabilities will be tested in the marketplace with global competition in the rapidly changing environment. In this case, globalization may bring vast opportunities to these business enterprises but it can also destroy them within a short span of time with lightning speed.

Drawing experience from Hong Kong, Taiwan and Thailand, Winn (1998) cautions that with the rapid pace of globalization, the market environment has constantly changed, and more often than not, in a drastic manner. The immediate challenge for these ethnic Chinese businesses, especially those are in the category of “builders”[10] is to expand their business operations into new markets, notably outside Asia. However, the regulatory environment in the new markets is totally foreign. The Chinese business networks which have been a key factor in achieving business success in Asia may become less useful in the new environment. Winn observes that “the strength and insulation of the Bamboo Network in Asia as well as the lack of market competition has given Chinese companies as Asia-focus myopia and has actually inhibited overseas Chinese business to globalize.” It is therefore not uncommon that ”the heads of the largest overseas Chinese companies may be one of the richest men in the world, but few have created a global product or an international brand name, let alone commanding strong market share in an area outside Asia.” One way to overcome such constraint is through acquisitions of existing non-Chinese firms with products or services of international brands, but the costs of such acquisitions can be enormous.

Ethnic Chinese businesses have been diversifying their businesses with horizontal integration (or “structurers”). In the face of globalization, they may still have to compete with MNCs that constantly produce new products and services of high quality and international brands. With rising income and sophistication, as well as greater exposure to advertisement, consumers in Asia have become more informed and discriminating in their purchases. The main issue facing ethnic Chinese business in Singapore in years to come is how to compete successfully with their own branded goods and services on a global scale, given their existing comparative advantages.#

[10] Chu and MacMurray (1993) classify large Chinese enterprises into “structurers” and “builders.” Structurers are diversified conglomerates based on horizontal integration while “builders” concentrate on certain specific business areas and keep a tight ring of business around their core business.

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