

CHINA-SINGAPORE COLLABORATION:
Case Study on the Suzhou Industrial Park



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CHINA-SINGAPORE COLLABORATION:

Case Study on the Suzhou Industrial Park

by

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For My Two Fathers:

The One in Heaven

And

The One On Earth.

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“Trust in the LORD with all your heart and lean not on your own understanding; in all your ways acknowledge him, and he will make your paths straight.”

- Proverbs 3:5-6.

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In Singapore:

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Mr. Chan Soo Sen	Minister of State, Ministry of Education, previously CEO, China-Singapore Suzhou Industrial Park Development Company (CSSD)
Ambassador Cheng Tong Fatt	Previously Singapore's Ambassador to China
Mr. Cheng Wai Keung	Chairman/Managing Director, Wing Tai Holdings Ltd, previously Director and Executive Committee Member, and Chairman of the Working Group on Commercial and Residential Development for the Suzhou project
Mr. Albert Chua	Deputy Secretary, Ministry of Foreign Affairs, Singapore
Ms. Goh Ah Moi	Senior Assistant Director, Singapore Software Project Office, Economic Development Board (EDB)
Mr. Heng Swee Keat	Permanent Secretary, Ministry of Trade and Industry, previously Principal Private Secretary to Senior Minister Lee Kuan Yew
Mr. Lee Yi Shyan	CEO, International Enterprise Singapore, previously Director (China), EDB
Mr. Lim Chee Onn	Executive Chairman, Keppel Corporation, previously Chairman, CSSD
Mr. David Lim	CEO, Neptune Orient Lines, previously CEO, CSSD
MG (NS) Lim Neo Chian	Chairman Jurong Town Corporation, and Deputy Chairman and Chief Executive, Singapore Tourism Board, previously CEO, CSSD
Mr. Seah Kia Ger	Advisor [China Manpower Resources], Managing Director's Office, Agency for Science, Technology & Research, previously, Director, China Focus, Economic Development Board, Chief Coordinator, Suzhou Project Office, and Special Assistant to Chairman, EDB
Professor Wang Gung Wu	Director, East Asian Institute, National University of Singapore
Mr. Wong Kok Siew	Deputy Chairman and CEO, Sembcorp Industries, with interest in Wuxi Industrial Park
Mr. Philip Yeo	Chairman, Agency for Science, Technology and Research and Co-Chairman, Economic Development Board, previously Co-Chairman of the Joint Working Committee on Software Transfer for the SIP Project
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Ms. Lee Yi Yinn	Marketing Executive, CSSD
Mr. Pan Yunguan	Deputy Secretary/Vice-Chairman, Suzhou Industrial Park Administration Committee (SIPAC), previously Director, Economic Opening to the Outside World Office, Jiangsu Government
Ms. Pang E	Executive, Adapting Singapore's Experience Office, SIPAC
Ms. Sun Yanyan	Vice President/General Manager of Marketing Dept, CSSD
Mr. Tan Xiaowen	Deputy Director, Adapting Singapore's Experience Office, SIPAC
Mr. Wang Jinhua	Vice-Mayor Suzhou, Deputy Party Secretary, Suzhou, and Chairman, SIPAC
Mr. Yang Weize	Mayor of Suzhou
Mr. Yang Zhiping, Barry	Executive Vice President, CSSD and Vice Chairman, SIPAC
Mr. Zhao Dasheng	Director, ASEO, previously Deputy Director, Secretariat Bureau, SIPAC

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Mr. Chen Deming	Executive Vice-Governor, Shaanxi Province, previously Deputy Party Secretary, Suzhou and Mayor, Suzhou
Ambassador Chin Siat Yoon	Singapore's Ambassador to China
Mr. Yang Xiaotang	Vice-President, China Development Bank, previously Party Secretary, Suzhou
Mr. Zhao Yundong	Previously Special Economic Zones Office, State Council

In Nanjing:

Mr. Chen Huanyou	Chairman, Jiangsu Provincial 9 th People's Congress, previously Party Secretary, Jiangsu
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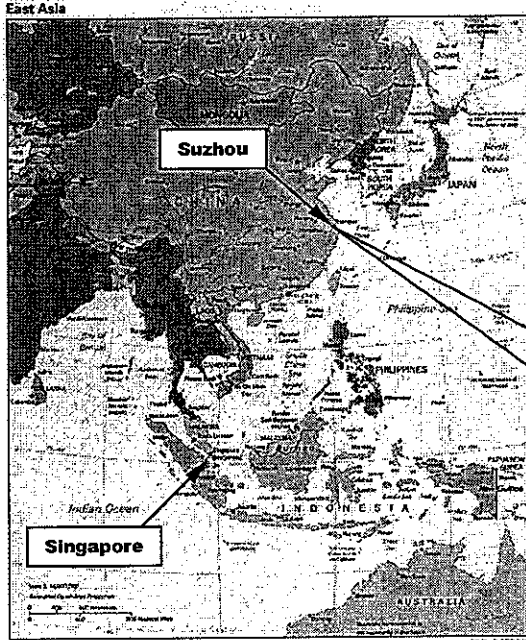
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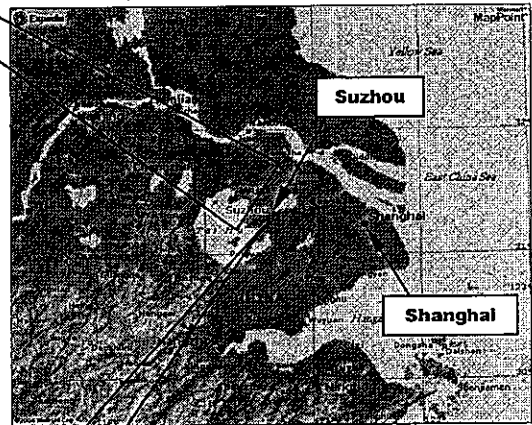
GLOSSARY

CSIPC	China Suzhou Industrial Park Company
CSSD	China-Singapore Suzhou Industrial Park Development Company
DPM	Deputy Prime Minister
EDB	Economic Development Board (Singapore)
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprises
JSC	China-Singapore Joint Steering Council
JTC	Jurong Town Corporation
MOU	Memorandum of Understanding
MNC	Multi-National Corporation
SEZ	Special Economic Zone
SIP	Suzhou Industrial Park
SIPC	Suzhou Industrial Park Company
SIPAC	Suzhou Industrial Park Administrative/Administration Committee
SSPO	Singapore Software Project Office
SM	Senior Minister
SME	Small and Medium Enterprises
SND	Suzhou New District
SSPO	Singapore Software Project Office
SSTD	Singapore-Suzhou Township Development Private Limited
SUM	Suzhou Municipal Government/Authority
VP	Vice Premier

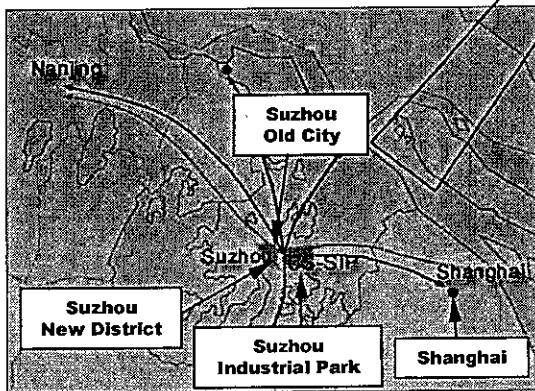
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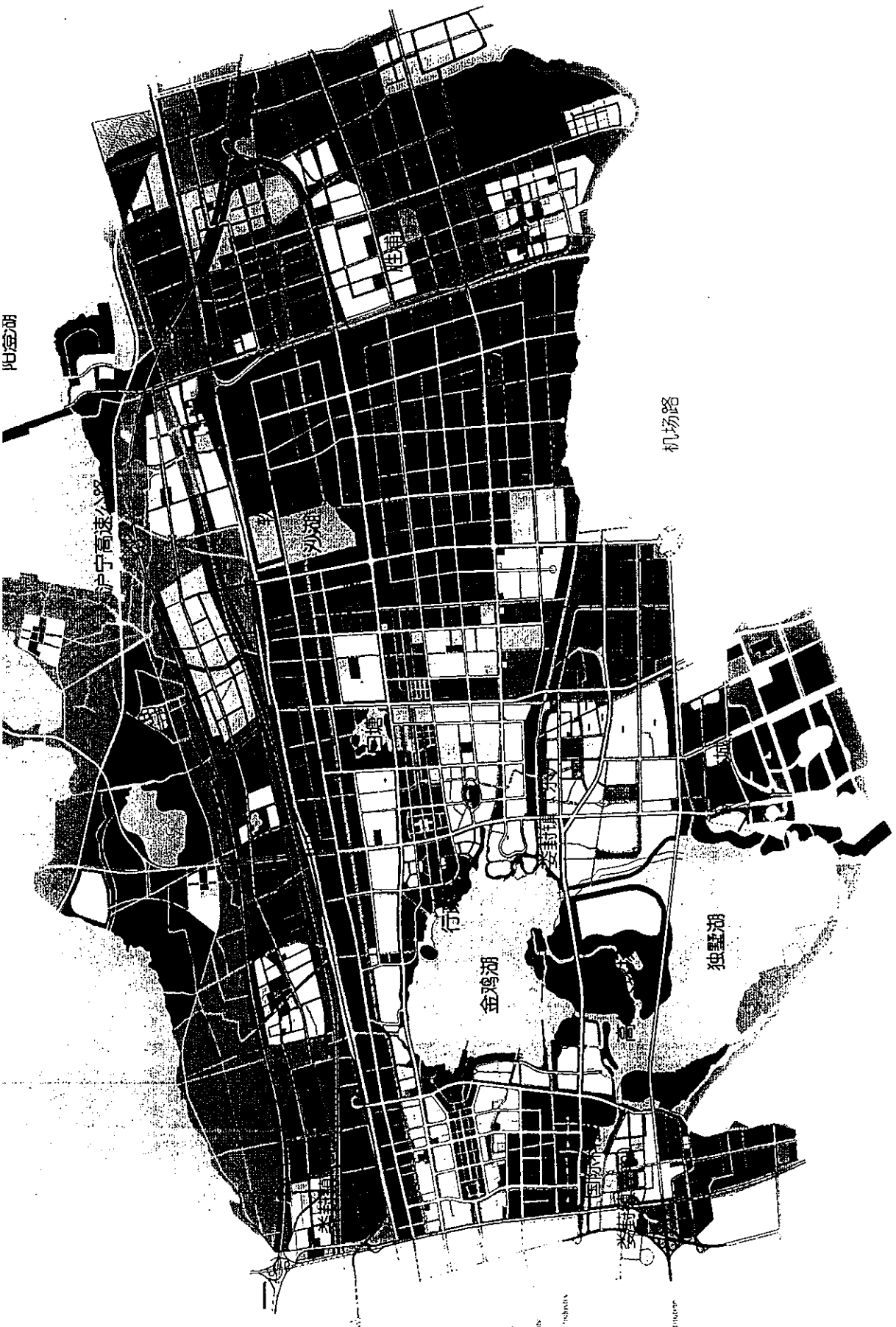
LOCATION MAPS



SINGAPORE SUZHOU SHANGHAI



SUZHOU OLD CITY NEW DISTRICT INDUSTRIAL PARK



- 商业 Commercial
- 工业 Industrial
- 住宅区 Residential
- 教育区 Educational
- 水域 Canal Water Area
- 苏州工业园区 Suzhou Industrial Park
- 苏州医院 Suzhou Hospital
- 公园 Park
- 苏州博物馆 Suzhou Museum
- 苏州火车站 Suzhou Railway Station
- 机场 Airport
- 铁路 Railway

Masterplan of the Suzhou Industrial Park

加快建設蘇州工業園區
為發展中外經濟技術
互利合作積累新經驗

江澤民

一九九五年五月
十二日于蘇州

江泽民总书记题词
Inscription by President Jiang Zemin

“Accelerate the Construction of the Suzhou Industrial Park
For the development of the Sino-foreign Economic Skills
Engage in Mutually-Beneficial Cooperation to Accumulate Singapore's Experience”

INTRODUCTION

Under the guidance of its first Prime Minister, Lee Kuan Yew, who held office from 1959 to 1990, and his team of bureaucrat elite, Singapore's *per capita* nominal GDP rose thirty times, from just US\$400 to US\$12,200, in those thirty years.¹ Today it is more than US\$22,000. With such impressive statistics, Singapore is among the countries of the "Asian economic miracle."

Many leaders and countries have wondered how this came to be. A critical reason was its free and open economy. Investors came from all over the world, bringing with them capital, managers, know-how, technology and markets. Many countries have emulated, or expressed the desire to replicate, the Singapore formula for success. It was understandable that neighbors such as Malaysia, Thailand, the Philippines and even Indonesia, would look over their fences to observe the Singaporeans and adjust their own practices in an attempt to provide fertile ground for Foreign Direct Investments (FDI). For Mainland China to seek likewise was beyond imagination.

Singapore, at just over 680 square kilometres, is a tiny city-state the size of Chicago. President B J Habibie of Indonesia, had disparagingly referred to Singapore as a "little red dot."² What could China and Singapore possibly find in common in economic development? The immense contrasts in land mass, population, economies and state of economic development, made it an improbable proposition.

Then Deng Xiaoping came along. Deng was China's paramount leader from 1978 until close to his death in 1997. It was he who drove the movement to liberalize

¹ Lee Kuan Yew, *From Third World to First: The Memoirs of Lee Kuan Yew* (Singapore, Singapore: Times Media Pte. Ltd, 2000), p. 13.

² Interview with former Indonesian President Prof. B. J. Habibie, *Asian Wall Street Journal*, August 4, 1998. It should be noted that this remark was made in reference to British maps and was meant to be a disparaging remark directed at the size of Singapore.

and modernize the Chinese economy. Expressing his philosophy, Deng told a Time magazine delegation in 1985 that “if you want to bring the initiative of the peasants into play, you should give them the power to make money.” With Deng in the driver’s seat, the Chinese economy developed quite smoothly until the Tiananmen incident of 1989, after which temporary economic stagnation set in amidst fears of political instability. Deng rekindled economic reforms with his famous tour of Southern China in 1992. During the tour, he singled out Singapore not only as a model for China’s economic development but also its social development. Hence, with a word from the revered Chinese leader, a connection was made between China and Singapore, and the improbable was made possible.

Deng’s high regard for Singapore brought about developments which ultimately resulted in an agreement in 1994 for China and Singapore to collaborate in developing the Suzhou Industrial Park (SIP). The SIP was to be the commercial manifestation of something deeper – the transfer of “Singapore software” in town planning, industrial park development and investment promotion which would create the conditions that would successfully draw FDI for high value-added products and services. It was to be the vehicle for transferring the software of economic development and management to provide the Chinese with the opportunity, essentially, to “*learn by doing*”, as they worked side by side with the Singaporeans. Hence, the SIP was to be a concrete, paramount example of China-Singapore collaboration which enjoyed the attention and support of the highest levels of leadership of both China and Singapore.

While the outsider could well imagine that all the ingredients for success were there, in reality the project was not to be smooth sailing. Success was certainly not guaranteed and, for a time, even the notion of success seemed to be a joke. Why did

things turn out that way? What were the driving reasons behind the turn of events? Was the project doomed from the start? Was the execution doomed to difficulties? Were there not the “blood ties, common language, and culture” which made for a “special relationship” between China and Singapore, and which in turn would assure the results and guarantee success?

Various theories have been put forth to explain the ups and downs of the SIP’s development. The existing literature has focused on specific issues or highlighted particular problems relating to the evolution of the SIP project. As the following chapters will establish, the problems in Suzhou were a function of complex circumstances, for which any single explanation is inadequate. All the studies conducted thus far have been too limited in their explanations as to be able to capture the dynamics in the twists and turns of the SIP project. This thesis aims to go beyond the existing literature and look for a deeper, more fundamental reason.

Chapter One chronologically traces the roots of the project. It will address the motivations of each country, and track the trajectory of their convergence of interests.

Chapter Two proceeds to track the development of the SIP following its conception. Starting with the agreement on the SIP, the development of the Park will be described in three phases, namely, 1994-1996, 1996-1998, and 1998-2001.

Chapter Three provides an overview of the literature that has been written on the SIP to provide the reader with insight as to what has already been covered by previous analyses. It points out how this thesis will go beyond what has already been addressed, to establish new ground in the research on this topic.

Chapter Four delves into the SIP project from a cultural perspective to offer a deeper, more fundamental reason for the problems related to the project. It will

analyze the issues using the framework of the “ABC of cultural differences” – namely

Aministrative Culture, **B**usiness Culture, and **C**ountry Culture.

The final chapter situates the case in the larger scheme of things in China’s development into the future, and postulates that Singapore can yet have a place in this.

CHAPTER ONE

BEGINNINGS

The abdomen of the body of the Suzhou Industrial Park (SIP) is marked by a small body of water, the Jinhu Lake. On the banks of this lake is a sculpture that was erected on the seventh anniversary of the founding of the SIP. Harmony is her name. The fact that this sculpture was named “Harmony,” or *yuan rong* (圓融), is telling of the events that preceded her unveiling, but her form is another story.

Harmony has a shape that is contingent on the position of her viewer. From one angle, the form of harmony is reminiscent of a medallion coin of China’s past, but as one circles the structure, one notices that the form morphs into the digit eight.² The stump upon which this sculpture rests, however, provides another side to the story. The plaque on the stump reads:

“Harmony” Unveiled by

Vice Premier Li Lanqing, People’s Republic of China
Senior Minister Lee Kuan Yew, Republic of Singapore
June 8, 2001

Hence, from the very form of “Harmony,” we can discern the genesis of the SIP: ultimately, it was an economic project founded upon political roots, for political interest. As easy as this concept might appear, the following chapters will show that

² In traditional Chinese culture, the number eight is associated with prosperity, since its pronunciation in the southern Chinese dialect of Cantonese is tonally identical to the character for “prosper.”

this fundamental concept and the implications of such a concept were not clearly understood or firmly grasped by both parties.

This chapter sets forth to address the question of what exactly the SIP is by chronologically tracing the roots of its conception. I will address the motivations of each country and the trajectory of their convergence of interests by giving a brief overview of their industrial development processes prior to 1994, and highlighting salient points relevant to this thesis. After this, I will describe how the two governments got together to collaborate on this project.

1.1 SINGAPORE MOTIVATIONS

In order to understand the motivations of the Singapore Government for its involvement in the SIP project, it is essential to discuss the economic development of Singapore and the developmental strategies employed by the Singapore Government since 1965. In particular, it would be useful to note how the State essentially micro-managed its macroeconomic development.

1.1.1 Economic Transformation *via* Industry

Following its expulsion from Malaysia on August 9, 1965 and its disassociation with the United Kingdom as colonial master two years earlier, island-city Singapore was forced to stand on its own feet.

Singapore of the 1960s was excessively reliant on entrepot trade, extremely poor in natural resources, overly dependent on the British colonial administration, and had a largely unskilled but fast booming population.³ Faced with the pressing need to feed this population under economically hostile conditions, the Singapore

³ Alexius A. Pereira, *State Collaboration and Development Strategies in China*, (London, UK: RoutledgeCurzon), p. 21.

Government made economic development its top priority and industrial transformation its primary goal. The elite in charge of the island nation then viewed the Foreign Direct Investment (FDI) approach as being the most practical way to achieve this goal of industrial transformation.⁴ Prominent members of this elite group were Singapore's first Prime Minister, Lee Kuan Yew, and its chief economic architect, Deputy Prime Minister Goh Keng Swee,

By encouraging foreign industrial entities to establish their presence in Singapore, the Singapore Government "intentionally sought to participate in the global industrial production system."⁵ It was the hope of the Government that these foreign investments would ignite developmental externalities, in particular the creation of jobs and the transfer of much needed technology. But Singapore faced significant obstacles in her quest to attract investments from overseas.

Singapore of the 1960s had some advantageous elements for industrial production like a deep harbor, a long history of entrepot trade and a strategically advantageous geographical location within South East Asia.⁶ In addition, Singapore's labor force had a certain measure of competitiveness when compared to labor in developed countries.⁷ Singapore was, however, not an attractive production location on other fronts. First of all, Singapore lacked the necessary infrastructure required to support industrial development. Also, the Singapore Government lacked the experience as an industrial administrator.⁸ Third, investors were put off by the capricious political climate and unstable social situation, due to the noticeable

⁴ Edgar Schein, *Strategic Pragmatism: The Culture of Singapore's Economic Development Board*, (Cambridge, Mass: MIT Press, 1996), pp. 1-2.

⁵ Pereira, p. 21.

⁶ Lim Chong Yah, *et al*, *Policy Options for the Singapore Economy*, (Singapore, Singapore: McGraw Hill), pp. 1-4.

⁷ Pereira, p. 22.

⁸ Garry Rodan, "Singapore: Economic Diversification and Social Divisions," in Garry Rodan, Kevin Hewison and Richard Robinson, eds. *The Political Economy of South-East Asia*, (Melbourne, Australia: Oxford University Press, 1997), pp. 148-178.

prevalence of ethnic strife manifested in frequent clashes between racial groups, especially during the 1950s. In addition, the threat of labor unrest and communist insurgencies polluted the economic environment.⁹ Lastly, the global industrial production community was uncertain about the credibility of the Singapore Government, given the notorious reputation of third world countries of being inefficient and corrupt.¹⁰

Following Japan's "developmental state model," the Singapore State was very much an "interventionist" state.¹¹ The State played a crucial and prominent role in molding the economic environment in the country by reinforcing its advantageous elements and investing to improve its productive capability. First, the Government sought to improve its labor competitiveness and productivity in the long term by investing heavily in public housing projects, advocating education and promulgating public health programs.¹² In addition, the State also held a firm grip on the cost of labor by disciplining labor unions *via* legal channels and indirectly coercive means. The State also co-opted the labor unions by forming the National Trades Union Congress (NTUC), an umbrella organization for virtually all the unions in the country, for purposes of ameliorating the relations between the State, the employers, and the unions.¹³

The Singapore Government also invested heavily in the provision and improvement of the required elements for industrial production. To address the general lack of infrastructure, the State instructed its statutory agency in charge of industrial property development, the Jurong Town Corporation (JTC), to construct

⁹ Pereira, p. 23.

¹⁰ Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation*, (Princeton, NJ: Princeton University Press, 1995), p. 35.

¹¹ Pereira, p. 21.

¹² Martin Perry, Lily Kong and Brenda Yeoh, *Singapore: A Developmental City State*, (London, UK: John Wiley and Sons Ltd, 1997), pp. 56-79.

¹³ Pereira, p. 23

ready-built industrial estates, complete with power, water, and sewage facilities, as well as dependable and functional transportation and communication links.¹⁴ In addition, the State tempted foreign investors, especially those companies that dealt with electronics and related fields, with attractive economic, tax and fiscal incentives.¹⁵

Besides focusing on the improvement and provision of the factors of production, the Singapore Government strove to gain an edge over its global competitors by improving its credibility with regards to its effectiveness, by cultivating mutual trust between the State and the transnational corporations that arrived on her shores. The primary engine that was in charge of this campaign was the Economic Development Board (EDB), which pursued potential investors during negotiations by demonstrating “honesty, competency and commitment.”¹⁶ In addition, the Singapore Government took pains to underscore that corruption would be severely dealt with. As a result of these efforts, the credibility of the State was improving by the mid-1970s, as it demonstrated its commitment to fulfilling the needs of industrial transnational corporations. In addition, Singapore State leaders and bureaucrats were building a reputation of integrity. The State was also perceived by foreign companies as being efficient and competent with regards to bureaucratic administration, management, and policy promulgation. All in all, the Singapore Government’s bureaucratic structure was noted to be progressing towards the ideal Weberian bureaucracy.¹⁷

¹⁴ W.G. Huff, *The Economic Growth of Singapore: Trade and Development in the Twentieth Century*, (Cambridge, UK, 1994), p.330.

¹⁵ Hafiz Mirza, *Multinationals and the Growth of the Singapore Economy*, (London, UK: Croom Helm, 1986), pp. 88-90.

¹⁶ Edgar Schein, *Strategic Pragmatism: The Culture of Singapore’s Economic Development Board* (Cambridge, Mass: MIT Press, 1996), p. 125.

¹⁷ Peter B. Evans, p. 37.

The FDI-focused development strategy employed by the Singapore

Government was a success. Many transnational corporations responded positively by setting up production units in Singapore, and FDI grew from S\$82 million in 1966 to S\$1,336 million in 1984 – an increase in excess of ten percent per year.¹⁸ In addition, foreign investors came to dominate the economy by the 1980s, with companies of foreign origin accounting for 84 percent of direct investments, 70 percent of gross manufacturing output, over 50 percent of employment and 82 percent of direct exports from Singapore.^{19, 20}

Furthermore, the developmental spillover effects from foreign investment that the Singapore Government desired were somewhat achieved, as the economic success bolstered social welfare. In the arena of employment, unemployment rates fell, female participation in the work force rose, and employment in industrial sectors increased five-fold. Also, Singapore's Gross Domestic Product grew at an average rate of nine percent per year throughout the span of thirty years starting from 1960. More pertinently, the State used some of the first fruits of its economic success to sow the fields of healthcare, housing and education, consequently improving the standard of living for Singaporeans.²¹

In addition, it appeared that transnational corporations were benefiting from their investments in the Singapore economy as Singapore developed to become an important chain in the global industrial production system. The average rate of return

¹⁸ Chia SiowYue, "The Character and Progress of Industrialization," in K.S. Sandhu and P. Wheatley, eds. *Management of Success: The Molding of Modern Singapore* (Singapore, Singapore: Institute of Southeast Asian Studies), p. 32.

¹⁹ Lim Chong Yah, p. 225.

²⁰ Walden Bello and Stephanie Rosenfeld, *Dragons in Distress: Asia's Miracle Economies in Crisis* (San Francisco, CA: Institute for Food and Development/Food First Books, 1990), p. 293.

²¹ Pereira, p. 26.

for US investment was higher in Singapore than other competitive developing economies like Hong Kong, Korea, and Taiwan.²²

There are several reasons for the success of the Singapore Government's FDI strategy. First, the economy had relatively competitive factors of production and also high-quality infrastructure and efficient administration. Second, the Singapore Government's credibility was gaining strength. In a situation where its competitors were generally labeled as being untrustworthy, Singapore's credibility was an important asset that gave it a competitive edge. Last but not least, Singapore had little direct competition within its immediate geographical region of Southeast Asia from 1965-1980, as the governments of Malaysia, Thailand, Indonesia and China were centered on the development of domestic entities through policies of import substitution. Due to the different developmental strategies employed by its neighbors, Singapore's developmental strategy for growth was not suffocated by competition and was given the necessary breathing space to develop.²³

1.1.2 Restructuring of the Industrial Sector

The economic scene in Singapore changed dramatically when the gust of globalization swept the world economic stage. "Liberalization" was the order of the day as previously secluded economies, in a bid to stimulate their economies and increase trade, opened their doors to foreign corporations looking for new homes. What was particularly significant to Singapore was the fact that its neighboring countries, Malaysia, Indonesia, Thailand, and China were all jumping onto the FDI bandwagon. Even though many of these governments were focusing their efforts on

²² Lim Chong Yah, p. 262.

²³ Pereira, pp. 26-27.

attracting portfolio investments, some governments were also seeking to attract transnational corporations to set up operations on their soil.²⁴

Not only was Singapore in the 1980s facing increasing regional competition, but its competitiveness was losing steam. Labor, once a highly competitive element, was facing shortages and high rates of turnover which translated into higher labor costs, lowering the profitability for labor-intensive industries.²⁵ Also, rising land prices and increased rents resulted from the shortage of land.

To counter its falling competitiveness, the Singapore Government introduced a new strategy into the economic game in 1980. Known as the "Second Industrial Revolution," the primary focus of this new game plan was to encourage foreign investors to switch their labor intensive operations to capital intensive ones. The blueprint of this strategy would be a two prong approach: tax incentives to encourage investors and the improvement of the labor force through education and training programs. Despite these efforts, many transnational corporations decided to wrap up their operations in Singapore and move to locations where factor costs were lower.²⁶

The lack of immediate success to the "Second Industrial Revolution" prompted the Singapore Government to develop a new national economic development strategy. In 1990, the State promulgated the "Strategic Economic Plan."²⁷ The kernel of this strategy was the "Regionalization" strategy whose intent was to construct "an external economy that is closely linked to, and which would enhance, the domestic economy by participating in the growth of Asia."²⁸ The most

²⁴ Anne Booth, "Initial Conditions and Miraculous Growth: Why is Southeast Asia Different from East Asia," *World Development* 27 (1999) pp. 301-321.

²⁵ Samuel Bassey Okposin, *The Extent of Singapore's Investments Abroad* (Aldershot, UK: Ashgate Publishing Company, 1999), p. 12.

²⁶ Pereira, pp. 27-28.

²⁷ Wong Poh Kum, "From NIE to Developed Economy: Singapore's Industrial Policy to the Year 2000," *Journal of Asian Business*, 12(3) (1996), pp. 65-58.

²⁸ Singapore Economic Development Board, *EDB Yearbook 1995* (Singapore, Singapore: 1995), p.8.

pertinent part of this strategy to the analysis of this thesis is the regional industrial parks program.

The essence of the regional industrial parks program was the switch in the regional role of Singapore from that of a competitor for low-cost manufacturing programs to that of a supplier of high-quality secondary factors of production. Since Singapore had a head-start on the development of her secondary factors of production, Singapore hoped that it could carve a niche for itself in the global industrial stage by assuming the role of an industrial property developer within Asia, a region that faced a dire dearth of high-quality secondary factors of production. The Singapore Government believed that the business of developing and managing high-quality, self-contained industrial parks in Asian cities would be financially profitable and diplomatically advantageous.²⁹

The State was confident that there would be a demand for this program for several reasons. First, Singapore had the necessary finances to invest in such infrastructural projects, capital that the regional host nations were not able to provide.³⁰ Second, there was existing goodwill between the Singapore Government and the regional governments. In addition, the construction of these industrial parks could generate beneficial developmental effects such as job creation and technology transfer. Third, the credibility of the Singapore Government, established over the previous two decades, had resulted in Singapore becoming a hallmark for efficiency in the arena of industrial development. Thus, the involvement of Singapore in any

²⁹ Pereira, p. 28.

³⁰ By the early 1990s, the Singapore had accumulated financial reserves totaling an estimated US\$200 billion. Martin Perry and Caroline Yeoh, "Asia's Transborder Industrialization and Singapore's Overseas Industrial Parks," *Regional Studies*, 34(2) (2000), p. 200.

industrial development would be looked upon favorably by transnational industrial corporations.³¹

The Batam Industrial Park was the pilot project of this program. Called “Batamindo,” this industrial park was collaboration between a Singapore consortium and an Indonesian consortium.³² While the Indonesian consortium took a majority stake in the project (60 percent), the marketing, development and management of the park was controlled by the Singapore consortium.³³ The initial response from the investors was very positive and the project generated many benefits for the Indonesians in terms of employment and foreign exchange revenue. Both parties considered the project a success.

Encouraged by the success of the Batam project, the Singapore Government was confident that similar projects in the region would be potentially profitable. The State was also confident that these industrial parks would be more competitive than their competitors due to the input of high-quality secondary factors of production, especially in terms of infrastructure and administration. The State hoped that this program would result in an external economy that would supplement Singapore’s economy, and also desired to use this program as a platform to facilitate goodwill with neighboring states. Ultimately, the Singapore State had the vision that these mutually beneficial economic relationships would lay the groundwork for “long-term regional geopolitical stability.”³⁴

³¹ Pereira, p. 29.

³² The Singapore consortium was made up of two Singapore government linked companies – Singapore Technologies Industrial Corporation and Jurong Environmental Engineering.

³³ Carl Grundy-Warr, Karen Peachey and Martin Perry, “Fragmented Integration in the Singapore-Indonesian Border Zone: Southeast Asia’s “Growth Triangle” Against the Global Economy,” *Integration Journal of Urban and Regional Research*, 23(2) (1999), p. 310.

³⁴ Michael Leifer, “Singapore in Regional and Global Context: Sustaining Exceptionalism,” in M. Arun and T.Y. Lee, eds. *Singapore: Re-engineering Success* (Singapore: Oxford University Press, 1998), pp. 21-22.

1.2 CHINESE MOTIVATIONS

This section seeks to understand the motivations of the Chinese Government to collaborate with the Singapore Government by tracing China's economic development prior to 1994.

1.2.1 "Modernization Drive"

In 1978, the then Premier, Deng Xiaoping and some other like-minded Chinese leaders held the belief that the most ideal means for China to develop her economy was through a modernization drive. By undertaking this drive, the Chinese Government had its eye on introducing global capital to certain segments of the economy, reforming the moribund state-owned enterprises, inspiring domestic enterprise, and advocating "freer" market mechanisms by doing away with price controls. More pertinent for the purposes of this thesis is the decision of the Chinese Government to embark on the FDI-focused developmental path as part of its modernization drive.³⁵

In 1979, a year after the implementations of reforms in accord with the modernization drive, senior leaders of the ruling elite acknowledged the possibility that foreign investment might generate positive developmental effects, in terms of the transfer of technology and managerial skills, and also in terms of employment and foreign currency earnings. But these leaders were also concerned about the negative effects of global capitalism. Hence, the Chinese Government kept close tabs on

³⁵ Pereira, p. 31.

changes on the economic, political and social fronts to ensure that the Government maintained a firm grip on the entire country.³⁶

In line with their concerns, the Chinese Government initially carved out “Special Economic Zones” (SEZs) in Shenzhen, Zhuhai, Shantou and Xiamen to attract capital and act as the catalysts for the transfer of technology and managerial skills. In particular, it was the intention of the Chinese Government specifically to attract investment from Hong Kong and Taiwan.³⁷ Since these Economic Zones were self-contained areas, the politically wary Chinese Government had a means to participate in the international industrial scene without subjecting its entire economy to liberalizing forces.³⁸

In a strategic move to relieve the Chinese Government from financially supporting domestic enterprises, it legislated in 1979 that foreign entities desiring to set up operations in China could only do so if they formed joint-equity ventures with Chinese enterprises. This move was also made in the hope that China might engender more intimate ties with other countries, and in particular attract investment from overseas Chinese industrialists in Hong Kong, Macao, and Taiwan.³⁹

Regardless of the state of diplomatic ties between the mainland and their countries of residence, overseas Chinese maintained a pervasive web of contacts with their family members and originating villages on the mainland.⁴⁰ Hence, when China

³⁶ Mark Selden, “State, Cooperative and Market: Reflections on Chinese Developmental Trajectories” in L. Putterman and D. Rueschmeyer, eds, *State and Market in Development: Synergy or Rivalry* (Boulder and London: Lynne Rienner Publishers, 1992), pp. 171-94.

³⁷ Jung-Dong Park, *The Special Economic Zones of China and Their Impact on its Economic Development*, (West Port, CT: Praeger Publishers, 1997), p.4.

³⁸ Chen Xiangming, “The Evolution of Free Economic Zones and the Recent Development of Cross-National Growth Zones,” *International Journal of Urban and Regional Research* 19(4) (1995), p. 597.

³⁹ Pereira, p. 33.

⁴⁰ Constance Lever-Tracy, David Ip, and Noel Tracy, *The Chinese Diaspora and Mainland China: An Emerging Economy Synergy*, (Hampshire, UK: Macmillan Press, 1996), p.6.

actively courted overseas Chinese to invest in its industrial sector, their response was enthusiastically positive.

The genesis of this overwhelming response to the call of the Chinese Government by Chinese industrial capitalists was not an emotional overture of ethnocentrism or nostalgia, but was grounded in practical realism.⁴¹ Non-Chinese investors frequently faced problems in the arenas of language, management styles, bureaucratic organization of workplaces, negotiation, quality control, time horizons, legal systems, etc.⁴² It was presumed that any investors of ethnic Chinese origin had an advantage over their non-Chinese counterparts because their understanding of Chinese business practices, *guanxi* (关系), or relationships, and ethnic links to China would allow them to maneuver their way through the globally distinctive Chinese economy with greater ease.⁴³ These three elements have been singled out by many studies as being the explanatory factors for why overseas Chinese capitalists penetrated the Chinese market with much greater speed than any other investors between 1979 and 1990.

The close of the 1980s saw rising satisfaction of the Chinese Government with the development of the SEZ program. Increased employment opportunities, rising income levels and expanding foreign currency earnings were some of the developmental spin-offs from the SEZs. This rosy developmental picture was however tainted with the stains of growing income inequality, exploding urban populations, environmental pollution, and a booming black market. Nonetheless, the Government decided to 'expand the problem.'⁴⁴ By 1995, there were 422 zones in the

⁴¹ Pereira, p. 34.

⁴² Constance Lever-Tracy, p.67.

⁴³ Michael Franz Roehrig, *Foreign Joint Ventures in Contemporary China* (Hampshire, UK: Palgrave, Macmillan, 1994) p. 91.

⁴⁴ Pereira, p. 36.

entire country.⁴⁵ This phenomenon reflects the growing importance of FDI to the country's economic development. In addition, to encourage the growth of FDI, Beijing promulgated the *Wholly Foreign Owned Enterprise Law*. Under this law, enterprises wholly owned by foreign establishments could invest in the SEZs.⁴⁶

Even though there was a dearth of secondary production factors in China, it was apparent that the Chinese Government was serious in its pursuit of foreign capital and was willing to open up its economy further in order to attract this capital. It was in the 1990s that the stage of Chinese economic development strategy was compatible with that of Singapore's economic vision. Hence, it is at this point that our narrative of the Singapore-Suzhou Industrial Park begins.

1.3 SEEING EYE TO EYE

The story begins in November 1978. China's paramount leader, Deng Xiaoping, was visiting Singapore for the second time. His first visit had been six decades earlier in 1920. Deng was impressed by the significant metamorphosis of the small city-state. Over dinner, the then Prime Minister, Lee Kuan Yew, stated that China should have no difficulties getting ahead and doing better than Singapore. According to Lee, this was due to that fact that the Singapore Chinese were "descendants of illiterate landless peasants" from the southern provinces of Guangdong and Fujian, whilst the "scholars, mandarins and literati had stayed and left their progeny in China."⁴⁷

After Deng's visit to Singapore, China's main newspaper, the *People's Daily*, reported that Singapore was a country worth studying for its public housing system,

⁴⁵ Yang Dali, *Beyond Beijing: Liberalization and the Regions in China* (London and New York: Routledge, 1997), p. 30.

⁴⁶ Huang Yasheng, *Foreign Direct Investment: An Asian Perspective* (Singapore: Institute of Southeast Asian Studies, 1998), p. 10.

⁴⁷ Lee Kuan Yew, 714.

tourism, and its greenery. The Chinese perception of Singapore, a nation previously viewed by the mainland as one of the “running dogs of the American imperialists,” was turning positive. Deng had implied in a speech delivered in October 1976 that Singapore’s success had become a benchmark for the mainland. Singapore had established a minimum standard for what the Chinese people should achieve.⁴⁸ In particular, Deng was interested to find out how the Singapore Government managed to undergo rapid economic reform and industrial development whilst keeping a tight grip on its domination in the social and political arenas.⁴⁹

Deng was not the only Chinese leader to have endorsed Singapore. The former Chinese President, Jiang Zemin, who was also the Secretary of the Chinese Communist Party and the Chairman of the Central Military Committee from 1989, greatly admired the ability of the island city to attract foreign investment.⁵⁰ In addition, many Chinese Communist Party (CCP) leaders desired that China walk in Singapore’s footsteps and establish a system that “maintains order but spawns wealth,” with one party dominating the political scene while encouraging private enterprise and foreign investment.⁵¹ In the eyes of the Chinese leaders, the Singapore Government not only managed to pull off impressive economic development, but also did it while maintaining low crime levels, keeping a lid on corruption, and controlling environmental degradation. Most pertinently, the People’s Action Party (PAP) had managed to achieve all of this and still remain firmly in power.⁵²

As mentioned in the previous section, Deng espoused an “open door policy” in December 1978 and welcomed foreign businesses into the previously closed-off

⁴⁸ *Ibid.*, p. 668.

⁴⁹ John Wong, “China’s Fascination with the Development of Singapore” *Asia Pacific Review* 5(3) (Fall/Winter 1998), p. 51.

⁵⁰ Lee Kuan Yew, p. 706.

⁵¹ Walter C. Clemens, “China: Alternative Futures,” *Communist and Post-Communist Studies* (March 1999), p. 7.

⁵² Pereira, p. 37.

economy, in the hope of getting the much needed technology and investment. Many Hong Kong foreign investors responded by investing in the five special economic zones of the Pearl River Delta, especially in processing operations that required very low technology. While these investments generated a sizeable number of jobs, it also had an adverse impact on the environment (e.g. air pollution). In addition, social problems such as labor abuses also cropped up.⁵³ Hence, China was very interested in how Singapore managed to balance the positive benefits and negative externalities of FDI. China was especially curious how Singapore managed to absorb western science and technology without compromising social order.⁵⁴

In his well-publicized tour of South China (*nan xun*, 南巡), Deng issued the challenge to Guangdong province to reach the level of Asia's Four Dragons within twenty years. Deng made it explicit that he was not only referring to economic development, but was also talking about social order and social climate when he noted: "There is good social order in Singapore. They govern the place with discipline. We should draw from their experience and do even better than them." In China, Deng's words were as good as gold. Hence, following Deng's commendation, streams of delegations from China flooded the shores of the tiny city state. The Chinese carefully scrutinized Singapore and intently studied those elements they considered attractive and wanted to reproduce back in their respective cities.⁵⁵

On another front, the Singapore governmental leaders too had their eye on China. Some leaders had a cultural interest, being of ethnic Chinese descent. Other leaders had economic and political interests in mind – on the one hand, China was a land of immense economic possibilities, and on the other hand, China was a

⁵³ Law Siu Lan, "Lion and dragon: Singapore is building an enclave in China. Will it succeed?" *Asiaweek*, June 21, 1996.

⁵⁴ Lee Kuan Yew, p. 715.

⁵⁵ *Ibid.*, p. 714.

geopolitical force to be reckoned with given its size.⁵⁶ Hence, the Singapore Government held the view that a “constructive engagement” with China would be a strategic move in both the economic and political arenas.⁵⁷

In the 1970s, the Singapore Government had been wary about interacting with the Chinese Government as it saw in China a “communist threat.” In addition, the Singapore Government also distanced itself from China culturally and politically as her neighbors, Malaysia and Indonesia, were very much concerned that Singapore would be a “Third China” within a predominantly Malay region.⁵⁸ Singapore made a point of establishing diplomatic relations with China only after Malaysia and Indonesia had done so. When China began to liberalize its economy in 1979, interactions between the two countries intensified.

Towards the end of the 1980s, many Singapore enterprises expressed interest in investing in China. In fact, by 1990, several Singaporean small and medium-sized enterprises (SMEs) had moved to penetrate the Chinese market.⁵⁹ As with other overseas Chinese from Hong Kong, Taiwan, and Macau, these Singapore venture capitalists assumed that, due to their ethnic background, they had an advantage for doing business in China based on their presumed understanding of Chinese business practices, shared ethnic relations and *guanxi*. Some Chinese Singaporeans had maintained kinship ties with their relatives in China, and this provided them with the network to do business on the mainland, especially in the southern provinces of Fujian and Guangdong.⁶⁰

⁵⁶ Pereira, p. 38.

⁵⁷ Shee Poon Kim, “Is China a Threat to the Asia-Pacific Region?” in Wang Gungwu and John Wong, eds., *China's Political Economy* (Singapore: World Scientific), p. 340.

⁵⁸ Pereira, p. 38.

⁵⁹ Brenda Yeoh and Katie Willis, “Singapore Unlimited: Configuring Social Identity in the Regionalization Process,” Transnational Communities Program Working Paper Series WOTC-98-08 (Oxford, UK: 1998), p.3. http://www.transcomm.ox.ac.uk/working_papers.htm

⁶⁰ *Ibid.*

This notion of “cultural affinity” with the Chinese people was not only subscribed to by the Chinese Singaporean businessman, but was also espoused by many leaders in the Singapore Government. George Yeo, the then Minister for Information and the Arts, was quoted in the *Far Eastern Economic Review* as saying:

Many foreigners find the risk [of investing in China] unacceptable. Those who have the knowledge of culture and cultural nuances are able to lower business risks. The Chinese overseas understand Chinese culture because they are ethnically Chinese themselves.⁶¹

Other Singapore leaders argued along a more practical line to back up the Government’s decision to invest in China. Wong Kan Seng, who was Singapore’s Minister for Home Affairs, mentioned that:

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.⁶²

As mentioned in Section 1.1.2, Singapore embarked on a “go regional” economic development strategy to overcome its domestic constraints and at the same time to capitalize on economic development and industrialization in the Asia-Pacific region. One notable element of this strategy was that the Singapore Government actively encouraged Singapore businessmen to take advantage of their existing cultural affinities within the region. Hence, the 14% of the Singapore population that were Malay were encouraged to set their sights on Malaysia and Indonesia, and the 9% of the population that were ethnically Indian were encouraged to pursue investment

⁶¹ Pereira, p. 40.

⁶² Paul J. Bolt, “The New Economic Partnership between China and Singapore,” *Asian Affairs, an American Review* 23 (Summer 1996), p. 85.

opportunities in India.⁶³ It was a no-brainer that the government encouraged the 78% of its population that were of Chinese descent to invest in China. In addition, the Singapore Government also announced that the regional industrial parks program would be extended beyond the South East Asian region and that industrial parks would be developed in Chinese cities.⁶⁴

The Chinese Government was quick to react when they heard of the Singapore Government's intent to regionalize. As early as 1991, several Chinese officials approached the Singapore Government with proposals on how it should carry out its "go regional" strategy. At that point in time, the Singapore Government had also directed the EDB to research the viability of the regional industrial park strategy. Hence, by the early 1990s, there was a meeting of minds between several key leaders in the Singapore Government and the Chinese Government. There was also a convergence of economic developmental strategies. Singapore's "go regional" industrial park program would provide Singapore's superior secondary factors of production, and China's "Special Economic Zones" program would open up China's abundant source of primary factors of production.⁶⁵

A joint collaboration of this nature would not only benefit the countries involved, but also the transnational corporations that would potentially invest in these regional industrial parks. As cogently phrased by Singapore's Senior Minister (SM) Lee Kuan Yew:

⁶³ Christine Doran and Jim Jose, "Riding the Tiger: International Challenges Facing Singapore," *International Scope Review* 1(2), pp. 9-10.

⁶⁴ Pereira, p. 40.

⁶⁵ *Ibid.*, 40-41.

[The transnational corporations] believe that Singapore's participation will ease their way into the unfamiliar surroundings in China, and will help them achieve conditions more like what they are familiar with in Singapore.⁶⁶

The Chinese Government in turn recognized the benefits of Singapore's participation in its regional parks and signed a memorandum of understanding (MOU) with the Singapore Government in 1991 stating China's support for Singapore industrial park efforts on Chinese soil. According to a Chinese official in the Suzhou Industrial Park Administrative Committee (SIPAC), the benefit of Singapore's participation in an industrial park project was that western transnational corporations would "find it relatively easy to accept Singapore compared with China," and in turn, China would "find it easier to accept Singaporeans than Westerners."⁶⁷ Hence, by being the middleman in this economic venture, Singapore would act as the economic catalyst for economic growth. In addition, other benefits would accrue to the Chinese economy. These include the employment opportunities generated and the foreign currency earned. Also, new infrastructure put in place for industrial development would aid urban development. Another benefit from the China government's perspective would be that the joint collaboration on the park would allow China to learn hands-on Singapore's economic and social development strategies. Singapore's Minister for Health, Information and the Arts, George Yeo, observed that decentralization in China had created many new towns and cities in China. These regions, each with a population ranging from two to eight million, formed the key units of China economic activity. Yeo noted that even though "there is very little which Singapore, a city state of three million people, can teach China...there is a lot which each of these city regions can pick up from Singapore's experience in

⁶⁶ Warren Fernandez, "Singapore Role Boosts Suzhou Project Appeal," *Business Times*, September 29, 1994.

⁶⁷ Pereira, pp. 40-41.

modernization because they are about the same size, share a similar range of municipal problems and are culturally not too different.”⁶⁸

On the Singapore front, there were also benefits to be reaped from such a project. One of the obvious benefits would be that of financial gain. As Home Affairs Minister Wong Kan Seng put it: “If [Singapore] invest[s] in China, it is because there is money to be made there.”⁶⁹ But the benefits that Singapore was pursuing were not only quantifiable in dollars and cents. The Singapore leaders hoped that such collaboration would develop a “long term understanding with Chinese officials at many levels who would rise over the years.”⁷⁰ Hence, it would be in Singapore’s long-term interest if it could help China prosper.

In short, by the 1990s, the Singapore Government was committed to developing industrial parks in China, and China in turn was welcoming of such industrial efforts. While the will was there, the way to pursue this objective was unclear. Details with regards to location, structure and finance had to be sorted out.

1.4 SELECTION OF SUZHOU

This section will address the issue of why the Singapore Government decided to choose Suzhou as the site to develop the “government-to-government collaboration to develop a Singapore-China regional industrial park.” As we will see in this section, even the choice of Suzhou, besides being influenced by economic and geographical inclinations, was also politically motivated.

⁶⁸ Irene Ngoo, “BG Yeo Spells Out Implications of the Suzhou Project,” *Business Times*, September 28, 1995.

⁶⁹ Paul J. Bolt, “The New Economic Partnership between China and Singapore,” *Asian Affairs, an American Review* 23 (Summer 1996), p. 85.

⁷⁰ “Suzhou Project the ‘Start of Long Lasting Ties with China’,” *Straits Times*, May 15, 1994.

1.4.1 Economic and Geographic Rationale

The first selection process started in 1992. The Singapore Government had some specific criteria in mind. Fundamentally, the government wanted a place that had not been designated a Special Economic Zone and where foreign investors would be interested to operate. This would require a location where agglomeration could take place and where there were good transportation links.⁷¹ In other words, a good location could not be geographically isolated.

One obvious possibility was Shanghai, which was not only China's historical financial center, but was also developing into an economic powerhouse. But the idea of investing in Shanghai was overshadowed by the steep cost structures of the already industrially saturated Shanghai-Pudong area. In addition, the Singapore Government was also sensitive to the fact that they would have to sacrifice a certain measure of autonomy to the Shanghai authorities, who historically have enjoyed a considerable amount of political and economic clout in China. Even though the notion of investing in Shanghai was dismissed, possibilities in nearby Jiangsu Province were carefully considered.⁷²

Keeping the above considerations in mind and after several fact finding missions in China, the option of Suzhou was proposed by the fact-finding team that was sent to China by the Singapore EDB, under the direction of the Singapore Government. With a population of 5.8 million people, Suzhou was very strategically located – 80 kilometers west of Shanghai, it lay at the intersection of the Yangtze River and the economically vibrant eastern coastal belt. In addition, Suzhou was also a center of learning and the historical home of classical scholars of yore.⁷³ Suzhou's

⁷¹ Agglomeration could be described as being in close proximity to suppliers and consumers, in order to reduce costs, facilitate networking, and the sharing of information. Hayter, p. 32.

⁷² Pereira, pp. 44-45.

⁷³ Chua Lee Hoong, "Why One Park is Better Than Two in Suzhou," *Straits Times*, Dec 14, 1997.

history dates back more than 2,500 years. Famous throughout China for its gardens, Suzhou has been called the “city of gardens.” In fact, Suzhou’s historic gardens have been listed as one of the United Nation’s UNESCO World Heritage Sites. Suzhou came to be known as the “Venice of the East” in the fifteenth century after Marco Polo visited the city. There are 175 bridges over the numerous rivers, canals, lakes and ponds that are located within the fourteen square kilometers area of the city. In addition, Suzhou had good transportation and logistic links to the surrounding area, with the Nanjing-Shanghai railway link, the Nanjing-Shanghai motorway and the Changshu Port nearby. Above all, Suzhou was recommended because it was prosperous enough, but not overly saturated with foreign investment or industrialization.⁷⁴

In addition to Suzhou, the fact-finding mission also suggested other potential locations, one of them being Wuxi – a city located along the Nanjing-Shanghai Highway that was in close proximity to Suzhou. As we shall see in the following section, the decision to locate the “government-to-government” (G-to-G) collaboration in Suzhou was not only made on economic and geographical grounds, but also made with respect to political factors.

1.4.2 Political Rationale

In September 1992, Singapore’s SM Lee visited Suzhou with then Deputy Prime Minister (DPM) Ong Teng Cheong. While Suzhou was in dilapidated condition, complete with stinking canals, SM Lee was struck with the thought that

⁷⁴ Pereira, p. 45.

Suzhou could be restored to be a beautiful city, and a new commercial section could be built right next to it.⁷⁵

During this trip, the then Suzhou Mayor Zhang Xinsheng proposed that Singapore invest 10 percent of its foreign reserves to industrialize Suzhou. Zhang also promised that the Singapore Government would get special treatment that would guarantee the project's success. But Lee was convinced that without the Chinese Central Government's authority, Zhang had no power to provide Singapore with a "fresh site" where the Singapore authorities could build a "miniature Singapore."⁷⁶

Lee would give the proposal no further thought until that December, when Zhang turned up at Lee's office to report that he had approached Deng Xiaoping's office with his proposition using the help of Deng's son, Deng Pufang, who was a close friend of Zhang. In response to Zhang's request for a plan, the SM asked DPM Ong, an architect by profession, to give an "artist's impression of what old Suzhou could be like after restoration, with a modern industrial township next to it." When Deng Pufang visited Singapore a few months later, Lee showed Ong's sketches to him. Deng's response was enthusiastic, and "his input through his father's office gave [the] project a push."⁷⁷

As suggested earlier, SM Lee espoused the view that any major project undertaken in China must have the strong backing of the Central Government in Beijing in order to have the chance to succeed. Hence, the support of Deng Xiaoping's son, and by association, Deng himself, gave Suzhou important brownie points in the selection process.⁷⁸

⁷⁵ Lee Kuan Yew, p. 719.

⁷⁶ *Ibid.*, p. 719.

⁷⁷ *Ibid.*, p. 720.

⁷⁸ Pereira, p. 47.

In May of 1993, Lee met with then Vice-Premier Zhu Rongji in Shanghai. He explained his proposal for cooperation:

A government-to-government technical assistance agreement to transfer our knowledge and experience (what we called “software”) in attracting investments and building industrial estates, complete with housing and commercial centre, to an unbuilt site of about 100 square kilometers in Suzhou.⁷⁹

Hence, it was clear from Lee’s proposal that he wanted the project to be conducted at a G-to-G level – in other words, SM Lee was pursuing a joint venture specifically between the highest levels of government in both countries. In addition, SM Lee also specified that the development of the industrial park in Suzhou would be based upon a Singapore model and operated on a Singapore system.⁸⁰

After convincing Zhu that the project was worth a try, Lee met with the newly promoted Vice-Premier (VP) Li Lanqing. Li fully supported the project, citing the fact that Suzhou, being a historical city well known for its cultural and intellectual orientation, had the “high-quality people” who had the capability to absorb and adapt Singapore’s experience. In addition, Li noted that any cooperation between the two countries would have the advantages of a “common culture, tradition and language.”⁸¹

Following these meetings, Beijing sent two delegations to Singapore in October 1993 – one was from the State Council and the other was from Jiangsu province. Having studied the Singapore system, the delegations were satisfied that certain elements of the Singapore system were suitable for China, and they finally agreed that “software transfer” was worth pursuing.⁸²

⁷⁹ Lee Kuan Yew, p. 720.

⁸⁰ Pereira, p. 47

⁸¹ Lee Kuan Yew, pp. 720-721.

⁸² *Ibid.*, p. 721.

1.4.3 Software Transfer

As implied by the previous section, the most important component of the SIP project was the “software transfer program”:

Software transfer refers to the sharing of Singapore’s successful public administration and economic management experience with the Chinese authorities so that they can formulate *pro-business policies* in the [SIP], and govern with *transparency* and *efficiency*...mutual visits and training attachments help Suzhou officials understand the Singapore way as well as international practices...Singapore sends its government officials to Suzhou to assist in this adaptational process.”⁸³

In the view of many investors, even though China had cheap primary factors of production, investing in China was still highly risky as China had a weak governance system and lacked dependable legal institutions. These weaknesses in the governance system could be overcome by *guanxi*, but the Singapore side was confident that transnational corporations did not want to dabble in such “games.” Hence, by implementing a Singaporean operating system within Suzhou, the Singapore Government hoped to address this weakness in the Chinese system by providing a safe and predictable operating environment. In this sense, the “collaborating governments wanted the [SIP] to be governed or administered differently from other Special Economic Zones within China.”⁸⁴ Besides imparting skills for good management, the Singapore side was also interested in transferring the concept of creating a prosperous community by investing in housing, establishing enlightened social systems (e.g. provident fund social welfare system) and ensuring a high quality of life for its residents.⁸⁵

The program was a high priority for both sides. In 1993, the Singapore EDB established the Singapore Software Project Office (SSPO) to coordinate the software

⁸³ CSSD, *China-Singapore Suzhou Industrial Park: Facts and Figures* (July 1999), p. 10.

⁸⁴ Pereira, p. 64.

⁸⁵ John Thomas, p. 17.

transfer process. In late 1994, Singapore Government bodies started conducting courses to train Chinese officials from the Suzhou Industrial Park Administration Committee (SIPAC), the main administrator of the park, both in Singapore and in Suzhou. By 1996, the number of government bodies involved in this training program had doubled to fifty. These bodies included the Ministries of Labor, Trade and Industry, and National Development, as well as statutory boards such as the Housing and Development Board, the Central Provident Fund Board and the Urban Redevelopment Authority.⁸⁶ There are no figures that reveal the cost of this program, but given the scope and content of the program, it is evident that the cost is quite considerable. It is notable that the Singapore Government was the sole financier for this program.⁸⁷

For the Singapore side, this program was not just about imparting skills and expertise. It was hoped that the software program would bring about a "wholesale change of attitude." In particular, the Singapore Government wanted to instill the notion of "meritocracy" in the administration of the SIP. In the perception of the Singapore side, meritocracy was the key to "preventing corruption, cronyism and nepotism" within the bureaucracy.⁸⁸

In short, the Singapore Government hoped that the SIPAC would be able not only to adopt the Singaporean administrative practices, but also embrace the Singaporean attitude and mindset towards servicing investors. Thus, it can be argued that the industrial park really was the vehicle, or "hardware," to run the software transfer program. On the Chinese side, it was hoped that the SIPAC would be able to successfully absorb the program so that it could be used in other industrial parks within China. Both sides hoped that the software transfer program would address

⁸⁶ Koh Buck Song, "Suzhou Park: S'pore Steps Up Officials' Training," *Straits Times*, April 16, 1996.

⁸⁷ Pereira, p. 66.

⁸⁸ *Ibid.*

China's weaknesses in administration, especially since inefficiency and corruption were still reportedly pervasive in the early 1990s. Hence, the software transfer program was embarked with hopes that with the Singapore operating system in place, the SIP would enjoy a unique competitive advantage and attract transnational corporations that preferred to operate under the Singapore system, rather than having to "adapt to Chinese business practices."⁸⁹

1.4.4 Suzhou Agreement

In 1994, the two governments announced at a press conference in Suzhou that Suzhou would be the location for the "G-to-G" collaboration to build an industrial park. In addition, it was announced that Singapore would develop another regional industrial park in Wuxi. But the project in Wuxi would not have the "G-to-G" collaboration that would be the mark of the Singapore-Suzhou Industrial Park.⁹⁰

After Suzhou had been selected as the site for the industrial park, the actual building site within Suzhou had to be selected. Suzhou was not very impressive on the physical scale – its city center and commercial district barely covered five square kilometers. In an attempt to preserve the city's historic heritage sites, the Suzhou Municipal Authority (SUM) set up the Suzhou New District (SND) to the west of the city in 1990. Originally planned as a "relief" industrial site, the SND was built primarily to house all the small industrial enterprises that were congesting and polluting the city center. By 1992, the SND was already more than double the size of Suzhou city. In addition, the SND had also been conferred the status of an Economic Development Zone by 1990.⁹¹

⁸⁹ Pereira, p. 67.

⁹⁰ *Ibid.*, p. 48.

⁹¹ *Ibid.*, p. 48.

In fact, the Singapore Government was offered the opportunity to develop the SND, but the offer was rejected because the Singapore Government thought that it would be better to start from a clean slate. The SND had already been developed in a rather haphazard fashion, and it was feared that should the Singapore Government try to develop within this area, they would either run out of space or clash with the SUM over how to develop the area. In addition, the southern part of Suzhou was ruled out as it was a prominent historical site. Left with the choice of the farmlands in the northern and eastern parts of Suzhou, the east was chosen as it was closest to Shanghai, about an hour away by train.⁹²

On February 26, 1994, SM Lee and VP Li Lanqing, witnessed by then Premier Li Peng and Singapore's Prime Minister Goh Chok Tong, signed the Suzhou Agreement in Beijing.⁹³ It was this agreement that marked the start of construction of a 70 square kilometer township in Jiangsu province, as the first phase of the Suzhou project.⁹⁴

1.5 HOPEFUL BEGINNINGS

As seen from the previous sections, the economic development strategies of both Singapore and China converged in 1994, when it was decided that the two governments would collaborate together to develop an industrial park in Suzhou. The choice of Suzhou was not only a function of economic and geographical considerations, but was also politically motivated. In addition, the conception of the Suzhou Industrial Park engaged the highest levels of government on both sides. Hence, this project was ultimately an economic project founded upon political roots.

⁹² *Ibid.*, p. 48.

⁹³ Lee Kuan Yew, p. 721

⁹⁴ Sunny Goh, "Suzhou Industrial Township Pact Signed," *Straits Times*, February 27, 1994.

The two governments perceived the project to be mutually beneficial. The Chinese Government hoped that the project would promote the development of a particular city and raise her standing within the global industrial production system, and the Singapore Government desired that the project would not only be financially profitable, but would also boost relations between the two countries.

More pertinently for the analysis of this thesis, both governments perceived a sense of “cultural affinity” with the other party. Hence, even though there were solid economic reasons to collaborate with each other, the “perceived sense of a shared ethnicity and cultural practices” shared by both governments “cemented” their decision to work together on this project.⁹⁵

⁹⁵ Pereira, p. 49.

CHAPTER TWO

EXECUTION

We are going to make this succeed, or what will suffer is our reputation. When we have succeeded, we will open up branches in China. We have not put our brand name in Langfang or Shijiazhuang...but here, we will defend our quality, because here, our reputation is at stake.

- Senior Minister Lee Kuan Yew.⁹⁶

The SIP began operations in September 1994.⁹⁷ The zone was distinct from other industrial parks as it was the very first time that the development of an industrial park would involve the highest levels of Government.

This collaboration was especially significant for the Singapore Government, which viewed the SIP as a litmus test of the Government's ability to generate and sustain an external wing to her domestic economy.⁹⁸ This project was also a potential demonstration of the applicability of Singapore's development model in the international industrial arena – if the project in Suzhou were to succeed, it would lay to rest all the criticisms that the model could only be effective within the unique context of the Singapore economy.⁹⁹ Most importantly, as suggested by the quote above, the Singapore Government was putting its reputation on the line, and SM Lee was putting his political might behind the project. As one Taiwanese venture-

⁹⁶ as quoted in *Singapore Business Times*, August 25, 1995.

⁹⁷ As of late 2003, the composition of SIP investors was as follows: Europe (22.3%); Japan (10.5%); Singapore (4.8%); North America (18.5%); with the majority of investors originating from the rest of Asia and Oceania (43.9%). In terms of industries: Electrical & Electronics (64.1%); Chemical, Pharmaceutical & Healthcare (11.6%); Precision Engineering (9.2%); Light Industries (7.4%); Food & Beverage (4.4%) and Support Industries (3.3%). Information provided during an interview conducted by Joanne Lim in Singapore on October 25, 2003.

⁹⁸ Pereira, p. 82.

⁹⁹ John W. Thomas, p. 10.

capitalist put it: “Lee Kuan Yew is the leading bulldozer for Singapore. Where he goes, everyone goes.”¹⁰⁰ In short, failure, in the eyes of the Singapore Government, was simply not an option.

From the perspective of the Chinese Government, their primary concerns for proceeding with the project were those of local development and economic growth. The project also provided an opportunity to test whether the Singapore model could be used by China as the country continued to open up her doors to the world.¹⁰¹

This chapter tracks the development of the SIP following its conception. Starting with the agreement on the SIP, the development of the Park will then be covered in three phases, namely: Phase 1, 1994-1996; Phase 2, 1996-1998; and Phase 3, 1998-2001, with remarks for the period post-2001.

2.1 AGREEMENT ON THE SUZHOU INDUSTRIAL PARK (SIP)

Three Agreements were signed between the Singapore Government and the Chinese Government on February 26, 1994.

The first, the “transfer of public administration software” agreement, was signed by Singapore’s SM Lee and China’s VP Li Lanqing. The agreement paved the way for Singapore to transfer her know-how in economic management and public administration of a township to the Suzhou Government. Through mutual visits, personnel attachment and working attachments, Suzhou officials would learn the Singapore way of doing things in the key areas of land-use, building control, town planning, environmental control and estate management. Once the Suzhou officials

¹⁰⁰ Frank Liu, Director of Transpec Capital, as quoted in the *Far Eastern Economic Review*, August 6, 1999, p. 14.

¹⁰¹ Pereira, p. 82.

understood the Singapore system, they were expected to “adapt Singapore practices to suit their circumstances.”¹⁰²

This “G-to-G” agreement was supported by two other agreements which were signed the same day. One was a detailed accord of the software transfer program signed between the Jurong Town Corporation (JTC) and the Suzhou officials. The agreement marked the advent of a series of programs that would facilitate the construction of a 70-sq-km industrial township in the area of the Jinji lake.¹⁰³

Even though the main thrust of the project was embedded in the software aspect of the project, it was important to both countries that the project must be commercially viable, as commercial viability was an integral measure of success in the transference and transferability of the ‘Singapore software’ for economic development. Hence, both governments also signed the “Consolidated Commercial Agreement for the Industrial Park.” This “hardware” agreement was signed between the Singapore and Chinese business consortia.¹⁰⁴

2.2 FORMAL ORGANIZATIONS

2.2.1 Consortia

The Singapore consortium, also known as the Singapore-Suzhou Township Development Private Limited (SSTD), was a 24 member body comprising publicly listed companies in Singapore, and companies from the United States, Japan, Korea and the Netherlands. It should be noted that although the Singapore consortium was fundamentally a commercial entity, it was in many ways still acting under the

¹⁰² Sunny Goh, “Suzhou Industrial Township Pact Signed,” *Sunday Times*, February 27, 1994.

¹⁰³ “Jurong Town Corp Signs Accord on Software Transfer to Suzhou,” *Sunday Times*, February 27, 1994.

¹⁰⁴ “Speed of Suzhou’s Growth Will Depend on the Market,” *Sunday Times*, February, 27, 1994.

direction of the Singapore Government.¹⁰⁵ On the Chinese front, twelve companies from Suzhou and Jiangsu Province formed the Chinese consortium, the Suzhou Industrial Park Company (SIPC) (Please see Appendix A).

2.2.2 China-Singapore Suzhou Development Company (CSSD)

Together, the SSTD and the SIPC would form a US\$50 million joint venture, China-Singapore Suzhou Development Company (CSSD), which would be the main body in charge of the development of the township. This officially registered Sino-foreign joint equity venture would “undertake the investment, development and management of the township, including the provision of estate and project management.”¹⁰⁶ According to the agreement, the Singapore consortium would have a 65 percent stake in the CSSD, and the Chinese consortium would account for the remaining 35 percent.

The CSSD was of paramount importance to the SIP because of its marketing responsibilities. The Singapore Government was keen to use its experience in dealing with international corporations. It was apparent that the CSSD was also deliberately establishing itself as being “Singaporean” in nature. Besides involving the Singapore Government in the organization, the CSSD also espoused “international management” practices, and put Singapore managers at the helm of various departments. As mentioned in Chapter One, Singapore had a reputation of being credible and trustworthy on the world stage, while the Chinese administrators were notorious for being inefficient and inexperienced. Hence, by underscoring the Singapore element in

¹⁰⁵ Pereira, p. 53.

¹⁰⁶ Speed of Suzhou’s Growth Will Depend on the Market,” *Sunday Times*, February, 27, 1994

the SIP project, the CSSD hoped that it would be able to attract more foreign investors.¹⁰⁷

2.2.3 Suzhou Industrial Park Administrative Committee (SIPAC)

The Suzhou Industrial Park Administrative Committee (SIPAC) was the local administrative authority set up to govern the SIP.

China's State Council and Jiangsu Provincial Government endowed the SIPAC with considerable power to build an efficient administrative system in the township. Investors only had to deal with the SIPAC for all application procedures, and got their approvals from the SIPAC. In September 1994, the SIPAC could approve investments projects worth up to US\$50 million. This was significant because at that point in time, provincial governments could only approve projects up to US\$30 million, and anything larger than that had to go all the way to the Central Government.¹⁰⁸ In addition, starting from November 18, 1994, the SIPAC could examine and approve Sino-foreign equity joint venture, contractual joint venture and wholly foreign-owned venture projects. The SIPAC also had the power to issue foreign invested enterprise approval certificates on behalf of the Jiangsu Provincial Government.¹⁰⁹ Furthermore, to prevent the local government from interfering with the development of the township, the SIP was authorized to manage not just the 70 sq-km set aside for the SIP, but a total land area of 128 sq-km east of Suzhou's old city.¹¹⁰

¹⁰⁷ Pereira, p. 53.

¹⁰⁸ Warren Fernandez, "Singapore a Draw for Investors to Suzhou Township Project," *Straits Times*, September 29, 1994.

¹⁰⁹ Lim Kim Huat, "Suzhou Industrial Park Administrative Committee Can Examine and Approve Investment Projects," *Lianhe Zaobao*, November 19, 1994.

¹¹⁰ Pereira, p. 55.

In addition, the SIPAC was distinct from the other local authorities in charge of other Economic Zones within China in that it did not have to concern itself with administrative, developmental or marketing matters, since the CSSD was in charge of those responsibilities. Thus, the SIPAC was able to concentrate on “natural resources regulation, administrative approval, pro-business services and coordination with related government departments or agencies at various levels.”¹¹¹

The Singapore Government apparently broached the formation of the SIPAC, and suggested giving it relative autonomy in policy-making and law enforcement.¹¹² The entity was thus very similar to the JTC in Singapore. Some Chinese leaders were concerned that such an entity would erode China’s sovereignty, but their fears were assuaged when the Singapore Government assured them that the power of the SIPAC would ultimately rest with the Chinese.¹¹³

The SIPAC was an entity of paramount importance to the SIP project since the SIPAC was the primary participant in the software transfer program. To the Chinese, Suzhou was essentially the guinea pig – should the SIPAC be able to successfully adopt and adapt the Singapore model, the same operational system would then be implemented in other regions in the country. As mentioned in Chapter One, the Chinese preferred the ‘authoritarian capitalism’ that Singapore practiced as opposed to the *laissez-faire* system that the West preached, since it was wary of the political and social costs of a totally liberated market. The Singapore Government hoped that the SIPAC would be able to effectively absorb the software it would transfer, set itself apart from other industrial parks within China, and fully demonstrate the viability of the Singapore model.

¹¹¹ China-Singapore Suzhou Development (CSSD), *China-Singapore Suzhou Industrial Park: Facts and Figures* (Suzhou, China: CSSD, 1999), p. 3.

¹¹² Yong Pow Ang, “Special Laws for Suzhou Township,” *Business Times*, May 14, 1993.

¹¹³ “China Plans Statutory Board to Run Suzhou Township, Screen Investment,” *Business Times*, May 21, 1994.

2.2.4 Coordination Mechanisms

Whether we succeed or fail depends on how well we coordinate and work with each other.

- SM Lee Kuan Yew¹¹⁴

To support and drive the development of the SIP, three creative coordination mechanisms were set up. (Please refer to Appendix B)

At the highest level, the China-Singapore Joint Steering Council (JSC) was established. This council was co-chaired by China's VP Li Lanqing, and Singapore's Deputy Prime Minister Lee Hsien Loong, the Senior Minister's son. Also on the council were ministerial counterparts, principally those in charge of economic development, as well as senior officials of the Jiangsu Provincial and Suzhou Municipal Governments. The fact that such high officials from both sides sat on the council underscored the uniqueness of the SIP as a government-to-government collaboration. The JSC would meet annually, *sans* any extraordinary calls for meetings, to determine the overall direction and scope of the project, and also to harmonize bilateral relations.¹¹⁵

Directly below the JSC was the Joint Working Committee (JWC). The JWC was co-chaired by the Mayor of Suzhou and the Chairman of the Singapore Economic Development Board (EDB). The JWC was directly answerable to the JSC and met every two to three months to formulate software adaptation plans. These plans would then be implemented by the third coordination mechanism, the Singapore Software

¹¹⁴ Warren Fernandez, "Suzhou Success Hinges on Good Coordination: SM," *Straits Times*, August 29, 1995.

¹¹⁵ Pereira, p. 58.

Project Office (SSPO) of the EDB and the “Adapting Singapore’s Experience Office” of the SIPAC.¹¹⁶

2.3 DEVELOPMENTAL PHASES

After SM Lee signed the Suzhou Agreement with then Vice-Premier Li Lanqing in Beijing in February 1994, he met with then Chinese President Jiang Zemin to affirm that work on the project would commence shortly. In addition, SM Lee qualified that it would “take more than 10 years to reach a significant level of development,” since Singapore herself took 30 years to develop the Jurong industrial township in Singapore – a project that at 60 sq-km was smaller in scale than the SIP.¹¹⁷

SM Lee was optimistic about the venture and openly expressed his confidence in the long-term growth of China.¹¹⁸ But SM Lee also admitted that even though Singapore might have a written agreement with China, these agreements “are never as clear-cut as we would have with Western countries.”¹¹⁹ Thus, even though the broad outlines are laid down, much would depend on good faith since many details are unwritten and unspoken. Acknowledging the inevitable ambiguity that is involved in collaborations with China, SM Lee assured foreign companies thinking of investing in the SIP that the rules would not change and guaranteed that “the agreement [Singapore] had reached with China about Suzhou...would be honored.” SM Lee also

¹¹⁶ “Jurong Town Corp Signs Accord on Software Transfer to Suzhou,” *Sunday Times*, February 27, 1994.

¹¹⁷ Lee Kuan Yew, p. 721.

¹¹⁸ Yong Pow Ang, “SM Lee Bullish About China’s Economy,” *Business Times*, February 28, 1994.

¹¹⁹ The context in which this statement was made suggests that it was not intended to be read as either a boast or a warning, but as a statement of fact. Peter Seidlitz, “Riding on the Lion’s Back,” *Business Times*, March 1, 1994.

added that there was a need for China to change her regulations and her mindsets – an admittedly difficult task that would take 20 to 30 years to accomplish.¹²⁰

Hence, it was with great enthusiasm that the SIP began. But, it soon ran into difficulties.¹²¹

The following sections will trace the developmental progress and the problems encountered in the development of the SIP in three phrases for the period of 1994-2001. Phase One will cover 1994 to late 1996, Phase Two will track the development from 1996 to 1998, and Phase Three will address the years between 1998 and 2001.

2.4 DEVELOPMENTAL PHASE ONE: 1994-1996

2.4.1 Progress

The SIP seemed to be on track in its development as Singapore's experience in the industrial world and her efficient practices were transplanted into the body of Suzhou. The project was very well received by investors in Europe, Japan and the United States.¹²² The three most frequently cited elements that encouraged international industrial corporations to locate in Suzhou were the SIP's infrastructure, administration, and political support. In addition, the SIP's relative proximity to Shanghai, its low factor costs, the availability of ready-built factories, and the availability of information were other factors cited as bearing an influence on investment decisions.¹²³

The direct involvement of Singapore's agencies like the JTC in the development of Suzhou assuaged the fears of MNCs thinking of investing in China.

¹²⁰ Schutz Lee, "S'pore to Guarantee Terms of Suzhou, Shandong Projects," *Business Times*, February 25, 1994.

¹²¹ Lee Kuan Yew, p. 721.

¹²² Warren Fernandez, "S'pore Role Boosts Suzhou Project Appeal," *Business Times*, September 29, 1994.

¹²³ Alexius A. Pereira, p. 86.

Since the SIP was to be run like the JTC, investors would be assured of reliable utility supplies and speedy responses to contingencies like power failures.¹²⁴ In addition, the promise of a Singapore operating system within Suzhou was viewed as a competitive advantage by foreign investors who, stemming from familiarity, not only perceived the system to be highly efficient and transparent, but also highly attractive.¹²⁵ Lastly, one of the major factors mentioned by investors was the fact that the SIP was a “G-to-G” collaboration that enjoyed the support of the highest levels of government. To the transnational corporations, governmental support would improve the viability of the estate and enhance the security of their investments.¹²⁶

2.4.2 Problems

Land-related problems emerged from the start of the project. Construction and marketing work commenced in 1994, but China’s State Council and Administration Bureau only formally approved the requisition and lease of the first 8 sq-km land area in March 1995.¹²⁷ May 22, 1995 marked the first anniversary of the SIP and also the transfer of land use rights from the SUM to the CSSD.¹²⁸ The delayed transfer of land rights was a source of dissatisfaction for some investors who were unhappy that they were building factories on pieces of land that were not legally their own, since only the CSSD could sign the MOUs with them yet the CSSD did not legally own the land.

In addition, the price for the acquisition of the land was a touchy issue. The Party Secretary of Suzhou, Yang Xiaotang, insisted that the price of land could not be dictated by the SUM since land prices were the logical economic outcomes of

¹²⁴ Ronnie Lim, “Suzhou Township Makes Progress,” *Straits Times*, May 16, 1995.

¹²⁵ Pereira, p. 94.

¹²⁶ *Ibid.* p. 98.

¹²⁷ Lim Kim Huat, “Singapore Suzhou Industrial Park Can Provide Another Piece of Industrial Land,” *Lianhe Zaobao*, March 17, 1995.

¹²⁸ Bertha Henson, “Suzhou Township Celebrate First Year; US\$1.25b Committed,” *Straits Times*, May 23, 1995.

economic behavior between enterprises.¹²⁹ The total land acquisition and start-up costs were estimated to be about US\$100million, but costs were expected to rise as the CSSD acquired more land at higher prices. The price that the CSSD paid for the land increased from US\$8 per square meter (psm) to US\$12 psm to US\$15 psm. In the end, both sides agreed to a land cost formula that would allow prices to appreciate 12 percent a year up to an agreed maximum.¹³⁰

Added to these problems were those of poor coordination with the SUM as the SIPAC was only newly established. The CSSD was concerned that the local people and the existing factories might not move to make way for the development of the project.¹³¹

By September 1995, the abovementioned problems had been successfully dealt with, but a new set of problems took their place. First of all, the CSSD faced a lack of investors to carry out the water treatment and sewerage projects as these projects were not commercially viable in the eyes of the investors. Thus, the CSSD itself had to undertake the financial burden of these projects. These projects required heavy initial investments and were a financial challenge for the CSSD. Even though the CSSD had sold a substantial amount of land, they were only allowed to collect deposits from the investors. The CSSD could only get the rest of the payment from investors after the ground-breaking for their factories. As a result, financial inflow was slow compared to the required investment outlay.¹³²

In addition, the SIP was facing keen competition from other industrial parks in the proximity of Shanghai. Regional industrial parks like those of Kunshan and Wuxi,

¹²⁹“[杨晓堂]说，至於合资双方作为企业而言，對於土地价格有不同的想法，他认为是横正常，的，这必定是企业间的经济行为，不是政府的行政指令。” Lim Kim Huat, “Jiangsu Province Vice Governor Leads a Delegation to Visit Our Country,” November 28, 1994.

¹³⁰ “S’pore-led Groups Developing Suzhou Township Power Plants,” *Straits Times*, November 8, 1994.

¹³¹ Teh Hooi Ling, “Trust is the Cornerstone of the Project,” *Business Times*, September 8, 1995.

¹³² *Ibid.*

and the industrial park located in the west of Suzhou itself, the Suzhou New District (SND), were offering lower factory and land prices compared to the SIP.¹³³ It was impossible for the CSSD to lower its land prices because of the high prices the CSSD had to pay to acquire the land in the first place. The base cost to the SIP investors was about US\$62 psm, higher than the US\$40 in neighboring Wuxi (about 50 km away), but still half the cost of land prices in Pudong, Shanghai (about 90km away).¹³⁴ Singapore officials in the CSSD, however, were confident that investors would still invest in the SIP despite relatively higher land prices due to the high quality of infrastructure within the zone, as well as the efficient and reliable services provided to the SIP investors.¹³⁵ Also, the CSSD promoted the SIP to investors not only as an industrial park, but as an integrated township whose development would not stop with the building of factories, utilities and roads.¹³⁶ More fundamentally, the SIP was targeting industries that were capital intensive, which meant that land costs figured lowly in their cost structures, and were not seeking to attract price sensitive industries.¹³⁷

The Suzhou authorities concurred with the Singapore view that land price would not be too overwhelming an issue. While they acknowledged that the installation of reliable utility and sewage systems would cause the price of land in the SIP to be higher than other economic zones in China, they were convinced that foreign investors would prefer to pay a premium for the reliability of the Singapore operation system.¹³⁸ Even so, several Japanese investors were reported to have stated

¹³³ *Ibid.*

¹³⁴ Joseph Kahn, "Singapore-Style Township Experiment in China Draws 15 Foreign Companies," *Wall Street Journal*, September 15, 1994.

¹³⁵ Pereira, pp. 87-94.

¹³⁶ Ronnie Lim, "Suzhou Township Makes Progress," *Straits Times*, May 16, 1995.

¹³⁷ "S'pore-led Groups Developing Suzhou Township Power Plants," *Straits Times*, November 8, 1994.

¹³⁸ Edward Luce, "The Singapore Gate to Chinese Market," *Financial Times*, January 9, 1995.

that land prices were one of their top considerations when choosing an investment site, and that high land prices in the SIP made Suzhou's rates quite steep.¹³⁹

Even though both sides desired to make the SIP a success, there were debilitating differences in their way of thinking and management methods. The Singapore side cited the lack of "meeting of minds" with their Chinese counterparts as the major problem that plagued the SIP.¹⁴⁰ According to a senior Singapore official who played a key role in the SIP's development from 1994-1996, one striking example to illustrate the differences between both sides was the Chinese preference for leaving matters unwritten, a practice that was disconcerting for the detail oriented Singaporeans who were used to having things written in black and white.¹⁴¹

By 1996, the CSSD was plagued with budget deficit problems. According to Chan Soo Sen, the first CEO of the CSSD, the genesis of this problem lay with the fact that it was extremely difficult for the SIP to prepare an accurate projection of costs for potential investors as the SUM would issue numerous circulars demanding unlisted administrative fees. Singapore was able to attract foreign investors to Singapore despite its high cost structures as the EDB was able to come up with a detailed list estimating the costs involved with an accuracy of about 90%. This same formula however only attained an accuracy of 30% when it was applied in Suzhou as the Chinese side was unable to prepare a detailed, exhaustive list of all the required fees. Chan asked his employees to prepare a list of fee items and presented the list of about 50 items to the Chinese side. The Chinese side replied two months later with a

¹³⁹ Ronnie Lim, "Suzhou Township Makes Progress," *Straits Times*, May 16, 1995.

¹⁴⁰ "Meeting of Minds is 'hardest to achieve'," *Straits Times*, June 25, 1996.

¹⁴¹ Senior Singapore Official, interviewed by Joanne Lim, October 27, 2003.

list of about 250 fee items! After negotiation, the list was whittled down to 38 items, but the list still had to be approved by the city's legislative body.¹⁴²

Despite all these problems, both sides were feeling positive about the project in phase one of the development. This was reflected by the CSSD's CEO, Chan Soo Sen, who attributed his optimism to the fact that there was "a will from the government of both sides to resolve the problems." Chan also referred to President Jiang Zemin's visit to the Park in May, and pointed out that Jiang's message that the construction of the project should be accelerated seemed to have registered with the parties involved. Hence, there was no apparent reason why the development of the SIP should be stalled.¹⁴³

2.5 DEVELOPMENTAL PHASE TWO: 1996-1998

2.5.1 Developments

The EDB announced on January 26, 1996 that it would join the Singapore Consortium, SSTD, which had a 65 percent stake in the CSSD.¹⁴⁴

The EDB was Singapore's premier agency in charge of attracting foreign investment to the island city. In line with Singapore's regionalization drive, it was now working to promote Singapore's regional industrial parks like Suzhou and Wuxi in China, and Batam and Bintan in Indonesia. But the priority accorded to Suzhou had been underscored by the Singapore Government. By joining the SSTD, the EDB would delve into its experience in marketing and tap into its international networks to attract more quality industrial projects to make the SIP a top-class industrial park.¹⁴⁵

¹⁴² "Our Country Will Not Use Reserves to Subsidize the Suzhou Industrial Park," *Lianhe Zaobao*, May 27, 1996. ("我国不会用储备金补贴苏州工业园," 联合早报, 1995年5月27日)

¹⁴³ Teh Hooi Ling, "Trust is the Cornerstone of the Project," *Business Times*, September 8, 1995.

¹⁴⁴ Douglas Wong, "Suzhou Project: EDB Will Join the Consortium," *Straits Times*, January 27, 1996.

¹⁴⁵ *Ibid.*

In addition, to accelerate the development of infrastructure in Suzhou, the EDB set up its largest overseas office in Suzhou to facilitate the transfer of public administration and management “software.” The focus of the office would be to help Suzhou officials “adapt and apply” the transferred software to the SIP.¹⁴⁶

In line with these developments, EDB Chairman and CSSD Honorary Chairman, Philip Yeo, was appointed co-chairman of the JWC of the SIP.¹⁴⁷ In addition, David Lim, who was the CEO of the Port of Singapore Authority (PSA) at the time, was appointed Second CEO of the CSSD on April 1, 1996. Lim was also appointed as Yeo’s special adviser on regional projects and software transfer.¹⁴⁸ Prior to joining PSA, Lim had been with the EDB for over five years after which he became the chief executive of the JTC. When he was at the JTC, Lim worked closely on Singapore’s regional industrial parks, especially in Vietnam and Suzhou.¹⁴⁹

2.5.2 Problems

Some industry members read the EDB’s enhanced role in the SIP as an indication that the SIP was experiencing difficulties. Lim played down these speculations by claiming that EDB’s involvement was “the result of the project’s success, not its failure.” According to Lim, as the project developed, issues became more complicated and “more intimate industry knowledge was required to service investors.”¹⁵⁰ To meet the new needs of the SIP, Lim made changes to the management staff on the Singapore side, with a particular focus on marketing

¹⁴⁶ *Ibid.*

¹⁴⁷ “Philip Yeo Co-head Suzhou Committee,” *Straits Times*, April 10, 1996.

¹⁴⁸ Douglas Wong, “David Lim is Special Adviser to EDB Chief,” *Straits Times*, June 8, 1996.

¹⁴⁹ Douglas Wong, “PSA Head Appointed CEO of Suzhou Industrial Park Developer,” *Straits Times*, March 30, 1996.

¹⁵⁰ Douglas Wong, “Suzhou Park Developer Double Paid-up Capital to US\$100m,” *Straits Times*, June 25, 1996.

experience and engineering expertise. This was in line with the explicit goal of the second phase to focus on marketing efforts to attract investors.¹⁵¹

Lim did acknowledge however that the major problem faced by Singapore developers in the Suzhou project was trying to achieve a meeting of minds with their Chinese counterparts. Lim attributed 90 percent of the problems faced by the Singapore side to those related to communicating its intention and economic rationale to the Chinese. In response to this problem, Lim moved key officers to Suzhou to improve communication between the two sides.¹⁵²

In this phase, the main problems facing the CSSD were generally technical in nature, but difficulties working with the Suzhou local officials persisted. In September 1996, SM Lee acknowledged that there had been clashes between both sides over issues related to the provision of utilities, the building of infrastructure, and the marketing to investors, but said this was part and parcel of the learning process for both sides. SM Lee was most concerned, however, that foreign investors had remarked they had the impression that the local Suzhou officials working for the SIP project appeared to be less eager than officials from other industrial parks. SM Lee attributed this manifestation to a "certain confidence and self-complacency" stemming from the support of the Central Government that the project enjoyed.¹⁵³

SM Lee called upon the SUM and the SIPAC to help foreign investors deal with the administrative and production problems that they faced. In addition, SM Lee pointed out that in order to solve these problems, the Provincial Government in Nanjing or the Central Government in Beijing should be informed of the difficulties that Suzhou was facing.

¹⁵¹ "Suzhou Park: EDB Chief Co-Chairs Panel," *Business Times*, April 10, 1996.

¹⁵² "Meeting of Minds is 'hardest to achieve'," *Straits Times*, June 25, 1996.

¹⁵³ Chua Mui Hoong, "SM urges Suzhou to Work Harder to Get Investments," *Straits Times*, Sept 10, 1996.

SM Lee took the feedback of the foreign investors very seriously and encouraged the CSSD officials, especially the Chinese officials, to play a more proactive role in the development of the SIP, stating that the park could only be declared a success if it could continue to function effectively even after the Singapore players left the scene. SM Lee also repeatedly underscored the software aspect of the project, emphasizing that the project was not just about the construction of hardware, but more about transferring the “experiences that Singapore had, into the minds of the SIP officials, so that they could adapt their experience to China, and spread the ideas, the model, across China.”¹⁵⁴

In addition, SM Lee also urged the Suzhou officials to adopt a “proactive” approach to deal with the problems encountered by investors.¹⁵⁵ Noting that it was a pervasive bureaucratic practice in China to deal with problems only when they arose and that there existed a tendency towards passivity that was fueled by the fear of committing mistakes, SM Lee remarked that these enervating attitudes must be altered in order for the park to succeed.¹⁵⁶

SM Lee also emphasized that the SIP’s policies must be consistent, transparent, and predictable in order to attract investors. In addition, in line with a pro-business approach, the attitude of the Park’s officials should be predictable too.¹⁵⁷ SM Lee cited China’s import tax on capital goods as an example of how policies were inconsistent and undependable. In 1996, China promulgated a national policy that removed a concession on the import tax on capital goods, effectively increasing the

¹⁵⁴ Koh Lay Keng, “Suzhou Industrial Park Has Attracted 10 Countries and Contractual Amount Has Exceeded S\$2.4 Billion,” *Lianhe Zaobao*, September 10, 1996.

¹⁵⁵ Chua Lee Hoong, “SM Lee Urges Suzhou Project Officials to Be More Pro-active,” *Straits Times*, December 4, 1997.

¹⁵⁶ Koh Lay Keng, “Chinese and Singapore Officials Should Not Differentiate Each Other to Provide Good Services for Investors,” *Lianhe Zaobao*, September 12, 1996.

¹⁵⁷ Li Hui Ling, “Suzhou Industrial Park Can Conserve its Strength and Wait Till the Economy of the Region to Recover Before Charging Again,” *Lianhe Zaobao*, December 4, 1997.

cost of capital goods and making it expensive for investors to bring in plant and equipment. As a result, China suffered a fall in Foreign Direct Investments and the investment in the SIP was inevitably affected too.¹⁵⁸ Noting that there were indications that the concessions would be restored in response to the regional economic downturn, SM Lee commented that “[w]ithin one year, you have left turns and right turns, and shaken the confidence of many important investors who started out having great hopes.”

2.5.3 Serious Competition in the Backyard: Suzhou New District Debacle

Prior to the construction of the SIP, there was another industrial park in Suzhou which was located on the other side of the old city in the western region. The Suzhou New District (SND), about 10 kilometers away from the SIP, was set up in 1990 and was originally intended as a ‘relief industrial site’ where all the small industries could relocate so as to alleviate the congestion and pollution in the historically rich Suzhou City Center. By 1992, the SND had grown to be 10 square kilometers in size.¹⁵⁹ In response to its commendable growth, the SUM decided to build the SND up to be an international science and technology park that could serve as “the window of Chinese reform and opening up.”¹⁶⁰

In fact, the Singapore Government had initially been offered the SND to develop its proposed township. By the time the SND was offered to the Singapore Government, it had already been built up, and in a rather haphazard fashion. Its “brand-name” at stake, the Singapore leaders preferred to start from a clean slate. As one Singapore official put it, “The SND was already six-months pregnant. It was

¹⁵⁸ Loh Hui Yin, “SM Lee Urges China to Adopt Consistent Policies,” *Business Times*, December 4, 1997.

¹⁵⁹ Pereira, p. 48.

¹⁶⁰ Teng Su Ching, p. 4.

already genetically formed. Hence, if the Singapore Government wanted a 'baby' that had her genes and looked like her, she had to start with a greenfield project."¹⁶¹

Even though the SIP had the backing of the Central Government in Beijing, her daily operations were very much contingent on the whims and fancies of the Local Government. Both the SIP and the SND came under the administration of the SUM Government. The vice-mayor of Suzhou was the Director of the SND Administrative Committee and the mayor of Suzhou had been the Director of the SIP Administrative Committee.¹⁶² It appeared, however, that the local Suzhou Government used their association with Singapore to promote the SND, undercutting the SIP in costs that they controlled.¹⁶³ For example, according to SM Lee, billboard advertising was twice as expensive for the SIP as it was for the SND, and prominent billboard signs promoting the SND greeted potential investors when they visited Suzhou. Another unhappy incident occurred when Japanese investors were invited by Singapore Prime Minister Goh Chok Tong to visit the SIP, but were also poached by the officials of the SUM and given a free tour of the SND.¹⁶⁴ This tactic was uncovered when an investor rang to ask why the SIP officials were requesting for another appointment with them; it was then that the SIP officials realized that it was really the SND seeking the appointment with the investors.¹⁶⁵ This rivalry between the two parks in Suzhou confused potential investors and distracted the Suzhou officials from the software transfer program.¹⁶⁶

The *coup de grace* that broke the camel's back was the "Hamburg incident."

In mid-1997, the then vice-mayor of Suzhou who ran the SND, Wang Jinhua,

¹⁶¹ Senior Singapore Official, interviewed by Joanne Lim, October 29, 2003.

¹⁶² Teng Su Ching, p. 4.

¹⁶³ Lee Kuan Yew, p. 722.

¹⁶⁴ Chua Lee Hoong, "Why One Park is Better than Two in Suzhou," *Straits Times*, December 14, 1997.

¹⁶⁵ Loh Hui Yin, "Things Move with Wang in Charge," *Business Times*, June 2, 2001.

¹⁶⁶ Lee Kuan Yew, p. 722.

reportedly told a meeting of German investors in Hamburg that President Jiang did not support the SIP, that they should put their investments in the SND as the SND enjoyed the full support of the Suzhou Government, and that any investments in the SND would benefit from having all the resources that Suzhou had at its command. Thus there was no need for investors to go through Singapore to invest in China as they could do so directly.¹⁶⁷ These remarks had been made openly in the presence of Dieter Lorenz-Meyer, the German Special Commissioner appointed by then Chancellor Helmut Kohl to foster tripartite economic co-operation between Singapore, Germany, and China.¹⁶⁸ In addition, it was reported that two days after the “Hamburg incident”, Wang spoke at a forum in Cologne and told investors that all of Jiangsu Province’s resources would go to the SND and not to the SIP.¹⁶⁹

When the Singapore Government “confronted” the SUM on this issue, it was reported that the Suzhou Party Secretary, Yang Xiaotang, replied that he had to balance competing interests in Suzhou (i.e. between the SIP and the SND). His use of the expression *zhang xin zhang bei dou shi rou* (掌心掌背都是肉), or “the palm and the back of the hand” to describe the SND and the SIP infuriated the Singapore side, which felt that such a balancing act was not in line with the instructions from the Central Government to speed up the SIP process.^{170, 171}

¹⁶⁷ *Ibid.*

¹⁶⁸ Teng, p. 4.

¹⁶⁹ “Problems Can Be Overcome,” *Straits Times*, January 15, 1998.

¹⁷⁰ Singapore Official, Interviewed by Joanne Lim, October 30, 2003.

¹⁷¹ Yang Xiaotang has claimed to have been quoted out of context. He said that he had mentioned the phrase, “the palm and the back of the hand,” as the second out of three principles that he espoused for dealing with the competition between the two parks. According to Yang, his first principle was to “give SIP priority” (*you xian fa zhan yuan qu*, “优先发展园区”). Only after the SIP was given priority was the SND to be considered the “palm and the back of the hand.” His third principle was to “respect the choice of the foreign investor” (*zun zhong wai guo tou zi de xuan ze* “尊重外国投资的选择”). Yang Xiaotang, interviewed by Joanne Lim in Beijing, December 16, 2003.

In December 1997, SM Lee made a special trip to Beijing to raise the problem with President Jiang Zemin.¹⁷² Lee stressed that the credibility of the Singapore and Chinese Governments were both at stake. In addition, SM Lee clearly stated that the “tug-of-war” of investments between the SND and the SIP must stop as time and resources were being wasted. SM Lee emphatically stated that for there to be a resolution to the situation, “[t]here must only be one team. Either we freeze the SIP, and let the New District go, or we freeze the New District and let the SIP go.”¹⁷³

Responding to SM Lee’s criticisms, President Jiang emphasized that being the largest collaboration between China and Singapore, this was the “priority of priorities” (“重中之重”) in the bilateral economic cooperation between the two countries.¹⁷⁴ Jiang instructed VP Li Lanqing to work with Singapore’s DPM Lee Hsien Loong to resolve the problem.¹⁷⁵ In addition, Jiang gave strong assurance to the investors at the SIP that the problems faced by the SIP would be resolved.¹⁷⁶

Notably, Jiang’s pledge to further economic co-operation between China and Singapore coincided with a reshuffle of the local leadership – Mayor Zhang Xinsheng was replaced by Chen Deming, Vice-General Secretary of Jiangsu Provincial Government, and Zhang’s responsibilities in running the SIP were assumed by Xie Jiabao, the Deputy Party Secretary of Suzhou.¹⁷⁷

Commenting on the problems between both parties, DPM Lee pointed out that the clash in interests was a problem that had accumulated over the years, and was not

¹⁷² Lee Kuan Yew, p. 722.

¹⁷³ Chua Lee Hoong, “Suzhou Problem Will Be Resolved, Says SM Lee,” *Straits Times*, December 10, 1997.

¹⁷⁴ Li Hui Ling, “Jiang Zemin: With Friends, Relations Must Be Trustworthy,” *Lianhe Zaobao*, December 9, 1997.

¹⁷⁵ Chua Lee Hoong, “Jiang Committed to Suzhou Project, says SM,” *Straits Times*, December 9, 1997.

¹⁷⁶ Loh Hui Ying, “Suzhou Park Investors Get Strong Assurance,” *Straits Times*, December 9, 1997.

¹⁷⁷ Daniel Kwan, “Jiang Moves to Ease Singaporean Fears,” *South China Morning Post*, December 9, 1997.

a result of the failure on the part of the SUM to fulfill its contractual obligations. Instead, the situation would be more appropriately framed as a scenario where the SUM was not living up to Singapore's expectations. DPM Lee also emphasized that even though the SIP was experiencing some problems, it had in fact accomplished a lot in terms of attracting investment and building infrastructure.¹⁷⁸

2.6 DEVELOPMENTAL PHASE THREE: 1998-2001

2.6.1 Developments

On March 1, 1998, Lim Neo Chian was appointed to replace David Lim as the CEO of the CSSD and the SSTD. Prior to this appointment, Lim Neo Chian was the chairman of the JTC.¹⁷⁹ In addition, he also held key positions in several companies including JTC International, Arcasia Land and International Tech Park Bangalore.¹⁸⁰

The goal for this phase was to establish an outstanding team on the Chinese side that would be able to independently manage the SIP in 5 years.¹⁸¹ Singapore set a five-year deadline for transferring management of the SIP to its mainland partners, and many industry players read it as a "sign of [Singapore's] frustration with the lack of progress at the project."¹⁸² Lim emphasized that this move was in line with the original objective of the software transfer program, and did not indicate Singapore's withdrawal from the project.¹⁸³

According to Lim, it was necessary that both sides sit down and carefully examine the progress of the software program over the last few years, and establish a

¹⁷⁸ Zhang Yanqing, "Singapore and China Must Adjust the Arrangements for the Suzhou Industrial Park," *Lianhe Zaobao*, January 15, 1998.

¹⁷⁹ "JTC Chairman Takes Over Reins at Suzhou Park," *Straits Times*, February 14, 1998.

¹⁸⁰ "JTC Chief to Head Suzhou Park Project," *Business Times*, February 14, 1998.

¹⁸¹ Xue Liqing, "Singapore Side Will Not Withdraw from the Suzhou Industrial Park," *Lianhe Zaobao*, June 18, 1998.

¹⁸² Barry Porter, "Singapore Loses Patience with Suzhou," *South China Morning Post*, June 4, 1998.

¹⁸³ Xue Liqing, "Singapore Side Will Not Withdraw from the Suzhou Industrial Park."

strategy to complete the entire software transfer program in a time frame of five years. Acknowledging that conflicts and problems had wasted effort and time in the past, he hoped that both sides could focus on the software transfer program and accelerate the rate of transfer.¹⁸⁴

2.6.2 Problems

By 1998, the CSSD had no choice but to report that the SIP was in dire economic straits.¹⁸⁵ According to Lim, the high costs incurred in the development of the Park made it unlikely for the SIP to be profitable. Requirements for high quality and high standards accounted for some of these high costs, but not all. The CSSD had to shoulder quite a number of social welfare expenses and changes of mind had inevitably caused a rise in land costs. In the case of land rights, the right to use the industrial land had been reduced from the originally promised 70 years to 50 years. Singapore had used the promised period of 70 years to calculate land costs, and any reduction in the number of years without a reduction in price, of course increased the land cost. If the SUM were able to provide some compensation, it would improve the CSSD's revenue and reduce its costs.¹⁸⁶

In addition, Lim also reported that the commercial and residential aspects of the township had been a complete flop. Originally the plan was to have more than 100,000 people living within the hi-tech industrial town, but instead, it only had a population of 500.¹⁸⁷

¹⁸⁴ *Ibid.*

¹⁸⁵ Pereira, p. 141.

¹⁸⁶ Xue Liqing, "Hope to Turn Profitable, Accelerate the Pace of Software Transfer," *Lianhe Zaobao*, June 18, 1998. (许丽卿, "希望早日扭亏为盈 加速软件转移步伐," 联合早报, 1998年6月18日)

¹⁸⁷ Barry Porter, "Singapore Loses Patience with Suzhou," *South China Morning Post*, June 4, 1998.

2.6.3 The SND Saga Continues

Although the Chinese leaders at the very top in Beijing had pledged their support for the SIP and had clearly stated that the SIP would be top priority, problems between the SIP and the SND persisted and the SUM did not stop pitting the SND in competition against the SIP.¹⁸⁸ SM Lee reportedly carped: “We are not happy because we are not getting the kind of attention we were assured we would get – special attention. Indeed, what we are getting now is competition.”¹⁸⁹

Some Singapore sources involved in the dispute have been reported to have said that the SND had copied ideas from the SIP.¹⁹⁰ There is truth in this claim. Prior to 1997, the SUM had initially focused on attracting overseas Chinese to the SND, but by 1997, the SND had shifted its focus to the transnational industries, the SIP’s target investor pool. What is interesting is that the SND’s marketing strategy was very close to that of the SIP’s – it underscored the advantages of its geographical location and highlighted the estate’s “high-quality,” “pro-investor approach” and “efficient administration.” Hence, the SND claimed to have the “one-stop” capability that the SIP offered. This common strategy arose from two reasons: one was that personnel had been shuffled between the SIP and the SND and thus information had flowed from one industrial park to another, another was that some concepts were “so simple” that the SND had just “simply looked over the fence, understood what made the SIP successful and replicated it.” In addition, Singapore perceived the administrative committee at the SND to be indulging in “bureaucratic shenanigans” and undercutting property prices, whilst “simultaneously running a ‘smear campaign’ against the SIP.”¹⁹¹

¹⁸⁸ Lee Kuan Yew, p. 722.

¹⁸⁹ Barry Porter, “Singapore Drops Control of Suzhou Park,” *South China Morning Post*

¹⁹⁰ Siti Rahil, “Singapore-China Industrial Park in Suzhou Hits Snag,” *Business Times*, June 16, 1999.

¹⁹¹ Pereira, p.122-124.

2.7 1999 MOU: TRANSFER IN MAJORITY SHAREHOLDERSHIP

The differences were too great to resolve. Something had to change in the way the SIP was handled, if nothing was to change with the SND. On June 28, 1999, a MOU was signed, under which Singapore would cut its stake in the CSSD from 65% to 35% on January 1, 2001, and the Chinese share would correspondingly rise from 35% to 65%. Under the agreement, Singapore would not only cede majority ownership, but also management control of day-to-day operations. Also, both sides agreed that following the MOU, the primary objective of the CSSD would be to develop the first 8 sq-km of the Park. Thereafter, the CSSD under Chinese management would complete the rest of the 70 sq-km using the first 8 sq-km as a reference model.¹⁹²

The MOU was the result of lengthy discussions between the two sides to resolve the problems that had been plaguing the SIP. Originally, the plan was for Singapore to oversee the development of the entire 70 sq-km of the Park, but competition from the neighboring SND had undermined the development of the SIP.¹⁹³ Even though SM Lee had publicly aired his frustrations and top national Chinese leaders had re-affirmed China's commitment to the project, problems on the ground persisted. Beijing seemed unable to resolve the problems, and the local Suzhou Government "did not appear interested in accommodating any requests from Singapore."¹⁹⁴ Hence, SM Lee's special project, and the litmus test for future Singaporean investment in China concluded in a rather disappointing fashion.¹⁹⁵

¹⁹² Teh Hooi Ling, "Suzhou Park: S'pore to Cut Stake to 35%," *Business Times*, June 29, 1999.

¹⁹³ *Ibid.*

¹⁹⁴ Pereira, p. 142.

¹⁹⁵ Foo Choy Peng and Barry Porter, "Sino-Singapore Bid Fails Test," *South China Morning Post*, June 30, 1999.

2.8 CHALLENGES FOR THE NEW MANAGEMENT

At the fourth JSC meeting in September 1999, Singapore's DPM Lee said that the SIP faced three tests as it entered a new phase following the transfer of management control to the Chinese side in January 2001. The first test would be to ensure the commercial viability of the project. The second test would be the ability to attract more investments. The third test would be the ability of the SIP to maintain its uniqueness, in line with the intent with which it was conceived. In addition, DPM Lee assured the Chinese that Singapore would continue to support the development of the SIP even after the changeover of management, and would be happy to continue to aid the Chinese in the areas of software transfer and training.¹⁹⁶

With majority control of the SIP, and the SUM directly involved in the administration of the SIP, the Chinese consortium, announced that it would immediately work on improving the commercial profitability of the park.¹⁹⁷

2.8.1 New Management

With the transfer of management and ownership looming in the not so distant future, the search was on for the new Chinese CEO for the CSSD. The final choice of the SND's former CEO Wang Jinhua, who played the lead role in the infamous "Hamburg incident," was a surprise to some industrial observers. The appointment of Wang, however, was undoubtedly a carefully calculated political move. In Suzhou, Wang enjoyed strong grass root support, and under the leadership of this energetic, highly-focused former military man, the SND had made significant developments.¹⁹⁸

¹⁹⁶ Quak Hiang Whai, "Suzhou has Full S'pore Support: BG Lee," *Business Times*, October 16, 2000.

¹⁹⁷ Mary Kwang, "Company Managing SIP 'Will Be Listed in 2004,'" *Straits Times*, October 17, 2000.

¹⁹⁸ Loh Hui Yin, "Things Move with Wang in Charge," *Business Times*, June 2, 2001.

In addition, his joint appointments in the CSSD and the SIPAC would enable him to coordinate all efforts to advance the SIP's development.¹⁹⁹

Although Wang admitted that the SIP's debts were not low, he set a target of US\$7 million operational profit for the year 2001.²⁰⁰ Given the fact that the SIP had an average annual operational loss of US\$15 million every year since its conception in 1994, leading to a US\$77 million loss by 2001, this profit forecast was highly optimistic.²⁰¹

But Wang was confident this goal would be reached. He stated that the company would generate profits in several ways. First, profits would be achieved through cost savings, in particular, savings accruing to interest on loans which the CSSD had borrowed for land development. This savings would arise from the cooperation of Chinese banks which were willing to convert the company's loans from US dollars to *Yuan*. In addition, the SIPAC would bear some of the cost previously borne by the CSSD, including expenditure on amenities such as street lights and greenery. The SUM would also subsidize the CSSD for any shortfalls it incurred for land it did not manage to sell, and also offered other financial support.²⁰² Furthermore, Wang set an ambitious land sale target of 100ha, whereas in previous years, the township had only sold around 60 ha of land to investors.²⁰³

In addition, Wang also installed new executives at the SIP. In fact, in this management and executive shakeup, nearly all the Singaporean staff were replaced by Chinese nationals. The CSSD emphatically stated that this measure was not a "form of retribution to Singaporeans," but was instead part and parcel of the cost-cutting strategy. Singaporeans employed in the SIP were paid expatriate wages that were

¹⁹⁹ Mary Kwang, "Company Managing SIP 'Will Be Listed in 2004,'" *Straits Times*, October 17, 2000.

²⁰⁰ Mary Kwang, "SIP Set to Rake in \$13m Profits this Year," *Straits Times*, January 19, 2001.

²⁰¹ Kao Chen, "Park Partnership Blossoms," *Straits Times*, May 5, 2001.

²⁰² Ben Dolven, "Suzhou: The New Frontier," *Far Eastern Economic Review*, December 6, 2001.

²⁰³ Mary Kwang, "SIP Set to Rake in \$13m Profits this Year," *Straits Times*, January 19, 2001.

about four times those that would be paid to a Chinese national in the same position. In addition, after six years of software transfer and “hands-on learning,” the Chinese felt that their own people were ready to assume these positions.²⁰⁴

2.8.2 Progress Under New Management

In 2001, the SIP attracted several new tenants with huge investments. One of the most significant investments was that of Philips. The Dutch electronics giant had a history of locating operations in the SND, but was convinced by Wang Jinhua to establish its sixth plant in the SIP instead. The Singapore media hailed this as a positive development for the SIP. A more cynical view would be that the location of the investment would not have mattered to the SUM. Since the SUM was now in charge of both the SND and the SIP, it would not matter which park Philips located in, since the number of jobs created was independent of its location. It has even been argued that the SUM pushed Philips to locate in the SIP in order to enhance the commercial viability of the Park and make its accounts look more favorable.²⁰⁵

Following seven years of discouraging financial operational losses, the SIP finally announced its “maiden profit” of US\$ 7.6 million for the year 2001-02. Under the leadership of Wang and the clout of the strong grass roots support network that he had, the SIP managed to exceed his optimistic target of US\$7 million.²⁰⁶

2.9 THE SIP ACHIEVEMENTS THUS FAR

By the end of April 2003, the SIP had attracted a total of 1,097 Foreign Invested Enterprises (FIE), a cumulative total contractual investment of US\$13.66 billion, and utilized contractual investment of US\$5.78 billion, making it the most

²⁰⁴ Pereira, pp. 153-154.

²⁰⁵ *Ibid.*, p. 155.

²⁰⁶ *Ibid.*, p. 156.

popular development zone in China. As of mid-2003, there were 51 *Fortune 500* companies located in the SIP, and 25 projects each with total investments exceeding US\$100 million. In the SIP, the average investment per project was US\$35 million, which would be the highest figure in China.²⁰⁷ In addition, with a cumulative contractual FDI of US\$14.53 billion as of November 2003, the SIP was reported to have overtaken the industrial park in Pudong, Shanghai for the total amount of attracted foreign investment. This achievement would have made the SIP the industrial park that attracted the most amount of contractual FDI in the whole of China.²⁰⁸

The SIP has become the fastest growing and most competitive industrial park in China. In addition, it has received high accolades from various local and overseas industry observers. In Taiwan, the SIP has been assessed by numerous media and trade organizations as having a Grade A investment environment. *Newsweek* and *The New York Times*, in separate assessments, have rated Suzhou as one of the nine New Tech cities in the world, and a “high tech outpost of the global economy.” In addition, the UK *Corporate Location* magazine has rated the SIP as among the top ten industrial parks on two occasions.

2.10 CONCLUSION

So the story ends where it began – with the sculpture, Harmony. In 2001, on the 7th Anniversary of the construction of the SIP, SM Lee and President Jiang led the Singapore and Chinese officials in a ceremony celebrating the SIP’s accomplishments thus far. It was at this ceremony that SM Lee and Vice-Premier Li Lanqing unveiled

²⁰⁷ CSSD website, <http://www.cssd.com.sg/yjmb.htm>

²⁰⁸ Presentation by Lee Yi Yinn of SIPAC on December 18, 2003 in Suzhou, China.

Harmony, and it was at this juncture that SM Lee pronounced that “the hard work [was] over.”²⁰⁹

At this point, the SIP was in good shape – shareholder problems had been dealt with, a new management team under Wang was in place, and the future looked bright. Both sides commented on how the project had strengthened bilateral ties. As Suzhou’s Mayor, Chen Deming, put it: “Singapore has given the SIP a good base, good plans and standards and a bright future. Some friction was inevitable, but after seven years, we understand each other better.” In addition, leaders on both sides also expressed their desire that close bilateral cooperation be continued.²¹⁰

The following two chapters will develop the argument that a fundamental element in the problems described in this chapter was actually a clash of cultures.

²⁰⁹ Loh Hui Yin, “SM: Hard Work at SIP is Done,” *Business Times*, June 11, 2001.

²¹⁰ Loh Hui Yin, “Things Move with Wang in Charge,” *Business Times*, June 2, 2001.

CHAPTER THREE

PERSPECTIVES

This chapter is an overview of the existing literature on the SIP, particularly to explain why events turned out as they did. This will provide the reader with an insight as to what has already been covered by previous analyses and, more pertinently, point out how this thesis will go beyond what has already been addressed to establish new ground in the research on this topic.

3.1山高皇帝远: MOUNTAINS ARE HIGH, THE EMPEROR IS FAR AWAY

From the earliest dynasties, provincial authorities have enjoyed considerable independence in interpreting imperial edicts, and the further away from the center a province was, the greater its independence. Five words, *shan gao, huang di yuan* (mountains are high, the emperor is far away), express the cynicism and skepticism of generations of the disaffected who have been shortchanged by the local authorities. We were to have firsthand experience of this when we embarked on an ambitious project in the city of Suzhou in the 1990s.”

- Singapore Senior Minister, Lee Kuan Yew.²¹¹

As the above quote suggests, the expression “the mountains are high, the emperor is far away,” has been used to describe the state of relations between the Central Government and the Local Government in China. This idiom has been applied

²¹¹ Lee Kuan Yew, p. 690.

to the case of the SIP by scholars who point to the relatively high level of autonomy enjoyed by local officials in China as the primary cause of the problems encountered by the Singapore Government. According to this hypothesis, the local authorities, in particular, the SUM, failed to see eye to eye with the Singapore Government on many aspects of the park's development due to SUM's focus on its own parochial interests. Even though the Central Government in Beijing appeared to be thinking along the same lines as the Singapore Government, the leaders in the highest level of government seemed unable or unwilling to interfere in the affairs of the lower levels of government.²¹²

The analysis of *shan gao, huang di yuan*, assumes that the relationship between the Central and Local Governments in China is "static" in nature. This is, however, not the case. Relations in China are very much "dynamic," and the outcome of any situation is very much contingent on the formal and informal forces involved, and the permutations of the effects of these forces. This analysis fails to explain why the development of the SIP project did not follow the projected trajectory as predicted by the highest levels of government in both Singapore and Beijing. In addition, the analysis does not account for the fact that some projects are successful in China without the blessings of the higher officials in the governmental hierarchy, while other projects have failed even with the endorsement from officials of higher rank.²¹³ Hence, in order to analyze this issue in greater detail, we have to move beyond this analysis that seems to oversimplify the issue at hand.

²¹² Singapore official, interviewed by Joanne Lim, December 16, 2003.

²¹³ But it should be noted that according to a retired Chinese official, it was significantly harder for foreign projects to succeed in China without collaborating with the Chinese Government at one level or another. Chinese official, interviewed by Joanne Lim in Beijing, December 14, 2003.

3.2 SINGAPORE LITERATURE

There has been relatively little literature written on this topic possibly due to the political sensitivity of the topic stemming from the fundamentally political nature of the project – a fact established in Chapter One. In general the studies that have been conducted have lacked comprehensiveness. In addition, it is observed that their findings tend to parallel the prevailing perceptions of the project at the time of their research.

With regards to the few studies that have been undertaken, there are generally two distinct periods under which they can be categorized. The first period runs from inception of the project in 1994 to about 1997 and the second after 1997.

3.2.1 First Period: 1994-1997

In this “honeymoon period,” expectations were positive and there was a great amount of enthusiasm. During this period, the SIP studies primarily examined the competitiveness of the SIP.

In a study conducted by the Nanyang Technological University in 1996, academics examined the competitive advantages of the SIP and found that the strategic location of the park, the software transfer program, and the strong commitment of both governments to the project were the main advantages of the Park. The paper optimistically concluded that there “should not be a problem to recreate the Singapore miracle in Suzhou” since Singapore had already attained great success back home with its unique economic developmental strategy.²¹⁴

²¹⁴ Ng Yi Pin and Tan Chee Kiong, “The China-Singapore Suzhou Industrial Park,” in Tan Teck Meng, Low Aik Meng, John J. Williams, Cao Yong and Shi Yuwei, eds., *Business Yangtze Delta, China* (Singapore: Nanyang Technological University, Nanyang Business Report Series, 1996) pp. 111-128.

3.2.2 Second Period: Post December 1997

The second wave of studies on the SIP emerged after SM Lee Kuan Yew publicly aired his frustrations regarding the difficulties faced by the Singapore Government in the development of the SIP during a press conference with the Chinese media in Suzhou on December 4, 1997.²¹⁵ The writings following this incident focused on providing an explanation for the difficulties that Singapore encountered in the development of the park, and also commented on the pitfalls of doing business in China.

3.3 POST DECEMBER 1997 STUDIES

This section will discuss the findings of three primary studies that were researched in the second period, i.e. after December 1997.

3.3.1 Teng Su Ching: “The Mountains are High and the Emperor is Far Away”

In a case study written by Teng Su Ching of the National University of Singapore, Teng employs the “mountain” analogy to account for misaligned interests that existed within the project. In addition, she also used the idiom “same bed, different dreams,” or *tong chuang yi meng* (同床异梦), to describe other difficulties encountered by the Singapore side.²¹⁶ Teng established that one of the major tensions right from the start was that the Chinese and Singapore sides had very different senses of how the progress of the Park should be tracked. The Chinese seemed to measure progress in tangible terms such as the construction of roads and buildings (i.e. “hardware”), while the Singapore side was scaling the progress of the Park against

²¹⁵ Loh Hui Yin, “SM Lee Airs Frustrations Over Suzhou Project,” *Straits Times*, December 5, 1997.

²¹⁶ Teng is the Deputy Director of the Public Policy Program at the National University of Singapore.

intangible measures such as the changing of mindsets and policy implementation (i.e. “software”).²¹⁷

While the “the mountains are high, the emperor is far away” analogy and the “same bed, different dreams” comparison are catchy phrases that provide a quick and intuitive account of the events that happened, it is argued that their ability to explain real-world occurrences is extremely superficial, and fails to identify inherent, fundamental underlying forces acting on the entire system. In order for future lessons to be learnt from this collaboration, it is important for us to go beyond the façade of intuitive reasoning and examine the underlying currents that direct the flow of events.

3.3.2 John Thomas: “Transferring Singaporean Institutions to Suzhou, China”

John Thomas of the Kennedy School of Government gave his analysis in September 2001. Thomas expands Teng’s analytical framework and focuses on the issue of “institutional transfer.” In particular, Thomas discusses the factors that should be considered when one country transfers her experience to another. According to Thomas, the Singapore Government neglected to adapt their developmental model to accommodate the local Suzhou conditions, and he states that “[the] Suzhou case makes a powerful argument for the importance of context – not just common language, ethnicity and shared geographic region, but the hard reality of how things work at the operating level.” He further concludes that it was the “[Singaporeans’] focus on creating as much as Singapore as they could in Suzhou that was limiting.”²¹⁸

²¹⁷ Teng Su Ching, “The Mountains are High and the Emperor is Far Away: Developing the Suzhou Industrial Park in China,” case study C9-98-1009.0 written for the Public Policy Program, National University of Singapore, 1998.

²¹⁸ John W. Thomas, *Institutional Innovation and the Prospects for Transference, Part I: Transferring Singaporean Institutions to Suzhou, China* (Cambridge, MA: Harvard University, Kennedy School of Government, 2001).

I agree with Thomas that the accommodation of “local context” in the process of institutional transfer is pertinent.²¹⁹ In my interview with Chinese officials, many of them mentioned the importance for any type of policy to be “compatible with the national conditions of China,” or *pei he zhong guo guo qing* (配合中国国情). But it is argued that Thomas’s emphasis on this concept reflects that he has not fully taken into account the foundations upon which the project was built.

An integral part of the SIP project was the software transfer program, which sought to induct the Chinese into the essential institutional practices that were necessary for the efficient operation of the “hardware” based upon the Singapore development model. In other words, the “hardware” component of the SIP project was really a vehicle for the “software” component, which was essentially the kernel of the project. Hence, in order to construct these important institutional conditions in Suzhou, the Singapore government had to change the “local context.” This was essentially a one-way process. Singapore’s primary objective underlying the entire project was the transference of software, and not the construction of hardware. Thus, should the Singapore Government have tailor-made significant parts of the hardware and/or software to adjust to the local Suzhou conditions, it would basically have undermined the very reason why it entered into this collaboration in the first place.

3.3.3 Alexius Pereira: “The Case of Collaboration”

In his analysis of the SIP, Alexius Pereira is critical of the Singapore Government for failing to garner the support and foster the trust of the Suzhou authorities. He claims that it was this “strategic oversight” on Singapore’s part that led

²¹⁹ By “local context,” Thomas is referring to the unique local conditions or needs of a particular region, be it political, economic, social, etc.

to the Suzhou authorities putting “their efforts behind their own estate rather than support one that already had Beijing’s backing.” Pereira also espouses the notion that the SIP was “severely affected” by the Asian Financial Crisis of 1997. According to Pereira, faced with the competition from other Chinese industrial estates and regional economic zones in Asia, the “prospects for filling the remainder of the SIP’s 60-odd sq km made the venture economically non-viable, especially when the Singapore Government was the main financier.”²²⁰

There might be an element of truth in Pereira’s criticism of Singapore’s “strategic oversight,” but the fairness of this statement is questionable given the fact that the Singapore officials were aware of the SUM’s critical role and did attempt to work closely with the Suzhou and Nanjing officials; whether or not they were successful in engaging the other party is a totally different question. In addition, while the Asian Financial Crisis did have an impact on the level of foreign investments in the Park, the negative effect of the crisis was not a crucial factor in Singapore’s decision finally to take a minority stake in ownership and management. The fact of the matter was that the SUM was not fully committed to the development of the SIP and Singapore was unable to carry on with the project when the other party was only half committed. The reality was that the tensions generated from this collaboration were imposing a great strain on the bilateral relations of not only Singapore and Suzhou, but between Singapore and Beijing.

3.4 CHINESE LITERATURE

The Chinese scholars that have analyzed the SIP project have approached the topic from a significantly different angle. In general, the results of the Chinese

²²⁰ Pereira, pp. 121-134.

analysis of the situation have been more positive. This is largely due to the fact that Chinese scholars have focused more on the non-controversial process of software transfer and have deliberately eschewed discussing the commercial disputes that have plagued the project. It can be argued that the angle the Chinese scholars decided to take can be somewhat attributed to the official government position that declares the SIP project to be a success.

3.4.1 Official Chinese Publications

The two most authoritative pieces of Chinese literature on the SIP were sanctioned by the Jiangsu Provincial Government, with Wang Rongbin, the Vice-Governor of the province acting as the Chief Advisor to the Editorial Board for both books.

The first book was published in 1999. It was entitled:

“苏州工业园区借鉴新加坡经验初探” or the “Initial Exploration on the SIP’s

Adaptation of Singapore Experience.” The book basically provides a factual account of the SIP project and also gives a brief analysis of the basic objectives of the project and its systems of development, management and social security.²²¹ It concludes by underscoring the support of the respective Governments to the SIP project.²²² In addition, the book also pays tribute to the software transfer program.

²²¹ 潘云官、周志方, eds. (Pan Yunguan, Zhou Zhifang, eds.),

《苏州工业园区借鉴新加坡经验研究初探》(*Initial Exploration in SIP's Adaptation of Singapore Experience*), 南京: 南京大学出版社, 1999 (Nanjing, China: University of China Press, 1999).

²²² “中新两国政府最大的合作项目苏州工业园区, 是中新合作的重中之重,

更是中国中外合作的重点项目。” – “The Suzhou Industrial Park is the biggest joint collaboration between the Chinese and Singapore Government, is of the highest importance with regards to the cooperation between the two countries, and more importantly is a focal event in Sino-foreign collaborations.” *Ibid.*, p. 130.

The second book followed up on the analysis of the first book. Published in 2000, “借鉴与实践 - 苏州工业园区借鉴新加坡经验续探” (“Adaptation & Practices: Further Exploring Transfer of Singapore Experience in the SIP”), the book highlights how the Chinese adapted and applied what they had adopted from the Singapore software transfer program to the daily operations within the SIP. The book reports that the Chinese found concepts such as the pro-business attitude, marketing techniques, housing policy, neighborhood center, staunch opposition to corruption and a transparent legal environment, to be especially useful. In addition, the book also commends the Singapore Software Project Office for its unceasing, tireless management of the software transfer program.²²³

3.4.2 Non-official Chinese Publications

The non-official Chinese Publications tend to be more critical in their analysis of the SIP project. An article that was written in April 2002 provides various explanations for the development of events. Some of these explanations include the generally short time horizon for Singapore’s investment in Suzhou, Singapore’s overemphasis on its relationship with the Central Government in Beijing, the inexperience of the Singapore officials in dealing with the Suzhou authorities, and the failure on Singapore’s part to respond appropriately to the competition that the SIP

²²³ 潘云官、周志方、赵大生, eds., 借鉴与实践 - 苏州工业园区借鉴新加坡经验续探 (*Adaptation & Practices: Further Exploring Singapore Experience Transfer in SIP*), 上海: 上海社会科学院出版, 2000.

was facing (e.g. the author suggested that Singapore should have bought over the SND).^{224, 225}

3.5 REFLECTION

The Singapore studies mentioned above focused on specific issues or underscored certain problems relating to the development of the SIP at a particular point of time. The development of the SIP, however, was a dynamic process that spanned many years – what seemed superficially advantageous at one stage became a significant problem in another stage, and what appeared to be a major hurdle at one stage turned out to be trivial at the end. *In short, the problems in Suzhou were a function of complex circumstances, for which any single explanation is too inadequate.* Thus the past studies in the Singapore literature have been too limited in their explanation of the past problems of the SIP.

On the other front, the approach of the Chinese scholars is in line with the Chinese Government's official position: despite the problems and disagreements that might have occurred, the SIP is fundamentally successful. On a visit to the SIP, I asked a Chinese official if he felt the SIP was a success or a failure. He simply directed my gaze to the window, pointed to the buildings outside, and said, "Just look – how can you say it is a failure?"

From the perspective of the Chinese, disagreements are a normal occurrence in any relationship; taking the long-term view of things, nothing that is still undergoing

²²⁴ 王守清, "噩梦醒来是清晨: 对新加坡第二轮对华投资热潮的策略建议," (Wang, Shou Qing) *The Dawn After a Nightmare: Suggestions on the Strategies to Adopt for Singapore's Second Wave of Investment in China*, *Global Entrepreneur*, Vol. 73, April 2002, pp. 53-55

²²⁵ According to Wang, following the announcement of the transfer of majority shareholdership from the Singapore side to the Chinese from 2001, Singapore investments in China fell continuously for 2 years by 20%. By 2001, the total amount of investment from Singapore in China contracted to only 4-5% of the total FDI in China. In 2002, Singapore FDI in China was on the rebound. It should be noted that in 2003, China accounted for almost half of Singapore FDI, making it the favorite destination for Singapore FDI.

the developmental process can ever be declared a failure. As many Chinese officials expressed in my interviews with them, the Chinese believe in the wisdom of the idiom *hao shi duo mo* (好事多磨), or “the road to happiness is strewn with setbacks.” A Singaporean source expressed a similar notion with a different idiom – *bu da bu xiang shi* (不打不相识), or “from an exchange of blows, friendship grows.” It is notable that the Chinese emphasized the positive “road to happiness,” while the Singaporean emphasized the negative “exchange of blows”.

Five thousand years of history has given the Chinese a certain equanimity in their view of events and setbacks. And the SIP seems to have validated the Chinese’ belief in the wisdom of their idiom about the road to happiness being strewn with setbacks: the SIP is doing very well, it is the most successful of all the industrial parks in attracting FDI in the whole of China, and it has turned in its first substantial profit in the 10th year of its founding.²²⁶ Nevertheless, the validity of the Chinese studies on the SIP is dubious. Officially authorized studies toe the “politically correct” line cautiously, and unanimously uphold the official public verdict that declares the project to be a success. Non-official studies suffer from a lack of credibility due to an inevitable over-reliance on secondary source materials, given the inability to access primary source materials and obtain interviews with the key players involved in the development of the SIP.²²⁷

In comparison with previous studies, this thesis has the advantage of hindsight. In addition, I was able to secure interviews with an extensive array of Singapore and Suzhou officials who played key roles in the SIP project. In the process

²²⁶ As mentioned in Chapter Two, SIP attracted the most contractual FDI in the whole of China for the year 2003.

²²⁷ I have been fortunate to be able to secure interviews with key players in the SIP project on both the Chinese side and the Singapore side for my thesis research due to privileged circumstances. Please refer to Acknowledgements for a list of interviewees.

of researching for this thesis, it became apparent that there were distinct differences in perspective between the parties involved. It was these palpable differences that led me to dig deeper and beyond the incomplete answers of catchy phrases and accusations of omission, to search for a more fundamental basis to account for all the conflicts and the obstacles that were encountered in the development of the SIP.

My research led me to conclude that this underlying, fundamental basis is that of culture, and it is to this that I now turn my attention.

CHAPTER FOUR

CLASH OF CULTURES

In our cooperation in the last five years, that we have to use an MOU to solve our problems is because of the cultural differences in the two countries, and the different understanding of the items in the documents.²²⁸

- Suzhou Mayor, Chen Deming

This chapter embodies the main argument of the thesis - that the conflicts and problems encountered in the course of developing the SIP can be attributed to a clash of cultures. This is not to imply that culture is the all-encompassing explanation for each and every problem that was encountered. Instead, I espouse the view of Elkins and Simeon that “cultural, institutional, and structural explanations are not competitors, but collaborators.”²²⁹

As pointed out in the previous chapter, the explanations provided by the existing literature on the SIP focus primarily on the institutional and structural elements; none focused on the cultural aspects. This is not surprising considering that social scientists are generally extremely cautious to invoke the term culture to explain differences because it is often dismissed as nothing other than tautology. As Hermann Goering famously said, “When I hear the word ‘culture,’ I reach for my gun.”²³⁰ In short, these social scientists and academics argue that “saying that people are different because they are different is not very expressive.” Nevertheless, it is argued that

²²⁸ Teh Hooi Leng, “Suzhou Project Shows Up China-Singapore Cultural Gap,” *Business Times*, June 29, 1999.

²²⁹ David Elkins and Richard Simeon, “A Cause in Search of its Effect, or What Does Political Culture Explain?” *Comparative Politics*, January 11, 1979, p. 144.

²³⁰ Comment by Professor Lynn White, March 22, 2004.

nations, ethnic groups or any other collective groupings are “clearly motivated by differing sets of social routines, values and preferences that affect how people behave and interact.”²³¹ The identification of such characteristics does not mean that each and every member would behave in line with the established norms and practices at all times – individuals might espouse their particular beliefs, values and attitudes, but as a whole they also exhibit the cultural norms of the various groupings they belong to.²³²

Most pertinently, undertaking a cultural analysis is fundamental to any good understanding of the SIP project because perceived cultural affinity was one of the main reasons why the interests of China and Singapore converged in the first place. As the quote above by Mayor Chen suggests, while there was a perception of common cultural understanding upon which the foundations of the project could be built, in reality, there was a clash of cultures.

In hindsight, even though Singaporeans spoke the same language as the Chinese, they did not necessarily understand the nuances in the language and business practices of the Chinese. Observers have noted that due to Singapore’s colonial legacy and her inheritance of the British administrative system, many Singaporeans, being used to the Western business concepts of transparency, accountability and efficiency, had no idea how to deal with an environment where these concepts were alien. This was underscored by research of Wang Pien, the deputy director of the National University of Singapore’s International Business Institute. In this often quoted study, Wang opined that Singaporeans’ understanding of mainland culture was worse than those of the Americans or the Europeans.²³³ In addition, another researcher noted that

²³¹ Edward Lincoln, “Consistency with Society,” *Arthritic Japan: The Slow Pace of Economic Reform* (Washington, D.C.: The Brookings Institute, 1991), p. 122.

²³² David Elkins and Richard Simeon, p. 129.

²³³ “Sino-Singapore Bid Fails Test,” *South China Morning Post*, June 30, 1999.

the results of Singaporean investments in China appeared to be always lagging behind those investments originating in Hong Kong or Taiwan.²³⁴

4.1 DEFINITION OF CULTURE

Some people view culture as “an unchanging set of distinctive values rooted in some distant historical mist.”²³⁵ But the definition adopted for the analysis in this thesis differs from this view. It is my opinion that culture is dynamic and is as much a function of time as it is a function of politics, history, economics, sociology and psychology. Hence, the same values operating in different circumstances can and usually will produce different effects. In addition, at different times, cultural values can be combined in different ways and thus produce different effects.²³⁶

For the purposes of this thesis, I am adopting David Elkin and Richard Simeon’s definition of culture as a “*mindset*” that “*has the effect of limiting attention to less than the full range of alternative behaviors, problems, and solutions which are logically possible.*”²³⁷ It is also asserted that in any society, individuals are “influenced by a wide array of values, expectations, preferences, rituals, and routines for acceptable or desired social behavior,” where the boundary between acceptable and unacceptable is defined by the prevailing mindset of the people within that society.²³⁸ Culture is interpersonal, and not everyone either espouses the same theory of his or her culture or is aware of all aspects of his culture. So, “a cultural description

²³⁴ Wang Shou Qing, p. 53.

²³⁵ Edward Lincoln, p. 123.

²³⁶ Lucian Pye, “Asian Values: From Dynamos to Dominoes?” in Lawrence E. Harrison and Samuel P. Huntington, eds. *Culture Matters: How Values Shape Human Progress* (New York, NY: HarperCollins Publishers, 2000) p. 245.

²³⁷ David Elkins and Richard Simeon, p. 128. It should be noted that this definition was used by Elkins and Simeon to define political culture, but for purposes of this thesis, I will broaden the application of this definition so that it not only applies to the political arena, but also to all fields of social sciences (e.g. sociology, economics, etc.)

²³⁸ Edward Lincoln, p. 123.

is always an abstracted composite” and is seldom a direct explanation, or one that operates alone.²³⁹

Following this train of reasoning, this thesis does not assert that culture is the sole explanation for each and every problem encountered in the SIP project. Rather, it is a fundamental element that has somehow been overlooked by existing studies on the ups and downs in the development of the SIP. The thesis that culture is a pertinent element that cannot be overlooked is corroborated by the remarks of Mayor Chen Deming quoted above and also by remarks by the second CEO of the CSSD in June 1996. As mentioned in Chapter Two, David Lim said that the major problem faced by the Singapore developers of the SIP lay in “trying to achieve a meeting of minds with their Chinese counterparts.” According to Lim, 90 percent of the problems encountered by the Singapore side had to do with “communicating its intent and economic rationale to its Chinese partners.” In Lim’s assessment, after more than two years, the two sides had “achieved two to three on a scale of one to ten on meeting of minds.”²⁴⁰

The goal of this thesis is thus to complement the existing literature on the subject by providing a more fundamental basis by which to better understand why the two sides had different institutional arrangements, why their institutions acted in the ways they did, and why the individuals and the groups of individuals involved in the project believed and behaved in particular fashions.²⁴¹

4.2 CHAPTER OUTLINE

In this chapter, I will build upon the thesis of a clash of cultures by examining certain problems that were mentioned in Chapter Two and other problems that were

²³⁹ David Elkins and Richard Simeon, p. 128.

²⁴⁰ “Meeting of Minds is ‘hardest to achieve,’” *Straits Times*, June 25, 1996.

²⁴¹ David Elkins and Richard Simeon, p. 144.

mentioned in interviews I had with Singapore and Chinese officials for this thesis. I analyze these issues as the “ABCs in the cultural divide between China and Singapore” as manifested in the SIP project. By “ABC” I mean the differences in **A**ministrative Culture, **B**usiness Culture and **C**ountry Culture that together explain much of what happened over the SIP project, and offer clues on how there may be better prospects in future collaborations, whether it be between China and Singapore or governments in general, if cultural differences and sensitivities were more fully taken into consideration when formulating objectives and implementing projects.

In each genre of culture in the “ABC framework”, the principle features that constitute each genre would be explored, and each feature would be illustrated by a problem encountered in the course of the project or by points raised by interviewees I spoke to on the project. This is by no means an exhaustive or comprehensive treatment, but should be adequate in pointing at culture as a critical element for understanding and explaining the events that occurred in the development of the SIP.

4.3 **A**DMINISTRATIVE CULTURE

In this section, I will discuss four features that give rise to different administrative cultures between the Singapore Government and the Chinese Government. These features are: hierarchy, distributed government, speed and efficiency, and administrative cycles.

4.3.1 Hierarchy

China has at least five levels of government – the central government, the provincial government, city or prefecture government, the county government and the

township government. In this project, the unitary Singapore Government was really dealing with four different governments – the Central Government in Beijing, the Jiangsu Provincial Government in Nanjing, the local Municipal Government in Suzhou, and the government at the township level, the Suzhou Industrial Park Administrative Committee (SIPAC). Compared to the complex, multi-layer structure of the Chinese side, the Singapore side is extremely straightforward. Island-city Singapore has a unitary government where state and municipality are hardly differentiated. It is basically the central, provincial, city, and county government all rolled into one entity.

In order to understand the hierarchy of the multi-tiered Chinese Government, it is important to examine China's central-local relations. Historically, China's central-local relations have never been constant but have been in a constant state of flux. Mao Zedong's cult-like figure and China's centrally planned economy ensured that China during the Mao period was highly centralized.

After the Mao era, as mentioned in Chapter One, Deng Xiaoping embarked on his "modernization drive" in 1979. This drive essentially decentralized the system by encouraging provincial and municipal governments to introduce local initiatives and incentives to stimulate economic growth. Beijing granted autonomy in certain areas, especially in the economic sphere, and Local Governments started on their power-building programs.²⁴² Hence, the 1980s witnessed a spurt of rapid decentralization within China. In the early 1990s, however, there existed a persistent distrust between the center and the localities, and the Central Government sought to recentralize in order to regain its power over the distribution of fiscal and financial resources.²⁴³ Nevertheless, as China's economic reform spread and accelerated, and as its economy

²⁴² Pereira, p. 139.

²⁴³ Carl Riskin, "Decentralization in China's Transition," Bratislava Policy Paper #4, Columbia University, Department of Economics and East Asian Institute, New York.

opened up, decentralization has become so pervasive that economic localism has become a formidable force.²⁴⁴

It has been argued by many scholars on China that China is governed by a process of constant bargaining and subtle competition between the Central Government in Beijing and the local governments. Such an arrangement has led to the use of the term “*de facto* federalism” to describe the autonomy that local governments enjoy, even though China is still politically categorized as a unitary state with the seat of power firmly entrenched in Beijing.²⁴⁵

It should be stressed that this use of the term “federalism” in the Chinese context is very different from the use of the same word in the American context. The American concept of federalism involves the notion of multiple sovereignties – the Federal Government enjoys only those aspects of sovereignty that the Constitution dictates that it should enjoy, all other aspects of sovereignty lying with either the state or the American people.²⁴⁶ In the case of China, sovereignty lies solely with the Central Government in Beijing, and any aspect of sovereignty enjoyed by the local authorities are those that the Central Government has specifically endowed them with.

The Constitution of China does not specifically delineate the amount of authority that each of level of government has. Thus, the power structure in China is asymmetrically divided between the Central Government and each succeeding lower level of government here referred to generically as the Local Government. This concept is illustrated by Figure 4.1.

²⁴⁴ Chiu Hungdah, “Foreword” in Andrew J. Nathan and Hong Zhaohui and Steven R. Smith, eds. *Dilemmas of Reform in Jiang Zemin’s China* (Boulder, CO: Lynne Rienner Publishers, 1999).

²⁴⁵ Gabriella Montinola, Qian Yingyi, and Barry R. Weingast, “Federalism, Chinese Style: The Political Basis for Economic Success in China,” *World Politics*, Vol. 48 (1995), pp. 50-81.

²⁴⁶ Samuel H. Beer, *To Make a Nation: The Rediscovery of American Federalism* (Cambridge, Massachusetts: First Harvard University Press, 1994).

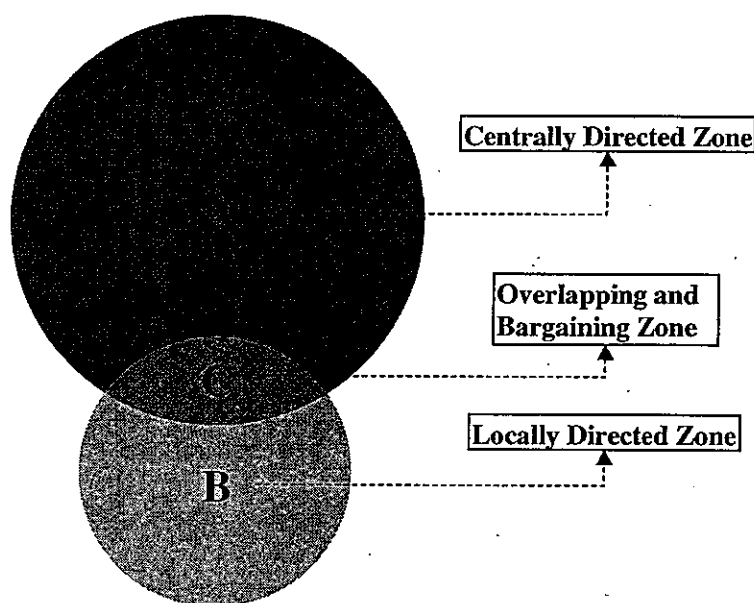


Figure 4.1

In this figure, there seems to be a rather clear-cut division in the responsibilities for the Central Government and for the Local Governments. Zone A represents the areas where decisions are made solely by the Central Government. Examples of genres of policy that belong in this area are those of foreign affairs and national defense. Local Governments make the decisions in the issues of Zone B. These issues might include those of urban planning, the construction of roads and schools, and decisions relating to those of the local economy. For example, Provincial Governments are allowed to approve foreign direct investment up to US\$30 million; larger projects have to be approved by the Central Government. Thus, any investment worth US\$30 million or less would be a Zone B decision, whilst any investment worth more than US\$30 million would be exclusively a Zone A decision.²⁴⁷

Whilst the division of power is extremely clear for Zone A and Zone B, it is not so clear in Zone C. Policies in Zone C are those that require the Central and

²⁴⁷ Warren Fernandez, "Singapore a Draw for Investors to Suzhou Township Project," *Straits Times*, September 29, 1994.

Provincial Governments to consult each other and work together to execute the policies. Thus, policies in Zone C are marked by much bargaining and compromise between the local and central governments. Policies located within Zone C include revenue collection, village elections and state-owned enterprise reform.

To complicate things further, Zone C denotes a rather more informal structure of decision making in China than suggested by Figure 4.1. The informal bargaining relationship that exists between the Local and Central Governments defies generalization and is contingent on dynamic variables like power networks, charisma of the officials, local conditions, international conditions, and so on.

Hence, the expression introduced in Chapter Three, 山高皇帝远 (*shan gao huang di yuan*), or “the mountain is high, the emperor is far away,” is a fact, and not a matter of choice. As one Chinese scholar put it, “if the emperor is not far away, he is not an emperor.”²⁴⁸ But it should be emphasized that this expression is a dynamic concept that is contingent on who the emperor is and how strong his empire is at that point in time. Also, it is important to note that this phrase has to be used and interpreted with caution.

First of all, China’s system of decentralized authority is extremely flexible; this allows a lot of room for political interaction between political actors. Basically, the system is run on two concepts: “selective intervention” on the part of the Central Government, and “selective compliance” by the local authorities. For the large majority, the emperor would exert his sovereignty and underscore his authority by not interfering in local affairs. By espousing selective intervention, the emperor’s strength is usually reinforced, and imperial edicts are usually carried out more effectively on the local level. In order for imperial edicts to accommodate wide differences in local

²⁴⁸ China Scholar, interviewed by Joanne Lim in Singapore on December 26, 2003.

levels, most central policies are either written in general terms, or only broad guidelines are provided. Hence, the way edicts are phrased and the distance that the emperor deliberately keeps, provides the local officials with breathing space to exercise “selective compliance.” By mastering the art of interpreting the essence of the imperial edict, the local official can decide to ignore certain aspects of the edict in order to accommodate the peculiarities of his local conditions, and thus not rigidly adhere to the policies of the highest level of government.

Next, one has to use this phrase, *shan gao huang di yuan*, extremely carefully. People often quote this phrase without understanding the context in which this phrase was first used. This expression is of colloquial root and was never meant to be used in a formal setting, not to mention in a bureaucratic exchange. Used by the common people in imperial China, this expression was used to describe, in a notably derogatory fashion, the behavior of local authorities at the extreme end of the bureaucratic line. This expression does not exist in the vocabulary of the emperor, for any acknowledgement of this expression would be an embarrassing admission that he has failed to exert his authority over his people, or has lost control over his country. For the local official, this expression is anathema, as any official who uses this expression would be accused of flagrant insubordination to the supreme sovereign; should an official be found guilty of such a crime, capital punishment for the official and his whole clan would be an “undoubtable certainty.”²⁴⁹

As expressed by Yang Xiaotang, the Suzhou Party Secretary, with regards to SM Lee’s use of the expression: “It is politically disrespectful. Our political cadres are known for their loyalty to the Communist Party and President Jiang Zemin, as well as

²⁴⁹ China scholar, interviewed by Joanne Lim in Singapore on October 30, 2003.

their steadfast adherence to the policies of the Party.”²⁵⁰ In addition, in an interview with Yang in Beijing, Yang mentioned that the use of this phrase was essentially a “political death sentence” (“政治上的死刑”). In the SIP project, SM Lee’s use of the expression would appear to have indeed sealed Yang’s political fate.²⁵¹ Before the 1997 incident, Yang was a rising official in Nanjing and a protégé of Jiangsu Party Secretary, Chen Huanyou. But after the Singapore side expressed dissatisfaction with the development of the project, it was decided that Yang would be transferred out of Suzhou in the interest of Sino-Singapore relations.

Bearing these two important qualifications in mind, SM Lee’s use of this expression in the diplomatic upheaval of late 1997 probably reflects an inadequate understanding or appreciation on the Singapore side of the hierarchy of the Chinese Government. It can be argued that SM Lee may still not fully appreciate the hierarchy of the Chinese system – the essence of “selective intervention” and “selective compliance” – when he said that the SIP project suffered from a lack of political will and effectiveness by the leaders in Beijing²⁵². He had also remarked:

We could have done better if we had chosen a city with the shortest and most direct chain of command from the Chinese center (i.e. Beijing). Proximity to the top leaders would have helped, with fewer administrative layers between them and the project.²⁵³

One Singapore official did however mention that though some problems were engendered by Singapore’s failure to fully grasp the implications of China’s hierarchical Government, China’s Central Government too was at fault – though fully

²⁵⁰ John W. Thomas, p. 16.

²⁵¹ Chinese Official, interviewed by Joanne Lim in Beijing on December 16, 2003.

²⁵² Pereira, p. 139.

²⁵³ Lee Kuan Yew, as quoted in *Forbes*, November 15, 1999.

capable of exerting itself, the government in Beijing failed to intervene when it should have.²⁵⁴

4.3.2 Distribution of Power within the Context of SIP

Closely related to the concept of the differences in hierarchy between the Chinese and Singapore Governments is the relative distribution of power. As mentioned in Section 4.3.1, China is a huge country with five layers of government with considerable discretion given to the Local Governments in line with a process of “selective intervention” and “selective compliance.”

In contrast, Singapore is a small country with essentially a single tiered government; thus an order from the top can be easily transmitted to lower-ranked officials and action is taken in a coordinated way down to the operating levels. In addition, the access to the leaders at the top of the power hierarchy is relatively easier for the officials working in a one-tiered system than those working in a multi-tiered system. Also, it should be noted that due to Singapore’s colonial past, its administration practices were largely westernized and mostly business-like.

In the SIP project, there were four levels of government involved (please see figure 4.2), namely, the Central Government in Beijing (Zone A), the Provincial Government in Nanjing (Zone B), the Local Suzhou Municipal Government (Zone C) and the Township Government, SIPAC (Zone D).

Figure 4.2 reflects not only the formal government skeletal structure in place, but also reflects the informal interactions between governments (shaded overlapping regions). As mentioned in the previous section, these zones indicate where constant

²⁵⁴ Singapore Official, interviewed by Joanne Lim.

bargaining occurs and compromises are made between the different levels of government so that unique local conditions can be met.

In addition, figure 4.2 also reflects that the SIPAC does not share an overlapping zone with the Central Government in Beijing, and that the only level of government that shares an overlapping zone with the SIPAC was the Local Suzhou Municipal Government. The gap between the SIPAC and the Beijing Government allowed the local governments in Suzhou and Nanjing to indulge in “selective compliance” of the policies set by Beijing. In addition, this diagram reflects how Beijing had no intention to “micro-manage” the SIP project and would keep “selective intervention” to a minimum.

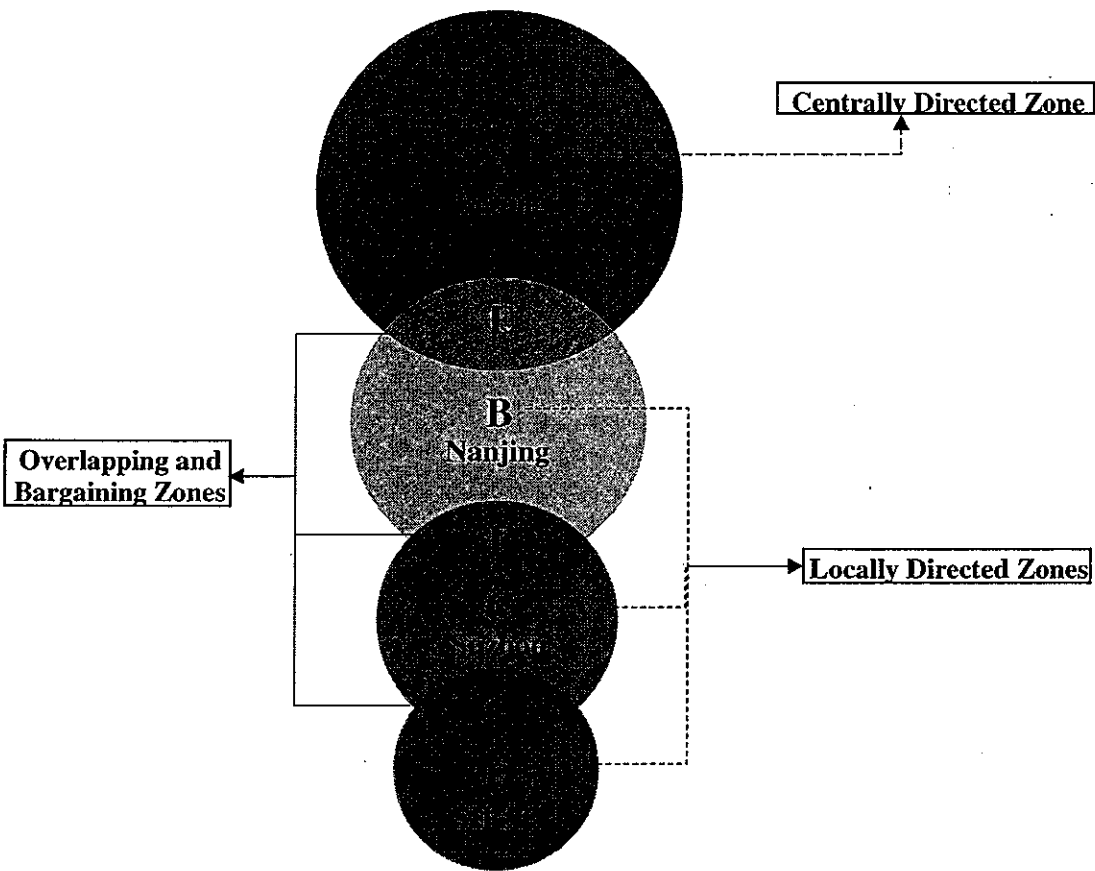


Figure 4.2

While the Singapore Government had a basic understanding of China's governmental structure, it appeared to have underestimated the extent of influence and vested interest that the Local Governments exerted on the project, including the compliance of the lower level governments to the policies sent down from the Central Government. In short, the root of the problem was that the Singapore Government had the wrong perception that the Beijing Government had a firm grip over the activities of the lower tiered governments, and thus adopted a top-down approach, believing that as long as Beijing was convinced of the strategic importance of the project, everything would work out on the ground.²⁵⁵ In addition, the Singapore Government also assumed that should any conflict arise within the SIPAC and the lower governments, the Beijing Government would be quick to intervene. *The Singapore side had failed to realize that the informal areas of the Chinese Government (i.e. the overlapping areas) were even more important than the formal structure.* As noted by the second CEO of the CSSD, Lim Neo Chian:

An understanding with Beijing and Nanjing is not sufficient. At the end of the day, problems are often resolved at the ground level...the other thing that hit me quite strongly is the fact that China has a very complicated government structure, at least compared to Singapore. And one has to make the effort to understand where the decisions are made...you have to be clear about who is responsible for what. So when somebody promises you something, you must know whether it is within his power to do so.²⁵⁶

By failing to understand the distribution of power within the Chinese Government and the mindsets associated with the power distribution, Singapore adopted a top-down approach that did not sit well with the SUM.²⁵⁷ Many managers of transnational corporations in the SIP held the opinion that the Singapore

²⁵⁵ Alexius A. Pereira, p. 139

²⁵⁶ Kao Chen, "It's a Chess Game: Move One Piece at a Time," *Straits Times*, May 6, 2001.

²⁵⁷ Foo Choy Peng and Barry Porter, "Sino-Singapore Bid Fails Test."

Government focused all its efforts in cultivating the relationship with Beijing and neglected to engage the local officials in Suzhou. By running everything through Beijing and not including the SUM in their exchanges, the Singapore Government caused the Suzhou Mayor to lose face, and antagonized the SUM, which interpreted the top-down strategy as “arrogance.” In addition, it was reported that the SIPAC and the CSSD tended to take a very “hands-off,” business-like approach when it was dealing with the SUM and the committee overseeing the SND. Such a “business-like” approach within the traditional Chinese context, where *guanxi* and face-giving are still highly prevalent, is regarded as being disrespectful.²⁵⁸ By failing to give consideration to the mindset of the local Chinese officials, the Singapore side, maintaining its western business-like approach, came across to the Chinese as being disrespectful and arrogant. This gave rise to many problems: the project was being implemented at the township level within Suzhou, and the SUM played an important role in many aspects of the SIP project, e.g. land price, resettlement, personnel recruitment, and so on.

In the SIP, arising from the different administrative cultures, there emerged an asymmetrical decision-making structure. When officials from the Singapore side encountered problems, they could easily bring the matter up to a higher level of Chinese Government (though it should be noted that the Suzhou and Nanjing Governments were extremely upset with the Singapore side when they brought things up to the Central Government). It seemed natural to the Singapore side for them to do so, given their background in a one-level government structure in Singapore. But Chinese administrative culture did not consider it acceptable practice to raise operational difficulties with a higher level of government.

²⁵⁸ Pereira, pp. 134-135.

Within the Chinese context, it is historically a taboo for a lower level government to approach a higher level government for help, as to do so would be an open admission of one's incompetence and meant a loss of one's face.²⁵⁹ As mentioned in Chapter Two, SM Lee actually encouraged the SUM and the SIPAC to inform the Provincial Government and the Central Government if they encountered any difficulties in servicing foreign investors. This reflects that SM Lee did not understand the administrative culture of the Chinese people. Alternatively, he might well have understood the culture but considered it to be the very thing that needed to be changed.

The asymmetrical decision making process within the SIP project is clearly reflected when one considers the highest level of government for both sides. On the Chinese side, the SIP project was one of the many numerous projects that VP Li Lanqing had to manage simultaneously. Hence, Li often left the SIP issues to officials in the Special Economic Zones Office of the State Council, and later to the Ministry of Foreign Trade and Economic Cooperation. With so many heavy responsibilities, it was impossible for the VP to have direct control over the project, and thus many issues related to the SIP project had to be handled by the local officials.²⁶⁰ Hence, the Central Government's "hands-off" policy towards the SIP project reflected the near impossibility of the Central Government to closely monitor the development of the Park, and also can be attributed to the tradition of the Central Government not to interfere in the affairs of the Local Government.²⁶¹

In addition, it is also a traditional practice in the Chinese system for each level of government to sieve the chaff from the grain before channeling the information to the next node in the chain of command. The reason for this practice is that each level

²⁵⁹ China Scholar, interviewed by Joanne Lim in Singapore, October 30, 2003.

²⁶⁰ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003.

²⁶¹ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003.

can then contribute its views and/or make apt suggestions for the consideration of the next level of government. Another reason for this practice is that the higher levels of government are only interested in the bigger picture, and have no time nor desire to be bogged down by details. This practice also facilitates engaging local officials in the processes of bargaining and selective compromise, and work in the needs arising from their unique local conditions into the decision-making process.

While the Chinese officials at the lower levels of government did not have access to Vice-Premier Li, the Singapore CEOs of the CSSD, as well as other higher level officials of the SIP project had more access to SM Lee, owing to Singapore's small size and high-levels of bureaucratic efficiency. Unlike Vice-Premier Li, SM Lee was kept up to date with the developments of the SIP project via e-mails or briefings. Hence, while SM Lee did not know the details of the daily operations of the SIP, he was well aware of the general trajectory of the Park's development, and was thus in a good position to judge whether his intervention was necessary to steer the development of the Park in the right direction. The fact that the senior officials of the Singapore Government were fully aware of the developments of the SIP, and given the greater access of lower officials to higher level officials, there was a tendency for the lower level officials to refer intractable disputes to the senior officials, and pass the burden of decision making back to the senior officials.²⁶²

It is plain from the above that the Chinese officials in Suzhou were very used to a "hands-off" relationship with the highest level of Government, whilst the Singapore officials were used to a more "hands-on" approach. In fact, the Chinese officials were said to be taken aback when SM Lee got involved in the operational details of the SIP as the Chinese mindset viewed it inappropriate for senior leaders to

²⁶² China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003

concern themselves with issues that, in the Chinese opinion, should be confined to the lower levels of government.²⁶³

4.3.3 Speed and Efficiency

As described in the previous section, given that China is a multi-tiered government, its bureaucratic processes tend to be slow and deliberate. While Western standards would deem this process to be inefficient, the Chinese system does provide the government with a “time buffer” that ensures that it does not make rash decisions. In contrast, due to the single-tiered nature of the Singapore government and its heavy reliance on modern forms of communication like e-mail, decision making in Singapore is relatively fast and efficient.²⁶⁴ The speed and efficiency of deliberations on the Singapore side gives rise to a heightened sense of urgency, one that is further underscored by the absence of a significant gap between the highest and lowest levels of Government in Singapore. This was reflected in the interviews conducted in China for this thesis, where many Chinese interviewees expressed the view that the Singaporeans tend to be too “anxious” (*zhao ji*, “着急”).

Thus, due to the difference in speed and efficiency of the decision making process between the two administrative systems, both sides entered the project with a different mindset as to how fast the project should proceed and how fast the government should react to any problems that occurred. When one side reacted in a

²⁶³ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003

²⁶⁴ One Singapore official commented that even though e-mail is a fast and effective means of communication, it is not an ideal means for policy decisions. In an e-mail culture whereby everything is copied to everyone at almost every stage, the flexibility and accountability of the person executing the policy is reduced. This official also mentioned, what I have identified, to be the “anchoring effect.” In psychological studies, it has been found that people make assessments by starting from an initial value and adjusting to yield a final decision. Hence, in a scenario of policy making via e-mail, the first person who replies to the group would be establishing a precedent which the group is more than likely to follow. Max H. Bazerman, *Judgment in Managerial Decision Making* (Hoboken, NJ: John Wiley & Sons, 2002).

way that was different to what the other side was used to, a fertile ground for miscommunication, misunderstanding and mistrust emerged.

4.3.4 Appointment Cycle

It has been said that the heart of the Chinese political, social and cultural system of ancient China was the imperial civil service examination. Developed over many centuries, this system aimed to bring into the bureaucracy the best and brightest who would rule with wisdom and virtue. The examination was more than just a test, for the preparation for the examination shaped the mindsets of the candidate so that there was a certain uniformity in the way they thought about problems of governance.²⁶⁵ In addition, in an attempt to curb corruption and nepotism, the imperial policy directed that officials were not allowed to serve in their home provinces, and were to be transferred from one province to another every few years.

This Chinese tradition has passed on from the imperial era to the communist era. The Chinese Communist Party carefully chooses and grades the top talent of the country through a selection process that is thorough, searching and comprehensive. To ensure that the grading is appropriate and correct, inspection teams visit provinces and cities to assess the assessors and interview cadres before they are promoted.²⁶⁶ The assimilation of the imperial process to the communist era extends to the appointment cycles of officials in various provinces. On average, officials spend about five years in a position before they are moved somewhere else.

The relatively short appointment cycles puts pressure on the officials to prove their worth by seeking ventures that would yield quick and visible success.²⁶⁷ This

²⁶⁵ R. Keith Schoppa, *Revolution and Its Past* (Upper Saddle River, NJ: Pearson Education, 2002), pp. 28-30.

²⁶⁶ Lee Kuan Yew, p. 691.

²⁶⁷ Singapore Official, interviewed by Joanne Lim, October 30, 2003.

mindset of the Chinese officials was evident in the SIP project. The Singapore side was more interested in showing the Suzhou side how to do things the Singapore way, with an emphasis on the software component, in particular, financial discipline, long-term master planning and continuing service to investors. But the SUM officials were more interested in the “hardware,” i.e. the buildings, roads and infrastructure that brought “direct and immediate benefits to Suzhou and credit to its officials.”

According to SM Lee, instead of adhering to their promise and giving the SIP their full attention and cooperation, the Suzhou officials used their association with Singapore to promote the SND.²⁶⁸

In line with this mindset of having to prove one’s worth within a short period, the SUM’s primary objective was to promote the economic development of Suzhou. To achieve this objective, the SUM wanted to attract as much FDI as possible to set up factories and create employment for the Suzhou people. Many SUM officials perceived the software transfer as a bonus which would be good for Suzhou in the long-run, whilst the hardware was viewed as the key to the city’s economic prosperity and a crucial element for the SUM’s immediate pursuits of economic gain and employment generation. The SUM did not care whether the FDI went to the SIP or the SND as their only concern was that the FDI be located within Suzhou. In addition, it should be noted that since the SUM in the early stages of the project was only a minority shareholder, there was really no incentive for the SUM to fully support the SIP project. The situation improved tremendously after the SUM became the majority shareholder in 2001 and became directly answerable to investors and the political leaders for the SIP’s success.²⁶⁹

²⁶⁸ Lee Kuan Yew, pp. 721-722.

²⁶⁹ China Scholar, interviewed by Joanne Lim, December 27, 2003.

Hence, it is evident that there was a misalignment of interests between the Singapore side and the Suzhou side, and that underlying this misalignment was the mindset of the Chinese officials who felt a pressing need to reap tangible gain within the few years of their appointment.

The differences in Administrative Culture between China and Singapore stemmed very much from the differences in government structure, processes and practices. Singapore would have seen the transference of “software” as involving some change in the Administrative Culture itself. In retrospect, this was certainly too ambitious a goal, possibly brought about by a misreading of the interest, support and encouraging words from the highest levels of the Central Government to the Singapore political leadership, and a lack of appreciation of what is involved in the running of a huge country as China is. But there were also differences in Business Culture and Country Culture that exacerbated the problems of the SIP.

4.4 BUSINESS CULTURE

In some ways, ironically it was a clash of two business cultures: the Singapore side is not willing to compromise on the ideas of what made Singapore work, and the Chinese side viewing the ideas in a cavalier way.²⁷⁰

SM Lee has been quoted as saying that “overseas Chinese use *guanxi* in China to make up for the lack of the rule of law and transparency in rules and regulations. In that hazy business environment, speaking the same language and sharing cultural bonds is a vital lubricant for any serious transaction.”²⁷¹ But the development of the SIP project proves that “being able to speak the same language and having an ethnic

²⁷⁰ Foreign Investor, as quoted in the *South China Morning Post*, June 30, 1999.

²⁷¹ Louis Draar, “The Overseas Chinese: Lessons from the World’s Most Dynamic Capitalists,” *Fortune*, October 31, 1994, p. 91.

affinity with the Chinese does not necessarily mean that Singaporean investors have an advantage over Western investors operating in China in the areas of communicating with and understanding their Chinese counterparts.”²⁷² This section will address how the clash in business cultures could account for, and contributed to, some of the commercial problems that the SIP project faced. In particular, I will discuss in some detail the nature of interaction within the Chinese business context, as well as the role of the legal contract within China.

4.4.1 Nature of Business Interaction within China: *Guanxi*

In sharp contrast to the Western transaction-based business culture in which Singaporeans were bred, the Chinese business world is fueled mainly by relationships or *guanxi* (关系). In the Chinese context, relationships are a form of social capital that is an essential element for doing business within China.

In the West, *guanxi* has often been mistakenly perceived as a form of cronyism and nepotism, and been notoriously associated with bribery and corruption. But viewing *guanxi* as a disguised form of corruption is highly misleading and is offensive to the Chinese for whom *guanxi* is a cultural form of social networking. In order to understand the workings of *guanxi* within Chinese society, a more comprehensive view of *guanxi* is required.

Guanxi is not only made up of connections, but is also characterized by a sense of mutual obligation and a need for reciprocity. While it is acknowledged that all business cultures do depend on “informal networking” in one way or another, *guanxi* differs from these relations in its pervasiveness, as well as its heavy emphasis

²⁷² Wang Pien, as quoted in Foo Choy Peng and Barry Porter, “Sino-Singapore Bid Fails Test,” *South China Morning Post*, June 30, 1999.

on family ties and shared experiences. The main tenets of *guanxi* are trust, mutual obligation and shared experiences. The genesis of the concept and practice can be traced back to ancient Chinese social customs where reciprocity and other related social notions were used to build and maintain interpersonal relationships throughout society. Hence, culturally, the Chinese are used to working with people that they know or have some form of association with, and they take the effort and time to establish relationships with people that they respect.²⁷³ As one China scholar phrased it: "To the Chinese, life is all about interaction between people. The Westerner embraced the concept of a fixed-price, but to the Chinese, the fun is in the haggling, in the interaction between two people."²⁷⁴

4.4.2 Negotiation

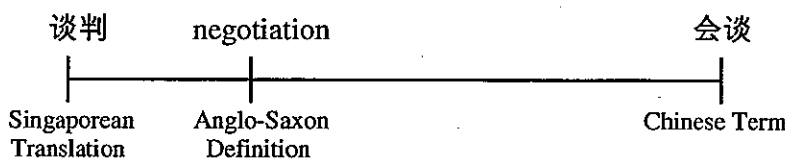
This difference in mindsets is well illustrated by considering the concept of negotiation within the Western and Chinese cultures. In the Anglo-Saxon tradition, negotiation involves connotations of bargaining, conflict resolution and final agreement.²⁷⁵ This concept of negotiation is basically foreign to the Chinese culture. In fact, there is no word in Chinese that captures the Anglo-Saxon definition of negotiation. The Chinese would generally use the term *hui tan* (会谈), or conference, when they refer to the negotiation process. When the Chinese use the term *hui tan*, they basically mean, "let's talk about it." But if you ask a Singaporean to translate negotiation from English to Mandarin Chinese, the Singaporean would mostly answer *tan pan* (谈判): *tan* meaning discuss, and *pan* indicating judgment. While the Chinese

²⁷³ Chen Ming-Jer, *Inside Chinese Business: A Guide for Managers Worldwide*, (Boston, MA: Harvard Business School Press, 2001), pp. 45-47.

²⁷⁴ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003.

²⁷⁵ Chen Ming-Jer, p. 139.

are comfortable and familiar with the first character, *tan*, they are taken aback by the second character, *pan*, as the use of the word *pan* implies that some sort of fixed judgment is to be made.²⁷⁶ In the Chinese mindset, the use of the term *tan pan* should only be used as a last resort since *hui tan* implies the existence of an ongoing dialogue.²⁷⁷ In short, the Western and Chinese perception of negotiation looks something like this:



As reflected by the illustration, the Singapore translation lies at one end of the spectrum, with the Chinese term lying on the opposite end of the spectrum, with the Anglo-Saxon definition lying somewhere in between.

In line with the emphasis on interaction in the Chinese culture, the Chinese view the negotiation process as a “continuum, based on repeated social and business interaction.” For most Western companies, the primary focus is on the formal negotiation process where both parties sit down to thrash things out. In contrast, the Chinese take a more expansive view and consider negotiation to be a “process that goes beyond the life of the deal.” Thus, according to the Chinese perception, the prenegotiation and postnegotiation phases might be more important than the actual negotiation process itself, since relationships between both parties are forged, formed and reinforced during these phases. Hence, it can be seen that the outcome of any negotiation process is highly contingent on the quality and duration of the *guanxi*

²⁷⁶ Singapore Official, interviewed by Joanne Lim in Singapore, October 29, 2003.

²⁷⁷ Chen Ming-Jer, p. 139.

relationships. The differences between Chinese and Western approaches to Negotiation are highlighted below:²⁷⁸

<u>Chinese Focus</u>	vs.	<u>Western Focus</u>
Process		Content
Means		Ends
Generality		Specificity
Prenegotiation and		} Formal Negotiation
Post negotiation Phases		
Trust		Phase
		Legal Contract

This analysis of the concept of negotiation shows that the nuances in language and translation affect one’s perception of certain concepts and could undermine one’s interpretation of the situation at hand, accentuating problems, and creating new ones.

In the SIP project, the Singaporeans underestimated the cultural context in which they were operating, and made too many assumptions regarding their understanding of their Chinese counterparts. This presumptuousness on the part of the Singaporeans translated into a poor understanding of the culture, mentality and business practices of the Chinese – an understanding that was found to be worse than that of the Americans or Europeans!²⁷⁹ Had the Singapore side really understood the business culture, and the administrative culture, of the Chinese, they would have put more effort to cultivate a relationship not only with the Beijing Government, or officials in the SIPAC, but also with the officials in the SUM. It has been observed that although the Suzhou officials had achieved status by suggesting the project in the first place, they were marginalized thereafter, and were not even the main players who

²⁷⁸ Chen Ming-Jer, pp. 141-142. It should be noted that similar ideas were first advanced by Max Weber.

²⁷⁹ Foo Choy Peng and Barry Porter, “Sino-Singapore Bid Fails Test,” *South China Morning Post*, June 30, 1999.

decided on the location of the project.²⁸⁰ The Singapore side failed to cultivate a relationship with local officials on the ground before the start of the project, running everything by Beijing and not involving the Suzhou mayor in the details, thereby slighting the Suzhou mayor and causing him to lose face.

Even after the project got underway, the Singapore side neglected to build a relationship with the local officials on the ground. Instead, they kept an arms-length distance from the SUM, with the CSSD and the SIPAC maintaining a relationship with the SUM that was run strictly on “business terms.” The Singaporeans chose to keep their distance from the SUM for, in their mindset, the negative connotations of *guanxi*, e.g. personal favors and corruption, stood out, and it would be a disaster for the Singaporeans to be seen practicing graft when they were trying to implement a system whose intent was to fight corruption.²⁸¹ But while the intentions of the Singaporeans were honorable, they were ultimately operating in a land of a different culture. For a culture that is built upon the foundation of interaction, it is no surprise that Singapore’s business-like approach was viewed by the Chinese as being disrespectful, and that Singapore’s lack of *guanxi* with the officials on the ground led to problems and complications in the daily operations of the Park.

4.4.3 Different Concepts of Contracts: Change and the Rule of Law

One of the obvious clashes in business cultures encountered in the SIP project was the different concepts of contracts as highlighted by SM Lee in his memoirs:

²⁸⁰ John W. Thomas, p. 12.

²⁸¹ Pereira, pp. 134-135

Unfortunately, while language was no problem, our business cultures were totally different. Singaporeans take for granted the sanctity of contracts. When we sign an agreement, it is a full and final undertaking. Any disagreement as to the meaning of the written document is interpreted by the courts or an arbitrator. We took great care that the documents we prepared were both in English and Chinese, with both versions authoritative. For the Suzhou authorities, a signed agreement is an expression of serious and sincere intent, but one that is not necessarily comprehensive and can be altered or reinterpreted with changing circumstances. We depended on laws and systems. They were guided by official directives; often these were not published and their interpretation varied with the official in charge.²⁸²

SM Lee provides the example of a problem encountered with regard to power supply in the SIP project, which illustrates the Chinese side's apparent disregard for written agreements. According to Lee's account, although the SUM had promised in writing to provide a certain quantity of electricity, the SUM failed to get the relevant authority to fulfill its side of the contract. The Singapore side proceeded to get the SUM's permission to construct a diesel power plant for the SIP, something not planned for but which now had become necessary. To Singapore's surprise, after the power plant had been constructed, it was told that it was not allowed to operate the plant as the power authority discouraged the use of diesel plants. Singapore discovered that the SUM had given permission to build the plant, even though they were aware the power authority, over which the SUM had no power, ultimately held the overriding control over energy production and supply in Suzhou.²⁸³

The differing attitudes towards the role and authority of the legal contract between the Chinese tradition and the Western tradition has been one of the major sources of frustration for parties accustomed to a system defined by the rule of law. The Chinese understand a contract not as a legally binding document, but rather as an agreement between two parties on the general principles underlying the deal and the

²⁸² Lee Kuan Yew, p. 723

²⁸³ *Ibid.*

inherent spirit of the deal. In fact, some Chinese consider a contract as an insult, and view the other party's need for a contract as a manifestation of his distrust.

In the Chinese mindset, change is a natural and inherent part of life. Hence, instead of trying to impose certainty on life through a contract as in the Western system, the Chinese embrace change and accept it as a part of life. As one notable China scholar wisely pointed out, the “*Yi Jing*” (“易经”), or the *Book of Changes*, has been one of the most influential books that has shaped and molded, or at least reflected, the Chinese mindset.²⁸⁴ Hence, the Chinese view life, relationships and situations as constantly changing. Many Chinese perceive the Western concept of contracts as too rigid to take into account evolving circumstances. Following this logic, within the Chinese context, it is not taboo to change the terms of the agreement after the contract has been signed in order to accommodate the changes in the environment.²⁸⁵ The differences in mindset between the Chinese and Western tradition with respects to the concept of contract is summarized below²⁸⁶:

	<u>Chinese Perception</u>	vs.	<u>Western Perception</u>
A contract is:	<div><div>a summary of discussion</div><div>a snapshot of the relationship</div><div>open to change</div></div>		a binding legal document

A manifestation of this mindset can be seen from the repeated encouragement of a senior Chinese official in the Beijing Government for the Singapore side to embrace “*gun dong fa zhan*” (“滚动发展”) or “rolling development,” instead of insisting on the strict adherence to the masterplan. The concept of “rolling development” is really the anti-thesis of the masterplan – the former taking a “we’ll

²⁸⁴ China Scholar, interviewed by Joanne Lim in Singapore, October 30, 2003.
²⁸⁵ Chen Ming-Jer, pp. 142-143.
²⁸⁶ *Ibid.*, p. 154.

decide as it goes” attitude and the latter involving detailed research, leading to a carefully calibrated and thought-out plan, and thereafter a disciplined adherence to the decided strategy.²⁸⁷

Besides the different mindsets with regards to change that contributes to the different perception of contracts is the notion of the rule of law. As observed by one distinguished China Scholar: “The Chinese are not legally sophisticated and are culturally distrustful of the law.”²⁸⁸ This distrust of the law stems from China’s history. Historically, the Chinese have not associated the rule of law with the notion of justice, as the law has been primarily used as a tool of deterrence for extreme cases to *sha yi jing bai* (杀一警百), to “kill one to warn a hundred”. In addition, due to the pervasiveness of *guanxi*, the Chinese people did not feel the need to have recourse to the law. As one interviewee mentioned, the Chinese traditionally emphasize *qing*, *li*, *fa* (情, 理, 法), or “relations, reason and law,” in that order.²⁸⁹

It is precisely the emphasis on *qing* and the undermining of *fa* that makes virtually anything possible in China. One scholar pointed to transformation of Pudong in Shanghai as a concrete example of how fast the Chinese can move because they are “law-less”. When the Chinese are focused or are impatient, they will not think twice about breaking contracts or going against prescribed laws or rules as long as they can achieve their objectives.²⁹⁰ It was very interesting to note in the development of the SIP project that after the handover of the majority shareholdership to the Chinese in 2001, the Chinese side, under the leadership of Wang Jinhua, announced a highly optimistic goal to achieve a profit of US\$7 million dollars for that financial year. The

²⁸⁷ Singapore Official, interviewed by Joanne Lim in Beijing, December 14, 2003.

²⁸⁸ China Scholar, interviewed by Joanne Lim in Singapore, October 30, 2003.

²⁸⁹ Singapore Official, interviewed by Joanne Lim in Beijing, December 14, 2003.

²⁹⁰ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003

Chinese side not only achieved this objective, but managed to surpass it by some US\$600,000, a considerable feat considering that the Park had been incurring continuous losses since its conception. Part of the reason lay in the changing of the rules on financing.

In contrast to the Chinese, the Singaporean system and way of life is very much based on the rule of law. This is not only due to her British colonial legacy, but also due to her geographical size. Being a small country just the size of Chicago, and having very much larger countries as neighbors, the room for error in Singapore is very small and the sense of vulnerability is significant. The law is a protection. The rule of law is ingrained mindset for Singapore officials. In contrast, there is a lot of room for error in the world's most populous country, so much so that a huge transgression in Singapore would be to China, as one scholar described it, "a mere mosquito bite on a huge elephant."²⁹¹ When Singapore officials brought up problems with senior Chinese officials, the Chinese side had the tendency to dismiss their concerns as being "small matters" that did not warrant the immediate attention of both sides. While the Singapore officials would try to impress upon the Chinese officials the notion that a "small matter" could undermine the integrity of the entire project and set an unfavorable precedent, the clash in mindsets made it difficult for the Chinese side to see the logic in the arguments of the Singapore officials.²⁹²

Hence, keeping in mind the clash in notions of change and the importance of the rule of law between the Chinese and Singapore side, it is not difficult to see why they had different interpretations of agreements and contracts. As mentioned by Lim Neo Chian, the second CEO of the CSSD:

²⁹¹ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003.

²⁹² China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003.

The way we look at a contract or an agreement is quite different from how the Chinese look at it. Once signed, we have every intention to stick to the contract. They don't. They are quite happy to come back and see what they can do to re-negotiate some terms or to get out of some obligations. But you can't change the Chinese mentality and Chinese system overnight. So you have to be patient and to understand all of that. But we need to know that these are potential pitfalls. Contracts and agreements are still important. My advice is to take preventive and defensive measures when you look at the implementation of the contracts in China.²⁹³

We have discussed differences in Administrative Culture and Business Culture between China and Singapore. But the differences go even deeper. We turn now to the differences in Country Culture.

4.5 COUNTRY CULTURE

This section covers some of the most important differences between the two countries that gave rise to differences in perception of the obstacles encountered in the development of the SIP project. The differences include those of world view, time horizon, cultural superiority, sovereignty and seniority.

4.5.1 Holistic View

In many aspects, the worldview of the Chinese tradition and the Western tradition are philosophically opposed. The defining characteristic of the Western way of thinking is its analytic approach that divides reality into fragments and evaluates each element separately. In contrast, the Chinese embrace an "integrative view" by considering all things in terms of their relationship to the larger whole.²⁹⁴

²⁹³ Kao Chen, "It's a Chess Game: Move One Piece at a Time," *Straits Times*, May 6, 2001.

²⁹⁴ Chen Ming-Jer, p. 86.

This integrative view is the central component in the “holistic outlook” of the Chinese. “Holism,” or *zhong he* (中和) in Chinese, is the guiding Confucian philosophy for the achievement of prosperity. According to this philosophy, “if balance and harmony is reached, heaven and earth will be in place, and all things will grow.” Hence, the Chinese highly value the preservation of harmony, and seek harmony and balance in all aspects of their lives, including their administrative, social and economic relationships. This emphasis on harmony stems from the historical need of the Chinese people to cooperate for the sake of survival; the pursuit of harmony embraces the challenge to balance “an integrative tendency to seek assimilation into the greater whole and a self-assertive tendency to maintain individuality.”²⁹⁵

This sensitivity to social harmony explains the Chinese attitude toward business performance. While the models following the Western tradition tend to emphasize analytical indicators such as job satisfaction, profit margins, etc., the Chinese tend to consider the project in its entirety in their evaluations, and take a multifaceted view of a company. Due to its emphasis on social harmony, the Chinese business will be more reluctant than its Western counterpart to opt out of an unprofitable venture as it will consider its social ties to the other party, as well as the long-term advantages that the collaboration might bring in the future, even if the current project were losing money.

While this holistic view has its advantages, its emphasis on deference to the group and on social harmony can translate into an expectation for individuals to refrain from criticizing the group, even when it is constructive criticism.²⁹⁶ In the case at hand, the Chinese side was taken aback when SM Lee openly criticized the Suzhou

²⁹⁵ *Ibid.*, p. 91.

²⁹⁶ Chen Ming-Jer, p.89.

officials in the debacle of December 1997 during an informal press conference in Suzhou. Mayor Chen Deming criticized the Singapore side for publicly discussing unresolved issues with the media: "When we have a problem, we do not expose the problem to the media, while the Singapore side seems to have the habit of raising issues to the press before the problem is resolved."²⁹⁷ This incident is inextricably linked to the issue of face and the Chinese mindset of *jia chou bu ke wai yang* (家丑不可外扬), or "do not wash your dirty linen in public." From the perspective of the Chinese, SM Lee, by airing his frustrations in public, was negatively affecting the social harmony that was supposed to exist within the collaboration.

4.5.2 Time Horizon

The Chinese emphasis on holism has a clear impact on the Chinese view of time. There exists a tendency for the Chinese to "view their lives in the context of Chinese civilization's huge span, thus putting everything into a long-term perspective."²⁹⁸ This long-term perspectives contextualizes events into the greater whole, and underscores connections and not individual moments. In this mindset, events unfold cyclically: "nothing is lost, gained, or surpassed, but only repeated. Success and failure occupy the top and bottom of the same cycle. The past is ever present, and the present is everything that has come to pass. The future, no matter how far away, results from actions in the present, no matter how small." The advantage of such an outlook is that when things are cyclically linked and not causally linked,

²⁹⁷ Teng Su Ching, p. 4.

²⁹⁸ Chen Ming-Jer, p. 4.

possibilities are multiplied as everything is considered to be part of the “present.” The disadvantage of such an attitude is that it is often lacking in accountability.²⁹⁹

In addition, cultures that adopt a time horizon that functions in a cyclical, elastic and open-ended manner are also inclined to stress the development and maintenance of relationships over task accomplishments. Also, in line with the concept of holism, subscribers of these cultures are unlikely to be “single minded” and often work on a number of tasks simultaneously, instead of focusing on a single agenda. These cultures have been labeled by anthropologists as being *polychronic* or “many timed.”

In contrast to polychronic China, Singapore’s culture can be defined as being *monochronic* or “one-timed.” This characteristic would have partly been born out of Singapore’s short history since her independence, but even more critically it stems from Singapore’s acute sense of vulnerability with a small economy that cannot be self-sustaining, and its location amid much larger neighbors. There is always therefore the need to hurry and to react quickly to circumstances. Time is short, and “everything is urgent.” While this may explain Singapore’s nimbleness, flexibility and adaptability that have made for economic success, the contrast between China’s polychronic and Singapore’s monochronic perspectives make for disagreeability and unhappiness between the officials. In line with the *monochronic* view of time, Singaporeans tend to be highly analytical, and time is viewed as being linear, compartmentalized and deadline-oriented. The difference in time perspectives is illustrated below³⁰⁰:

²⁹⁹ *Ibid.*, p. 95.

³⁰⁰ Chen Ming-Jer, pp. 94-96.

<u>Chinese Tradition</u>	vs	<u>Western Tradition</u>
Circular		Linear
Correlation		Causality
Process-oriented		Deadline-oriented
Go with the flow		Efficiency
Based on history and tradition		Future-oriented

This difference between the Chinese and Singaporean outlook on time contributed to problems encountered with the SIP project. From the Chinese perspective, timing and planning must be flexible and adaptable to allow for change and to accommodate the unpredictable requirements of social relationships. For the Chinese, there can be a target to aim at, but it should be understood that there could be many targets co-existing at once. Hence, the concept of master-planning that was central to the Singapore software transfer program, was totally alien and somewhat unacceptable to the Chinese, who were more used to the process of “rolling development.”

In the interviews conducted in China for this thesis, a common sentiment among the Chinese was that the Singaporeans were too anxious. Many officials held the view that the problems that the SIP faced were typical of any large scale industrial project, of which there were many in China, and that these problems would be eventually resolved with time. In addition, a common analogy used to describe the collaboration was that of a marriage – where friction in the initial stages is inevitable as each party gets used to the habits of the other party, but, with time, these frictions would eventually be resolved. In particular, one interviewee mentioned that since China’s history spans more than five thousand years, what are ten or twenty years to China?³⁰¹ Following the logic of this statement for Singapore, ten years is a significant amount of time: Singapore has been independent only since 1965. Hence,

³⁰¹ Chinese official, interviewed by Joanne Lim in Beijing, December 15, 2003.

it should not be surprising that the Singapore side would be concerned with developmental speed and effective compliance with the masterplan in order to achieve specific objectives and targets on schedule.

4.5.3 Cultural Superiority, Sovereignty and Seniority

Zhong Guo (中国), the Middle Kingdom, is the Mandarin word for China. It is commonly interpreted as the egocentric view of the Chinese who see themselves as being at the center of the world – a people who are both privileged and superior.³⁰² With five thousand years of history on its side, and accounting for one out of every five persons on the face of the earth, the Chinese have a definite sense of cultural superiority.

But this sense of cultural superiority is not only a matter of China against the rest of the world, but also exists between the regions of China. Thus the Chinese of the north consider themselves culturally superior to the Chinese of the south. This is because the seat of political power and the seed of economic enterprise can consistently be traced to the north. It has been commented that in the SIP project, the business-like attitude of the Singaporeans were particularly grating to the Suzhou people, because being further north, the Suzhou people had an inherent sense of superiority over the Chinese from the south – the region where the forefathers of the ethnic Chinese in Singapore came from.³⁰³

While the Chinese do have a sense of cultural superiority stemming from its long history, they also suffer from a sense of inferiority resulting in particular from its defeat in the Opium War of 1842 and the Sino-Japanese war of 1894. China's defeat in the Opium War saw the establishment of foreign concessions within its borders.

³⁰² Chen Ming-Jer, p. 85.

³⁰³ Singapore Official, interviewed by Joanne Lim in Singapore, December 27, 2003.

Foreign concessions greatly undermined China's sovereignty as foreigners now became rulers on Chinese soil – even where many Chinese still lived, foreign law applied and foreigners collected taxes. The defeat of the Chinese by the Japanese was a sharp slap in the face of the Chinese as the Japanese had historically been their insignificant “younger brother.”³⁰⁴

Due to these historical reasons, the Chinese are particularly sensitive on issues of sovereignty and seniority. It has been commented that the Singapore side was not sensitive enough to these Chinese sensitivities in the SIP project. For example, Singapore had proposed the project to be called the “Singapore-Suzhou Township project,” but this suggestion did not sit well with the Chinese. Within the hierarchy of the Chinese Government, a township is in fact a unit of government. Hence, for China to agree to the use of the term “township” would imply that it would give up its “sovereignty” to the Singapore Government.³⁰⁵

One of the earlier clashes between the CSSD and the SUM was the construction of the Xinshu Hotel. The construction of the hotel was not part of the masterplan that the CSSD had drawn up. The CSSD was upset that the SUM had not consulted them before going ahead with the construction. The CSSD viewed the problem in terms of the SUM's failure to comply with the masterplan, but the SUM viewed the problem as a sovereignty issue – they did not see why they needed permission from anyone to build on land they believed was theirs.³⁰⁶

Singapore was said to be insensitive to Chinese sensitivities with regards to sovereignty and seniority, when Singapore “neglected to accommodate the national

³⁰⁴ R. Keith Schoppa, pp. 52-54.

³⁰⁵ Singapore Official, interviewed by Joanne Lim in Singapore, December 27, 2003.

³⁰⁶ Chinese Official, interviewed by Joanne Lim in Suzhou, December 17, 2003.

conditions of China” (“忽略配合中国国情”).³⁰⁷ It has been commented that the Singaporeans liked to implant the Singapore way completely in China without considering the national conditions of China and the feeling of the Chinese. In addition, in the Singapore mindset, anything that differed from what they were used to was wrong.³⁰⁸ This mindset can be illustrated by the translation of the software transfer program by the Chinese and the Singaporeans. The Chinese use the phrase *jie jian xin jia bo jing yan* (借鉴新加坡经验) or “adapting Singapore’s experience.” In contrast, the Singaporeans use the literal phrase *ruan jian zhuan yi* (软件转移), literally software transfer, to describe the software transfer program. To the Chinese, the Singaporean translation of this term reflects that Singaporeans are not sensitive to local conditions, as software transfer implies “a wholesale import of software from one machine to another, without any regard for the compatibility of the software for the machine.”³⁰⁹ As expressed by one investor: “The Singaporeans tried to bring Singapore to China. They talked about software transfer. Don’t they know that for software to be transferable, the hardware must be compatible? You can’t run Apple [software] programs on IBM! It was like doing a blood transfusion of two different blood types. Appeared to work for a short while, and then failed miserably later.”³¹⁰

4.6 CONCLUSION

It is important to reiterate once again that the problems encountered in the SIP project were a function of complex circumstances, for which any single explanation is

³⁰⁷ Singapore Official, interviewed by Joanne Lim in Singapore, October 29, 2003.

³⁰⁸ Chen Ping, “Singaporeans Need to Have Correct Mentality When Doing Business in China,” November 17, 2001.

³⁰⁹ Chinese Official, interviewed by Joanne Lim in Suzhou, December 17, 2003

³¹⁰ Pereira, p. 136.

too inadequate. It was a chastening experience for both sides, as each party entered the collaboration believing that there would be fewer problems dealing with each other due to the apparent language and cultural similarities. In short, “each side expected the other to behave like itself.”³¹¹ Hence, underlying the entire project was the assumption of cultural compatibility and an assumption of enhanced understanding flowing from this cultural likeness. However, it soon became apparent that these assumptions were false, as reflected by the results of a study which discovered that the Singaporean understanding of mainland culture, mentality and practices were even worse than those of the Westerners. In a way, this was all the more baffling for the two sides as they looked so similar, yet perceived things in such different ways. Given the “ABC of cultural differences” in Administrative Culture, Business Culture and Country Culture, the clashes and frustrations were, in retrospect, inevitable, though greater sensitivity in handling relationships could have mitigated the problems somewhat. What happened in the development of the Suzhou project was, fundamentally, a clash of cultures. But no one today would say the SIP is a failure. Is this just diplomatic whitewash, or is the SIP indeed on the path of success? The question of the SIP as success or failure, as well as the question of China-Singapore collaboration in the future, is what we will now turn to in the concluding chapter.

³¹¹ Lee Kuan Yew, 723

CHAPTER FIVE

CONCLUSION

“It was an ambitious project, but the alternative is worse
- never to try risky things.”

- DPM Lee Hsien Loong.³¹²

The SIP project was indeed ambitious. This project, though economic in nature, had political roots. The SIP was not meant to be like any other industrial park in China but was “really a vehicle for transferring the software of economic development and management for testing out, adapting and applying Singaporean methods of economic management in China.”³¹³

Underlying the project was a mutual perception of “cultural affinity” with the other party. The assumptions of “cultural affinity” were soon proved false when construction started and a multitude of problems emerged. Even though efforts were taken to address the problems, they were only resolved after the Singapore side ceded majority shareholdings to the Chinese side and the local officials became directly responsible for the success of the project.

Various studies have been published of the events concerning the SIP, concentrating mostly on the structural dimensions of the project and the relationship between the parties. This thesis has aimed to go beyond those explanations by analyzing the problems encountered by the two sides in the SIP project from a cultural perspective.

³¹² Audrey Tan, “Suzhou not a case of S’porean hubris: BG Lee,” *Straits Times*, July 10, 1999.

³¹³ Singapore Software Project Office, *In Unison* (Singapore: Times Editions, 2001), p. i.

The problems experienced in the SIP project were a function of complex circumstances. This thesis has sought to uncover what could be a fundamental explanation for the obstacles that were encountered in the development of the Park. By no means do I argue that culture is the sole reason why things happened the way they did. But in the course of conducting the research for this thesis in China and Singapore, which included interviewing thirty-one individuals (sixteen in Singapore, ten in Suzhou, four in Beijing, and one in Nanjing), who had personal involvement with or close scholastic interest in, the SIP project, it became apparent to me that there fundamentally was a clash of cultures in the arenas of Administrative Culture, Business Culture and Country Culture – what I call the “ABCs” of culture. As expressed by SM Lee: “The fundamental problem was in our two different mindsets, the way we think, our way of life, our working habits and styles.”³¹⁴

Today, the SIP is without a doubt a very successful industrial park in China, having overtaken the much acclaimed Pudong district in Shanghai in terms of contractual FDI in 2003. It has won high accolades from various local and overseas industry observers. But the real question is: is the entire project successful with regards to its intended conception?

The hardware component was evidently extremely successful, but the same cannot be said for the software component of the project. The buildings and structures in place are very Singaporean, but the pervasive mentality is still very Chinese. The ambitiousness of the project was not in the construction of the industrial park, but in the expectation that existing mentalities and practices could be molded and re-formed.

Lim Chee Onn, the first chairman of CSSD has commented that due to the differences between the two countries, Singapore could not expect to change the

³¹⁴ Pereira, p. 161.

mindsets of the Chinese and should have accepted the way the Chinese did things from the very start.³¹⁵ In fact, one interviewee mentioned that when the Chinese assumed that they had a certain cultural affinity with Singapore, the Chinese side had thought that the Singaporeans were in a better position to understand the nuances of Chinese practices and thus would be more able to do things according to the "Chinese Way."³¹⁶ Hence it can be said that the software component of the project was probably doomed to be stillborn from the very moment of its conception.

In his interview with the *Far Eastern Economic Review*, DPM Lee Hsien Loong, SM Lee's firstborn, said that "the chief lesson from the Suzhou experience was how difficult it was to transplant the Singapore formula to another environment. While many things look good from a distance, they are not easily done within China, because even if you want to do one system differently, that system has many connectors and sockets which have to plug into the rest of the Chinese system, which operates on radically different principles."³¹⁷ Even though DPM Lee stressed that Singapore had learnt a lot from the project about collaborating with the Chinese, after the Suzhou experience the Singapore Government decided that it was going to let the private sector lead in exploring investment opportunities. It even declined the request from the Guangzhou authorities for Singapore to set up an industrial park in Guangzhou.³¹⁸ Hence, the SIP may well be the very last government-to-government venture that Singapore will launch in China, or in any other country for that matter.

So, has Singapore lost its relevance to China or could there be collaboration in further forms?

³¹⁵ Koh Lay Keng, "Lim Chee Onn: The Success or Failure of Investing in China Cannot be Measured by Profitability Only," *Lianhe Zaobao*, May 9, 2001.

³¹⁶ China Scholar, Interviewed by Joanne Lim in Singapore, December 27, 2003.

³¹⁷ Audrey Tan, "Suzhou not a case of S'porean hubris: BG Lee," *Straits Times*, July 10, 1999.

³¹⁸ Audrey Tan, "China Projects: S'pore Prefers Private Sector Lead," *Business Times*, July 19, 2001.

While China's perception of Singapore has undergone changes over the past decade, Singapore will remain relevant to China for some time to come. In order to build the case for Singapore's continual relevance to China, it is necessary to consider Deng Xiaoping's tour of Southern China, or *nan xun* (南巡), once again.

During Deng's famous tour in 1992, Deng singled out Singapore as a model for China's modernization drive. This enhanced Singapore's standing in the eyes of the Chinese leaders in Beijing. The choice of Singapore's economic and social model was a calculated move by Deng. He was impressed that Singapore managed to attain economic prosperity while maintaining good social order. In addition, it has been commented that Deng viewed Singapore as an important interlocutor that would bridge the gap between China and the developed Western economies.³¹⁹ Hence, in the eyes of the Chinese, Singapore was playing a dual role as both an educator and an interlocutor. And it was in this time frame that the SIP project was conceived and formed.

During the mid-1990s, the enthusiasm of learning from Singapore waned and there was a shift in the Chinese perception of Sino-Singapore relations from one of learning, or *xue xi* (学习), to one of cooperation, or *he zuo* (合作). This shift has de-emphasized Singapore's role as a mentor to one of a collaborator.³²⁰ In fact, an article published in January 2004 in the Chinese newspaper, the *People's Daily*, highlighted the achievements of the SIP project but surprisingly failed to mention the contributions of Singapore to the project, attributing the success of the project to the hard work of the Suzhou people.³²¹

³¹⁹ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003.

³²⁰ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003.

³²¹ "Suzhou: the Example of Hard Work and Achievements," *People's Daily*, January 20, 2004.

Following the opening up of the Chinese economy to the world, Singapore has been less prominently featured in the Chinese media and this has affected the Chinese perception of Singapore significantly. According to one survey of their impressions of various countries, the Chinese participants dropped Singapore from fourth place in 1995 to tenth in 2003.³²² In addition, China has also enjoyed many successes on the international stage – it has reclaimed Hong Kong and Macau, successfully bid to host the 2008 Olympic Games, and has even sent a man into space. With each success, the Chinese have become more confident, and enhanced nationalistic pride manifests itself in growing arrogance and assertiveness.³²³ Also, with its increasingly important role on the world stage, many states have aligned themselves with China, and China's circle of supporters has grown. It is evident that Singapore's significance and importance to China have diminished over the years.

From the perspective of the Chinese, China could still learn from Singapore in the management of its domestic affairs. Deng was taken with Singapore's management of its economy and its "good social order." But while Deng emphasized both the economic and political elements, the Chinese bureaucracy put a disproportionate emphasis on China's economic development. Thus, as the fourth generation leadership under Hu Jintao addresses the need to balance economic growth and social order, Singapore's political, administrative, and legal practices would serve as a good model for China. In particular, the CCP has been very interested to know how Singapore's PAP managed to remain the sole dominant party within a democratic system.³²⁴ In sum, even though China's perception of Singapore has changed from the early 1990s till the present day, Singapore has not become irrelevant to China.

³²² "Impression of Countries: Chinese Favor China," Horizon Group (Beijing 2003), http://www.horizonkey.com/first/first_jb/593.htm.

³²³ China Scholar, interviewed by Joanne Lim in Singapore, December 27, 2003

³²⁴ China Scholar, interviewed by Joanne Lim in Singapore, October 30, 2003

What is apparent from the analysis of the SIP project is how much China has changed in the past decade. This is evident in the reported attitudes of the Chinese officials in Suzhou. In the early 1990s, China was desperate for foreign capital and technology, and thus the officials on the ground were reported to be more humble and eager to learn. But, as the Chinese economy boomed, the Chinese people became more confident and arrogant. Starting from the late 1990s, being the second-largest Asian economy and the world's most populous nation, China could pick and choose who they wanted to deal with, and their perception of the intrinsic value of the SIP has also changed accordingly.³²⁵

In line with the Chinese cyclical perception of time and events, there exists a feeling within China of an impending return to a glorious age. As China eases itself into its position as a world power, it can be safely predicted that enhanced pride and arrogance will ensure the persistence of, and an insistence on, the "Chinese way." Thus, anyone who deals with China should be mindful of its unique cultural characteristics not only as a nation, but also in the way it administers and does business.

The China-Singapore Collaboration in the SIP had as its origins a convergence of interests. The execution of the project saw a divergence of views of how things should be done, and a strain in relationships at the operating level in Suzhou. While a variety of explanations has been proffered, one of the most unavoidable would be a clash of cultures – subtle and unspoken perhaps, but nonetheless real.

The effects of the differences in Administrative Culture, Business Culture and Country Culture could perhaps have been reduced if words had been chosen and views expressed with greater sensitivity. But the depth of basic cultural differences is

³²⁵ China Scholar, interviewed by Joanne Lim in Singapore, October 30, 2003

an unmovable fact which made the attainment of the original objective of software transfer – with all its attendant demands for changes in perspectives, mindsets, approaches and practices – virtually impossible right from the start. So the two parties finally accepted the irreconcilability of purpose and intention – Singapore looking at the software with the hardware as the vehicle for learning, and China looking at the hardware as the intention with software as just supplementary – and decided to seek a reconvergence of interests through an agreement specifically to bring the hardware to success.

China has decided to go the way of the market economy, albeit with “socialist characteristics.” The Chinese Communist Party will stake its credibility with its people by delivering the economic goods. China in the early 1990s was seeking the key to this, and Singapore was one helping factor. The globalized world of trade, production and investments, is also a globalized world of ideas, values and travel. The seeds of social disruption from the outside, and social dislocation on the inside, have to be dealt with. The sit-down protest in 1999 by 10,000 members of the quasi-religious sect, the *Falun Gong*, followed by further protests in various Chinese cities some months later, was one of the wake-up calls to the leadership on the potential of social disorder.

The key to maintaining social order amid economic change is the next key that the CCP seeks, and Singapore can again be a helping factor. But this time there will probably be no “hardware” collaboration – only an arrangement where the Chinese will pick up what and where they wish in their continuing interactions with Singapore. Looking at the SIP project objectively, China has certainly benefited from it, most evidently in hardware, and arguably incompletely with regards to software. But what

has Singapore reaped given its considerable input? This apparent imbalance in benefits must weigh on any thought of future collaborative projects.

Self-evident as it may sound, in every task that is undertaken, it is important to identify who you are dealing with. Policy in conception tends to focus on strategies and schemes, but may also tend to overlook the human element that is involved in operation and execution – the person who is at the receiving end of the policy and the person who is administering the policy. It is a common error for people to assume that everyone thinks and acts in the same way that they do. But the fact of the matter is that we are all different. Our perceptions are shaped by the environments we live in and the cultures that we are bred in. As policy is shaped by the forces of sociology, economics, history, politics and psychology, so is culture. It is for this reason that the formation of policy cannot be divorced from culture, and policy-makers must consider the deep influences of cultural factors if they wish their policies to succeed in the practice.

Life is about people. People and preferences are partly generated in cultures. How can government and policy hope to succeed with new approaches and new thinking if they do not take adequate account of the life and the culture of the people? Can sound government policy be divorced from the life and culture of the people it seeks to serve? This separation is probably not possible, as reflected in the trajectory of development of a certain government-to-government collaboration in a small Chinese city called Suzhou.

APPENDIX A – Shareholders of the Suzhou Industrial Park

	Singapore-Suzhou Township Development (SSTD): Singaporean/foreign shareholders of CSSD	Suzhou Industrial Park Investment Co. Ltd. (SIPC): Chinese Shareholders of CSSD
1.	CDL- Suzhou Investment	Jiangsu International Trust and Investment Corp.
2.	Centerpoint Properties Ltd.	SIP Economic Development Co. Ltd
3.	EDB Investments	China National Cereals, Oils and Foodstuffs Import and Export Corp.
4.	GE Capital Services	China Ocean Shipping (Group) Co.
5.	Hong Lim Investments	China Huaneng Group
6.	Hua Ye Holdings	China Agriculture Bank Finance Co. Ltd
7.	Huaten Investment and Development	China National Chemicals Import and Export Corp.
8.	JTC International Pte Ltd.	China National Technical Import and Export Corp
9.	Keppel Corporations Ltd.	China Energy Conservation Corp
10.	Keppel Land	China Central Television
11.	KMP China Investments	Bank of China Trust and Consultancy Co.
12.	Liang Court Suzhou Investment	China Great Wall Industry Corp.
13.	Lum Chang (Suzhou) Investment	
14.	Mi-Mi Investment Singapore	
15.	NTUC Cooperatives Suzhou Investments Pte Ltd.	
16.	RMA Land Development	
17.	Rodamco China B.V.	
18.	Samsung Corporation	
19.	Sembawang Resources Ltd.	
20.	Shing Kwan Investment	
21.	SLF International	
22.	STIC Investment	
23.	Sum Cheong (China)	
24.	Wing Tai Holdings	

Source: China-Singapore Suzhou Development (CSSD), *China-Singapore Suzhou Industrial Park: Facts and Figures* (Suzhou, China: CSSD, 1999), p. 5.

Appendix B: Organizational Structure of the Suzhou Industrial Park

CHINA

SINGAPORE

JOINT STEERING COUNCIL (JSC)			
Beijing (Central)	Vice Premier: Li Lanqing - Special Economic Zones Office; Ministry of Foreign Trade & Economic Cooperation (after 1998) - State Development & Planning Commission - State Economic & Trade Commission - Ministry of Finance - State Taxation Bureau - General Administration of Customs	DPM Lee Hsien Loong - SM Lee Kuan Yew - Ministry of Trade & Industry	Central + Provincial + Municipal
Jiangsu (Provincial)	Jiangsu Party Secretary: Chen Huanyou; Hui Liangyu Jiangsu Governor: Zheng Silin; Ji Yunshi Jiangsu Vice-Governor: Yang Xiaotang; Wang Rongbin		
Suzhou (Municipal)	Suzhou Party Secretary: Yang Xiaotang; Liang Baohua; Chen Deming		



JOINT WORKING COMMITTEE (JWC)	
Suzhou Mayor: Zhang Xinsheng; Chen Deming	EDB Chairman: Philip Yeo



SIPAC	
SIPAC's Adapting Singapore's Experience Office	EDB's Singapore Software Project Office (SSPO)



CSSD	
SIPC (Suzhou Industrial Park Company)	SSTD (China-Singapore Suzhou Development Committee)
SUZHOU INDUSTRIAL PARK (SIP)	

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