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APPENDIX 1

THE INTERVIEW SELECTION PROCESS

In order to locate potential interviewees, we first had to estimate how many Singapore companies are domiciled in these three locations. In April 2004 we found 512 in the Shanghai area (including 234 in Shanghai and 278 companies in Suzhou); 269 companies in Zhejiang; and 295 companies in Liaoning making it a total of 1076 companies in the three locations. This preliminary company list was drawn from various sources, including the Singapore General Consulate in Shanghai, the China State Administration for Industry and Commerce, and information from local governments, based on annual auditing records.

We then narrowed the number of companies. With regard to Shanghai and Suzhou, as the concentration of Singapore companies is quite high, we decided to focus only on larger companies, those with a registered capital of more than US$5 million. There were 80 companies in this category. In Zhejiang and Liaoning we limited our samples to three cities. In Zhejiang we found 125 companies in Hangzhou and Ningbo, and in Liaoning, we found 59 companies in Dalian.

In attempting to contact companies to verify their presence, and arrange interviews, the team encountered various problems — incorrect information, addresses and contact numbers, names which differed from those actually registered, and many simply uncontactable. After much detective work, initial contacts were established with 60 companies in the Shanghai area, 27 in Zhejiang, and 16 in Liaoning.

Of those successfully contacted, 67 companies refused to be interviewed for a variety of reasons, from outright refusal, to lack of time, to lack of appropriate individual to be interviewed. The team finally succeeded in arranging and conducting interviews with 40 executives, in 36 China-based Singapore companies: 17 in Shanghai (and Suzhou), 12 in Zhejiang, and 7 in Liaoning. These interviews were supplemented by interviews with 7 government officials (provincial and city levels), and 7 Chinese academics and professionals. In total, 54 interviews were conducted in Mandarin, at the companies in China. While majority of those interviewed were PRC nationals, some Singaporean executives residing in China were also amongst those interviewed.

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A similar set of interviews was conducted in Singapore. These included 23 executives with business experience in China; 6 government officials, and 5 academics and professionals. Most Singaporean executives who were contacted had traveled widely in China, and it was therefore decided not to attempt to interview only executives who had exclusive interests in Liaoning or Zhejiang. In total, 34 interviews were conducted in Singapore, and the majority of those interviewed in Singapore were Chinese Singaporeans.

Details of Interviews

1. **Nationality of Interviewees**
   A total of 88 interviews were held during the research. In China the team interviewed 54 individuals of whom 45 were PRC nationals, 8 were Singaporeans and 1 was Malaysian. In Singapore the team interviewed a total of 34 individuals of whom 3 were PRC nationals, 30 were Singaporeans and 1 was Malaysian.

2. **Professional Breakdown**
   Most of the interviewees were business executives (71.5 per cent). In China, the interviewees included 40 business executives, 7 government officials and 7 academics. In Singapore the interviewees were 23 business executives, 6 government officials and 5 academics.

3. **Industry Coverage**
   The largest coverage of interviews was in manufacturing (42 per cent), followed by real estate (22 per cent), IT/consulting/education (20 per cent) and the remainder in shipping, logistics and trading.

   In China the team interviewed 24 manufacturing establishments, 4 real estate/leisure companies, 3 shipping and logistics companies, 4 IT/consulting companies and 1 trading company.

   In Singapore the interviews were held with 1 manufacturing establishment, 9 real estate/leisure companies, 4 shipping and logistics companies, 8 IT/consulting/education companies and 1 trading company.

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4. Ownership

The largest component of companies interviewed was privately owned (69 per cent), followed by (GLC) government-linked companies (22 per cent), with the remainder amongst the subsidiaries of multinational corporations.

In China the interviewed companies included 25 privately owned Singapore joint-ventures, 8 GLC businesses and 3 subsidiaries of multinationals.

In Singapore the interviewed list consisted of 16 private companies, 5 GLCs and 2 subsidiaries of multinationals.

5. Time of Entry into China

Most (58 per cent) of the companies had entered China between 1993 and 1998, while around an equal number had entered China before 1993, and after 1998.

In the interviewed list in China 25 companies arrived between 1993 and 1998, 5 arrived before 1993, and 6 after 1998.

In the Singapore list 9 companies went to China between 1993 and 1998, 8 went before 1993, and 6 after 1998.

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APPENDIX 2

A CROSS-BORDER INVESTMENT MODEL
by
Yuwa Hedrick-Wong

Singapore's investment and business entry into China can be viewed along three dimensions — use of internal resources, the external market environment, and the organizational structure though which business has been pursued. These three dimensions allow a firm to decide how best to approach a particular market. In selecting an appropriate combination among the three dimensions, firms also posit a specific view and expectation of the environment in which it intends to operate. Likewise, these three dimensions offer the host country a view of how the investor perceives the business opportunity and allows the host country to calibrate how much of a match there is in expectations between the two parties. The existence of wide gaps in each dimension, or in some of the dimensions, highlights the issues that arise in operating in these environments.

This approach to understanding the investment decision and the gaps that arise is a "high-level" model for organizing data and information more effectively while constituting a framework for generating new insights. It draws its inspiration from the literature of industrial organization, applying it to cross-border investment. In essence, the framework consists of three dimensions:

(i) Conditions of the quality and quantity of internal resources;
(ii) Conditions relating to the market environment; and
(iii) Conditions relating to organization structure.

Taken together these three sets of conditions help determine why and how a firm would decide to invest in a particular market, forming an "investment decision triangle" as shown below.

"Conditions of the quality and quantity of internal resources" include financial resources, information capability and data, technological resources (especially proprietary and patented products), and also, real or perceived access to government authorities in both the host country and the country of origin of the investment. A business firm trying to decide if it should

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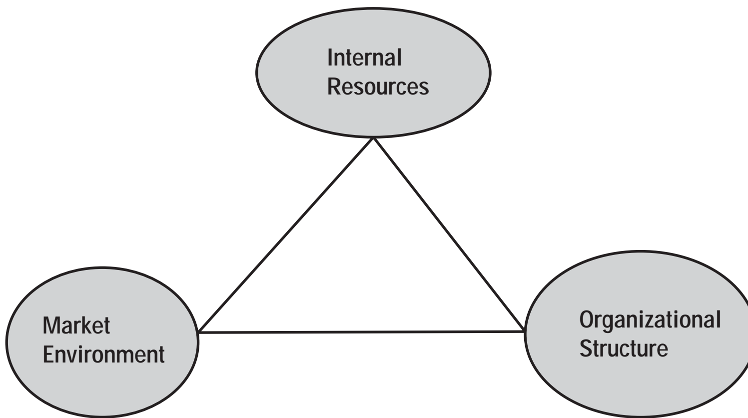
FIGURE A.1
The Investment Decision Triangle



invest in the target market must assess how strong its internal resources are in relation to the expected challenges faced in the host market.

"Conditions relating to the market environment" refer to the pertinent "on-the-ground" conditions in the targetted markets. These would include wages and labour productivity, factor input supplies, physical infrastructure (including transportation and logistics), communications infrastructure, trade facilitation processes, local market demand, presence or absence of clusters of associated producers and suppliers, and, real and perceived social and cultural affinity between the investing firm and the host country. The firm in question must then question the extent to which these conditions can be exploited effectively in order to support the investment.

"Conditions relating to organizational structure" concern issues within the firm itself, and revolve around two key considerations — the transaction costs of producing overseas and the management of overseas production. The latter, the management of overseas production, is in turn affected by the industry and the product type(s) the firm is engaged in. Some product types such as garment and furniture manufacturing at one end of the spectrum and electronic parts at the other end, are easier for overseas production followed by reassembly in the home country or even in a third

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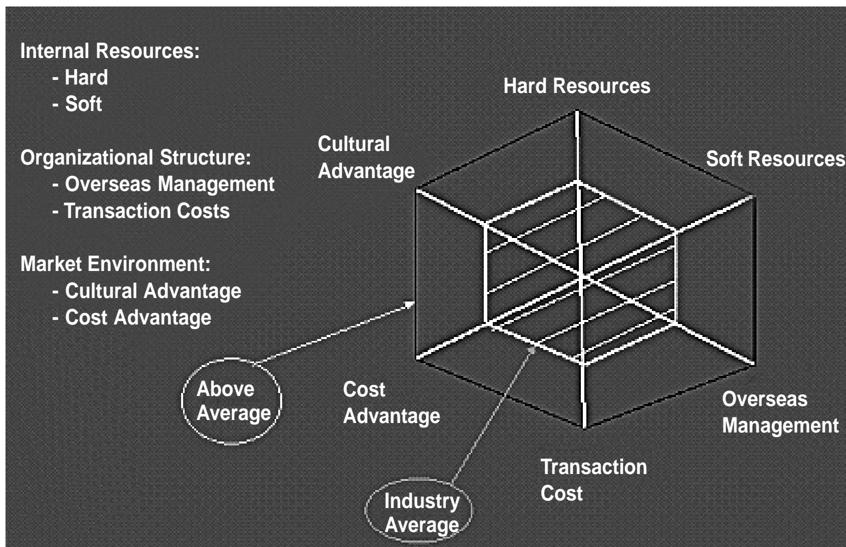
country. Other products such as those in the heavy industries and construction are less amenable to distributed production. Thus, the complexity of overseas production can challenge management capability depending on the nature of the industry and its inherent characteristics.

A decision to invest in a particular market has to, therefore, balance these three sets of considerations. At a highly generalized level, this process can be represented by the following chart.

The internal resources can be summarized as being either hard or soft. Hard resources are the technological and financial resources of the firm, whereas the soft resources are the firm's ability to access government assistance and build strong relations with the pertinent authorities and the like.

"Market environment" is also in turn summarized as two indicators. Cost advantages refer to whether the firm can exploit the lower wages and production costs of the target market, and whether the local infrastructure and logistics conditions are also cost-effective. Cultural advantage, on the

FIGURE A.2



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other hand, refers to whether the perceived cultural affinity (or the lack of) could be utilized to the firm's advantage.

"Organizational structure" considerations are condensed into the issues of transaction costs and overseas management. Transaction costs are cost differences related to having some production steps done overseas versus having them done in the home market. Different organizations could have different transaction costs depending on internal efficiency, structure and the processes prevalent within the firms. Overseas management refers to the strength of the management structure and its capabilities in coping with an overseas operation.

All these different nodes of the generalized framework are touched upon in the interview data obtained in this study. For example:

- Perceived strength in "soft resources" plus "cultural advantage" is meant to ease the overseas management challenges and reduce transaction costs, while facilitating the exploitation of the "cost advantage" of the host market. However, when the Chinese counterparts perceive that the strength of the Singapore firm is in its "hard resources", this gap in perceptions may actually increase the transaction costs, increase the burden of overseas management challenges, and reduce the effectiveness of the local cost advantage.
- The perceived "cultural advantage" therefore becomes a disadvantage because of a rigid management style that is incompatible with and unwilling to conform to local business practices. This disadvantage results in the erosion of some of the "soft resources" along with the local "cost advantage", and begins to tax "hard resources" further.

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APPENDIX 3

OPERATING IN CHINA: ISSUES CASE STUDY 1 (IT COMPANY)

The IT industry has been growing rapidly in China. A Singapore firm was one of the main suppliers of intelligent building control technology when it first established a presence in China. As it became more involved in the market, it faced several challenges:

- *Regulatory restrictions.* The company had to seek a local partner because government regulations did not permit foreign companies to bid for contracts related to domestic construction projects.
- *Market risk sharing.* China's regional governments require large-sized projects to be split into many smaller ones to diversify the risks. This limits the scale of participation for the Singapore company which depends on scale for profitability.
- *Need for Singapore Government support.* In China, the government is usually responsible for the sourcing of large-scale infrastructure projects. The Singapore company sought and obtained the support of the Singapore general consul in Xiamen to contact officials of the Guangzhou government to facilitate its participation.
- *Handling power relations.* While construction projects in China are handled by the public sector, the success of a bid depends on effective communications between the decision-maker and bidder. This process involves rent-seeking, and payment of commissions. In some instances projects are channelled through specific agencies which are responsible for handling bidders. The Singapore company was seriously hampered in its attempts in dealing with the public sector in several of its early projects because of its inability to develop and nurture power relations.
- *Regional differences.* Different regions in China have different "rules of the game". In Beijing, for example, the middlemen believe in getting the cash upfront whether the business transaction succeeds or not. In Shanghai, on the other hand, the middlemen are expected to be compensated only after the contract is won. The Singapore company had to learn these regional differences over a long period of experience.

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- *Financial restrictions.* Although the Singapore company learned the rules after a few years, it was prevented from some of these "extraneous" expenditures by the parent company in Singapore. This led to it being unable to compete with Chinese companies that brazenly obtained business, operating with flexibility by settling brokerages and commissions as needed.

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APPENDIX 3
OPERATING IN CHINA: ISSUES CASE STUDY 2 (MANUFACTURING COMPANY)

This is joint-venture between a Singapore listed trading company and Chinese small valve manufacturer. The Singapore company was seeking a a manufacturing base in China, while the Chinese partner hoped to take advantage of preferential taxes, tax exemption for first three years followed by fifty-per cent tax reduction in the following two years. The Singapore partner put up the cash, while the Chinese partner provided the workshop, equipment and land.

- *No profits for six years.* In the first year all profits were distributed with nothing left for the company. For the following six years, the company had no profits because of rising material costs and intense competition.
- *Lack of strategic objective.* There was no long-term plan to develop the products or the market. The Singapore partner was a trading company with little knowledge of manufacturing, while the Chinese partner was a state-owned enterprise with no experience in market economics. This weakness allowed Taiwanese and other PRC companies to compete aggressively against it.
- *No core competency.* The product, valves, is low value added and material costs constitute 80 per cent of the cost of the product. Prices of valves have declined by 70 per cent but material costs have increased dramatically. Most of the employees are from the state-owned sector and have no cost efficiency yardsticks or understanding of product cost management.
- *Differences in cost control and lack of trust.* Singapore managers of the joint-venture spend most of their time on internal cost control while Chinese managers from the state-owned sector have little regard for cost control. Singapore managers insisted on documenting expense items for entertainment, which the Chinese managers found impossible to accept and considered to be an indication of a lack of trust.

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- *Compensation gap.* Chinese managers from the state-owned sector could not understand why the Singapore general manager is paid $86,000 a year, while an ordinary employee's income is between $20,000 and 30,000, especially when the company is in the red.
- *Differences in corporate culture.* In Chinese SOEs, the labour union is considered part of the enterprise and union costs are borne by the enterprise. The Singapore general manager's view was that union activity was not part of the company's cost burden and was unwilling to support the union with company funds. This led to a decline in relationships between both parties with morale being eroded rapidly.

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