The Internationalization Of Singapore's State Enterprise Network:

Notes On Singapore's Gambits In The Gulf Region[1]

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The Singapore system of state-led, market interventions and its concerted attempts at creating overseas infrastructural-industrial township projects have received its share of controversies. These state-engineered projects are premised on the exportability of Singapore's state credibility, systemic and operational efficiencies as well as technological competencies of Singapore companies, government-linked or not, to locations where the attributes are less distinct. This paper, as part of our series on this topic, revisits the city-state's determined efforts to encapsulate economic space for Singapore-based firms to expand beyond the region, and tests the efficacy of the 'Singapore system' exported to foreign locales. This research, however, takes on an 'Arabian allure', as we present evidence from the gambits of Singapore's government-linked companies in Bahrain and the United Arab Emirates. Our results show that the strategic advantage created in the Singapore-styled projects remains uncertain; as well, we find that socio-political intricacies in the host environments continue to stymie efforts to import competencies and business practices.

Field of Research: Singapore's Government-Linked Companies, GCC Countries.

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1. Introduction

Alternately lauded and vilified, the city-state Singapore's state-led regionalization stratagem has been the subject of much discussion. Taking the form of industrial township projects constructed in China, Vietnam and Indonesia through the convenient vehicle of government-linked companies (GLCs) by the Singapore and host governments, this stratagem has been characterized by the heavy intervention of the state, from the formulation and planning stages, to the negotiation of unprecedented privileges and incentives, to the very management of the projects themselves The efficacy of this stratagem remains a matter of debate (Yeoh et al, 2006; How & Yeoh, 2007). That said, the Singapore government, practical-minded as it is, has already looked further afield for ways to create economic space for the city-state, and its corporate components. Such, indeed, has been the case. Singapore's aims have expanded, arguably, from regionalization to internationalization; and the latest area of focus for the city-state is the rich, vibrant and expanding region of the Gulf Co-operation Council (GCC).

As such, we turn our sights on this internationalization of Singapore companies of various stripes into the Middle East, or specifically, the GCC countries. This preliminary paper presents an overview of Singapore's gambits in the region, and case studies of selected GLCs, paying particular attention to the impact of local socio-political influences, and the successful (or not) transfer of core competencies in question, the closest corollary to the 'Singapore brand name' which the country's internationalization initiatives were predicated upon. We hope to both provide a reasonably up-to-date panorama into the role of Singapore companies in the Middle East, and build a basis for further research into this fascinating region, and the enigmatic methodology which the city-state continues to employ in its internationalization efforts.

The theoretical considerations are set out in the next section.

2. Literature Review

Dunning's (1988) eclectic paradigm sought to provide the analytical basis for explaining the patterns and activities of firms beyond their national boundaries. The OLI paradigm seeks to explain the ability and willingness of firms to serve markets, and to look into the reasons for their choice of exploiting this advantage through foreign production rather than domestic production, exports or portfolio resource flows through the interaction of Ownership-specific (O) advantages, Location-specific (L) advantages, and Internalization-incentive (I) advantages. Specifically, the OLI paradigm postulates that foreign investment will only occur if it is advantageous combine spatially transferable intermediate products in the home country, with at least some immobile factor endowments or other intermediate products in another country (Dunning, 2000).

The framework goes on to assert that the importance of each advantage of the OLI triumvirate, and the relationships between them, varies across firms, industries and countries, and are context-specific; based on factors, including the firm's country of origin, and the country it seeks to invest in. Subsequent iterations drew attention to L-advantages (Dunning, 1998) and agglomeration benefits of knowledge spillovers,, transactional benefits of spatial proximity and immobile clusters of complementary value-added activities (surveyed in Jovanovic, 2003)). As well, as firm's core competencies become increasingly knowledge-intensive, the location in which firms locate their production, organization and use of assets emerges as a critical competitive advantage. MNEs continue to seek locations (economic and institutional facilities) that are best utilizing their core competencies.

More recent literature has widened the ambit towards the role of governments in advancing the competitiveness of a country (or region within a country), as created assets supersede natural factor endowments as the key determinants of location (Dunning, 1995; Stopford, 1999). Inter alia, governments need to ensure that availability, quality and cost effectiveness of general purpose inputs match up to the standards of their global competitors, create and sustain an institutional framework and ethos that facilitates a continuous upgrading of the resources and capabilities within its jurisdiction and facilitate, rather than impede micro-regional clusters development and upgrading (Porter, 2000).

Singapore's gambits in the GCC countries represent collaborative efforts by the Singapore and respective local governments to create location-bound advantages within more uncertain environments, through a propitious combination of cost-effective factors of production, efficient infrastructure and management expertise, i.e. supplementing natural location-specific advantages with engineered ones crafted to complement the economic diversification efforts in the host locations. The strong presence of Singapore's GLCs amongst the internationalizing firms, and the plethora of incentives made available to Singapore firms venturing into the GCC, maintain the relevance of discussion, *inter alia*, Dunning's alliance capitalism

In the following section, we sketch the business landscape of the GCC economies. This is followed by an overview of Singapore's gambits in the Gulf region, and case studies of two Singapore government-linked companies. We conclude with our findings on the state of Singapore internationalization into the Gulf region.

3. Cities In The Desert

The current prominence of the GCC economies in terms of business opportunities in general, and property developments in particular, has been the direct result of a pace of construction nothing short of breakneck, and a scale of investment only describable as overwhelmingly immense. Driven, popular knowledge claims, primarily by surges in oil prices and consumption in the late 1990s to early 2000s, this increased focus on the development of infrastructure, tourism, and industrial and educational foundations in the less troubled parts of the Middle East was born from the realization that oil could not continue to be the main and only relevant revenue stream of the region (Abouchakra, et al, 2008). Thus, there existed a need to strongly promote the region, to overcome a measure of international ignorance owing to the tendency of the popular media to focus on the unstable elements of the Middle East, and exacerbated by the terrorism phenomenon. As such, there has been the plethora of mega-projects completed or being undertaken across the region ranging from artificial islands in Dubai to relatively smaller, but still immense, construction initiatives that have served as the poster children for the development of the GCC economies (Dubai Strategic Plan 2015).

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Statistics and scenarios aside, however, it's clear that the fast-growing cities of the GCC will continue to draw the world's attention for the foreseeable future (World Economic Forum, 2007); and for a city-state such as Singapore, determined to re-engineer its economic space, it presents new opportunities for Singapore companies to leverage on its track record in city-scale infrastructure implementation. The countries (Bahrain and UAE) chosen for this paper have, in fact, shown a keen prior and current interest towards supporting a Singaporean business presence within their borders; Singapore's positive reputation and service offerings, it seems, help to ensure a strong positioning in GCC government and business circles, further aided by the "looking east" strategy adopted by GCC countries, post-911.

4. Singapore's Gambits …

There is a strong demand for Singaporean presence in the Gulf region, and Singapore's service offerings have a strong positioning. The Singapore brand is highly regarded, seen as a standard of quality in Arab government and business circles. They are keen to learn from Singapore's track record in city-scale infrastructure implementation. With most Middle East economies dominated by government spending, especially through state-backed GLCs, it is easy for Singapore to fully capitalise on the city-state's positive reputation.

This strategy itself is a synergy of state intervention policies. Political leaders, in the initial phase, negotiate the projects' institutional framework that typically involves the garnering of special investment conditions in the host locations. They also secure endorsements from host-country governments to provide political patronage and protection to the projects, which are critical for attracting potential investors. Following which, government-led consortia, typically comprising of Singapore government agencies and GLCs, take on the role of primary investors in the Singapore-styled developments; justified by the perceived reluctance of firms in the private-sector to take on investments of such gargantuan scale, and given the considerable time lag before any realization of investment would materialize. The Singapore government takes on the role of a `business architect' and `knowledge arbitrageur', identifies business opportunities, and brings together the private sector and commercial segments of the public sector in Singapore, as well as foreign companies with specific competencies, to undertake these large-scale projects. The presence of government agencies and government-linked companies adds weight to this internationalization stratagem.

Singapore companies entered the first phase of the GCC boom with architects, developers and master planners having successfully marketed the Singapore brand in the region. Broadly classified, Singapore companies that have made the internationalized into the GCC countries fall into several classifications, with Singapore GLCs leading the way into this relatively new frontier of investment and internationalization, but with non-GLCs following close behind, relying for the most part on their own business acumen and strategies, but taking advantage of support from both Singapore governmental entities and business groups which have also taken a keen interest in the internationalization efforts.

Markedly different, however, is the precise strategy adopted by the city-state in the GCC countries; while, due to a current focus on expansion and construction, the industrial-park or business-park model is untenable, absent, too, is the highly interventionist and state-led strategy seen in the previous Regionalization 21 initiative. Singapore GLCs are still prevalent, but appear to have been given a freer hand, more in line with the ‘C’ then the ‘GL’; this corporate-represented internationalization, it seems, is the ‘new way’ forward for the Singapore government – at least in the Middle East – and represents a distinct departure from their previous stratagem. As well, a number of non-GLCs in consultancy services, lifestyle and entertainment services, food and beverage operations and retail-franchise arrangements have also made their own way over, albeit with some level of support from Singapore government agencies.

As alluded, there exists a clear distinction between Singapore entrants into the GCC countries, which comprise GLCs on one side of the divide, with policy-based goals jostling for space with corporate ones, and their non-GLC counterparts with less lofty and more practical aspirations on the other. Thus, while the majority of GLCs such as CapitaLand, Jurong International, Keppel Corporation and Surbana are involved in property and/or infrastructure development, with the attendant issues of scale, non-GLCs expanding in the region can be further categorized into those also involved in consultancy services like DP Architects, and RSP Architects; in lifestyle and entertainment services like Cathay; in food and beverage operations like BreadTalk and Pastamania; in retail-franchise arrangements such as Charles & Keith and Royal Sporting House; and in the next phase, from healthcare services such as Raffles Medical Group.

The next section presents two case studies of Singapore GLCs in the Gulf region, and the insights that may be gleaned from their gambits.

5. Case Studies

5.1 Company A: Property Development (Commercial & Residential)

Among the largest and oldest players in Singapore's property and development industry through the dual advantages of government links, massive capital reserves and a proven international track record, Company A finds itself in much the opposite position in the Middle East; a rather late entrant which, by a measure of scale, finds itself a half-magnitude or so below some of the major players in the region. Some measure of prescience, perhaps, was shown in the company placing its 2005 entries in Bahrain and Abu Dhabi, which both have the same deep pockets but lack the degree of overcrowding seen at the time in Dubai, and which are, apparently, not yet 'mature markets', at least in the property and development industry. Certainly, the springboard potential of these two locations were a factor as well – Bahrain for its financial hub status across the entire region, and a test-bed for the Saudi market, and Abu Dhabi as the second most convenient location to infiltrate the UAE market. The trigger for entry in both cases, however, appears to have been the same – an invitation by local firms to enter into a partnership for particular projects. No such convenient invitation from Dubai appears to have materialized for Company A as yet – nor does one look likely to be forthcoming now, that the emirate in question has problems of its own.

Similarly, the local partners in both Bahrain and Abu Dhabi play the role of liaison and buffer, having brought Company A into their respective markets and shielding it from socio-political forces. For the ostensible sake of coordinating efforts with said local partners, Company A, which technically has four arms to its property and development business, has chosen in both cases to bring only its real estate expertise to the table, unwilling, it seems, to extend its product line to corporate offices (this being partially a function of the nature of the developments it is involved in), nor finding it necessary to provide financial services when such a deep and ready pool of capital already lies in the region. Also, the projects it is undertaking in both cities are iconic and immense, of which the company is responsible for the construction of a good percentage thereof; in other words, projects which can make or break the company's foray into the region. Company A seems prepared to tackle the sheer scale of these projects, and not just because of a greater wealth of experience with large-scale projects, but it also has fewer reservations with making a significant capital commitment to its operations in Bahrain and Abu Dhabi; its Bahrain operations are funded by a *shariah*-compliant fund, with capital of over US$350 million, invested expressly for this venture, whereas interviews reveal a far greater willingness than most to glut staff counts when necessary. This staff complement, however, is still strongly Singaporean-dominated, owing to the company's GLC status; and while these regional offices enjoy a far greater degree of autonomy, the representatives of these offices reveal a worrying amount of competitive focus on competitors in the home region (i.e. from around Singapore) rather than on major international players in the same market, many of whom (as previously noted) already saturate Dubai, extend feelers into Abu Dhabi, and are far from being unknown in Bahrain. Perhaps the company believes it has time to establish a brand name and solid market presence before it has to truly deal with such competitors in its markets of choice.

A further issue, in fact, lies in the nature of aforementioned ‘brand name’, where much of the goodwill accrued by the said brand is predicated upon the conjunction of the various parts of its operations, including all four arms of its property and development business – which have not all been implanted into its Middle East operations. This will be somewhat hard to achieve, when one is not the majority owner of the said properties, and will have local politics and tribal allegiances to consider, as is the situation Company A will find itself in Bahrain and Abu Dhabi – and especially when it has not yet even been confirmed that the company will take on management of the development. It is a fact that dispute has arisen at the current time pertaining to this very issue; conflict triggered, perhaps, by recent global recession, but one with its roots in the very foundation of the project, and the approach undertaken by Company A. Strategy, in this case, may very well have spawned a disconnect with competency; and given the scale and iconic status of Company A’s initial foray into these two territories, any form of failure may well prove fatal to the company’s further development in the region.

5.2 Company B: Property Development (Industrial)

Company B is another Singapore government-linked company extending its operations into the Middle East. Company B focuses on industrial development projects, rather than hospitality, retail or lifestyle developments; also, while initially purely a consultancy firm, the company has recently expanded into the actual planning of industrial townships, and is currently engaged in an iconic industrial development in Abu Dhabi. It has also since established offices in other emirates in the UAE, Qatar and recently, Saudi Arabia.

Company B is, in fact, a relatively recent entity, having been incorporated in 2001, but being a GLC, inherited much of its staff, contacts, contracts, and operational procedures from its parent agencies and companies. Its current contract in Abu Dhabi, indeed, appears to have been one of these inherited contracts; its parent bodies having initially been invited to review the abovementioned development before its incorporation. As such, the company shares many of the aspects of the GLCs of its type, including the mechanism by which it entered the Middle East – through invitation – and the issues which it has encountered thus far, including, at the current time, the presence of many internationally renowned players in the property development sector having arrived and established themselves beforehand. The company has, however, developed a positive reputation for itself in the years since its conception, partially owing to the large degree of autonomy granted to its regional offices, resulting in a greater capacity for adaptation to local socio-political forces, and eliminating the time delay that a greater reliance on the home office in Singapore would spawn. And, indeed, the company appears to have been rather more proactive in its internationalization approach than most; while, like many other GLCs, its chosen mode of entry is through joint ventures and partnerships with politically powerful partner firms (often local GLCs themselves), Company B appears to have been the inviter as often as it has been, so to speak, the invitee. This is, we feel, a positive contributor towards the company's nascent but growing reputation in the Middle East, and appears to have been a key factor in their relatively rapid expansion across the region. Another contributing factor, perhaps, is the company's stated focus on teamwork and integrity; a focus that not only echoes Singapore's purported selling points, but resounds with their highly social and trust-oriented Arabic partners.

Yet, these same 'selling points' contain an issue endemic to most GLCs expanding into the region; the expectation, from both local partners as well as the home office, of the company exporting Singapore's qualities of efficiency and reliability. From the home office, this translates into pressure on the company to achieve goals not immediate to the success of their projects, or indeed to their operations in general; from local partners, this creates the perennial risk of the occurrence of an expectation gap resulting from the impact of socio-political factors. Thus far, however, such disconnect in goals and communication does not seem imminent; perhaps, indeed, precisely *because* of the company's relatively recent ‘conception’. Company B, in fact, appears to be one of the more positive role models among Singapore’s GLCs in the Middle East thus far; a testament, perhaps, to a more decentralized approach to Singapore internationalization, and one with less political baggage.

5.3 Discussion

Our research on the internationalization of Singapore companies into the GCC reveals a somewhat disturbing, but not altogether unexpected, reliance on local (GCC) partners and equally Singaporean third-party organizations such as IE Singapore to shield firms, government-linked or otherwise, from the region’s reportedly rocky socio-political forces. Unsurprising, it echoes the ‘partnerships’ with host governments that were the chosen vehicle for past Singapore’s regionalization initiatives, a strategy with obvious limitations. Some are immediately apparent, such as the possibility of conflicting goals causing friction between partners, and threatening to derail the project itself, and some initially less so, until some years further on, when Singaporean companies find themselves with limited relevance due to ‘local partners’ learning from their processes and expertise. The former, in the wake of the global financial crisis, have already emerged, with the primarily business concerns of local partners finding areas of disconnect with their Singapore counterparts, amidst financial aftershocks. At the point of writing, it is unknown, and somewhat doubtful, whether many of the Singapore companies, GLCs or not, will be able to step up to the plate of ‘doing business in the Gulf region’ without a guiding hand. Most Singapore companies, it seems, have yet to embrace fully a true entrepreneurial mindset in their internationalization efforts.

Conversant to the above, the transfer of core competencies by these companies to their operations in the Gulf region appear to have been, by and large, been performed under the aegis of the same local partnerships, with rather mixed results. For Company A,, it is plausible that not *enough* competencies may have been imported into their GCC operations; certainly not enough to have conclusive, or even inferential, proof as to how effective the competencies may or may not have been. These observations dovetail neatly with those expressed in our interviews with representatives from both IE Singapore and the Singapore Business Federation, particularly with regards to over-reliance on 'core competencies' and weakness in relationship management; issues which, we note from our past research, appear endemic to Singapore companies in other regions, but which have all the more negative impact in cryptic environments of the Gulf region.

Intuitively, and interestingly, we find that firms with a more international focus had fewer issues with the new socio-political environments of the region; presumably due to said more international focus, as opposed to a preoccupation with domestic issues, creating a greater flexibility in operations. This often translates to an equivalent willingness to adapt. Such an international focus is also generally less conducive to the identification of particular business concepts and qualities as 'core competencies' – which, by and large, we find unhelpful, and possibly even hindering, operations in the Gulf region. Thus, the theorized necessity for companies to leave behind pre-conceptions, realize the need to enact change in challenging environments, and to build new wings to their business, with expertise, but not expectations. It is interesting that a relatively new entity among Singapore GLCs (Company B), should seem to find less trouble in taking a pro-active, international, and adaptive approach to business in the GCC countries.

6. Conclusion

Our previous research into Singapore's regionalization programs provides telling evidence towards the critical importance of the socio-political dimension towards the location and eventual performance of international investment. Further theoretical consideration is given rise to, by the ramifications of this relatively hands-off approach to internationalization in the context of the Singapore gambits in the Gulf region; more so, given the discourse on the efficacy and sustainability of the entrepreneurial state, and the quandary of the above in relation to Singapore's historical underdevelopment of indigenous entrepreneurship. Singapore's new approach in the Gulf region may well be interpreted as an attempt at paradigm shift; from the above, however, it appears that new viewpoints, in one way or another, may be necessary for the realization of this goal. Perhaps, even in a literal sense, developing a good eye for business in the Gulf region, and elsewhere in the Middle East, may be as simple as a pair of new glasses!

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