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Running Just to Stay Still: Singapore's FDI-Attraction Strategies (1965-2005)

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Introduction

In an era of rapid economic globalization, many countries have implemented foreign direct investment (FDI)-oriented development strategies. More specifically, many now have active policies to attract FDI with the hope that it will bring about local economic and social development. The consequence of the proliferation of FDI-oriented development strategies, especially across the 'developing world,' is that there has necessarily been an increase in inter-governmental competition for FDI. This paper will examine the experience of Singapore, a country that has had an active FDI-oriented development strategy since its national independence in 1965 through to the present day (2005). Although Singapore has been relatively successful at attracting FDI and effective in harnessing this FDI for economic and social development, the reality is that the competition has been 'tough'. The Singapore government—along with the Singapore Economic Development Board, a state agency tasked with attracting investments—has had to constantly come up with so-called 'innovative' strategies to stay ahead of the competition, of which some have been successful while others less successful. By examining Singapore's FDI-attraction strategies, this preliminary working paper hopes to understand the processes that underpin inter-governmental competition for FDI.

Understanding 'FDI-Competition'

It must be noted that FDI is itself a heavily contested concept, both in the policy and the academic arenas. At the policy level, there are debates over how to define the various components of FDI for purposes of national economic accounting (see for example OECD 1999). At the academic level, FDI can refer to many different aspects of business activity, ranging from 'greenfield industrial foreign direct investment' to 'mergers and acquisition FDI.' For this paper, FDI is, broadly defined as '…an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Furthermore, in the case of FDI, the investor's purpose is to gain an effective voice in the management of the enterprise.' (UNCTAD 2004: 231)

Under such a definition, instances of FDI would include a firm establishing an overseas affiliate, as well as buying a controlling stake in a foreign firm.[i] As such, this definition of FDI is somewhat similar to the technical notion of 'inward FDI' (UNCTAD 2004), where FDI represents the strategy of a firm seeking to expand its presence overseas, either to acquire resources or to penetrate new markets (see Vernon 1966, Dunning 1981 and 1993, and Hennart 1982).

However, FDI does not appear out of nowhere. FDI is really an investment made by a (for-profit) firm, often known as a 'global' firm:

> The global firm and conglomerate is a design for survival under the competitive conditions of the new era. Its ability to scan the globe for investment possibilities makes possible a rational assignment of resources and ruthless pursuit of the exact combination of local policies, labour conditions, transport considerations, and so forth for any commodity or part. (Ross and Trachte, 1990: 66)

The literature on global firms—sometimes also known as multinational or transnational corporations—suggests that they invest abroad with two objectives in mind:[ii] (1) to source more 'efficient' factors of production, and (2) to penetrate new markets (see Henderson *et al*. 2002). The underlying motivation for these firms is to maximize profits. Factors of production are the elements necessary for the production of goods. There are primary as well as secondary factors of production; the former refers to factors that contribute directly towards production, including land, labour, raw materials, and capital. However, equally important are secondary factors, which include any element that supplements the industrial production processes, including state policy, fiscal incentives, financial inducements, tariffs, availability of infrastructure, and political stability (Dobson 1997: 7). It is commonly assumed that capitalistic and profit-seeking enterprises will only seek out the lowest costs factors of production; however the reality is that the quality of factors is often as important as the cost for some global firms (see Hayter 1997). There are many reasons why the quality and cost of factors of production vary from location to location. The most commonly cited reason is known as 'uneven development,' where historical, political and economic factors affect the level of economic development of a particular society. However, it has to be noted that global firms will strategically attempt to take advantage of the uneven economic development between countries or regions in order to find the most 'efficient' and 'cost effective' factors of production, which in turn will directly improve their profits. The

second objective refers to the penetration of new markets. Here, the term generally refers to the market for the products or services. The market may be the public consumers, but it might also be other enterprises which have a demand for the product. It is very important to globally-oriented firms to constantly expand their markets, as this will greatly enhance their profits. In a hypothetical situation, the best-case scenario would be for the firm to export its products to a new market in another country. Just as a government cannot expect FDI to appear at will, firms cannot assume that they have access to any particular country. Some governments may put up certain barriers to protect the local market. It therefore can be concluded that FDI flow (the eventual destination of FDI) depends on both firm strategy and state strategy (Howells and Wood 1993).

In some cases, FDI is really entirely about the strategy of the global firm. For example, if it makes business sense for a Japanese company to invest in a new production plant in the USA, it will do so accordingly, as it will improve its profitability. This process is known as 'market-driven FDI,' where 'market' conditions determines the eventual destination of FDI. However, in recent years, many governments have been intentionally enticing and attracting FDI, ostensibly as a strategy to boost domestic economic and social development, with the promise of bringing about employment growth, revenue generation, technology transfer and other spillover benefits to the local economy (Sklair 1994; Lall 1996).

There were several historical and global economic reasons why FDI became the central thrust of national development policies for many governments particularly from the 1980s onwards. Firstly, communism and socialism were abandoned in many countries. As part of this economic reform, many governments turned to FDI as a strategy to jump-start their domestic economies (see Sachs 1999). Secondly, several national governments—such as the governments of the USA and UK—as well as several non-governmental transnational organizations—such as the International Monetary Fund, the World Bank, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization (UNIDO), and the Organization for Economic Cooperation and Development (OECD)—were promoting neo-liberal economic policies to the governments of developing countries. The aim was the reduction of tariffs and economic barriers to trade; however, many of the governments of developing countries realized that since they were 'pressured' into participating in the process of

economic globalization, they might as well benefit from it. This therefore encouraged some governments to adopt FDI-oriented strategies, some rather grudgingly. Lastly, there were many firms that had adopted a ‘global’ strategy during that era. These firms, mainly from the saturated home markets of the USA, Western Europe and even East Asia (including Japan and South Korea), were looking ‘abroad’ for new sources of growth. Hence, they saw FDI as their best strategy for economic expansion. All of these factors worked together to cause a ‘hyperbolic’ increase in the volumes of FDI worldwide, especially between 1980 and 2000 (see Table 1).

Table 1: World FDI inflows (selected years)

Year	*Volume (US$m)*
1970	13,434
1975	27,380
1980	55,108
1985	57,645
1990	207,878
1995	341,086
1996	392,922
1997	487,878
1998	701,124
1999	1,092,052
2000	1,396,539
2001	825,925
2002	716,128
2003	632,599
2004	648,146

Source: http://stats.UNCTAD.org/fdi

However, as more governments adopted FDI-oriented development strategies, the inter-governmental competition for FDI correspondingly intensified (Oman 2000; Thomas 2000). Then, since the late 1990s, the growth of FDI inflows globally has apparently hit a plateau, or at least has not increased as rapidly as it has between 1980 and 2000. With this slowdown in supply but an increase in demand, it could be forecast that the competition for FDI will intensify even further, especially since FDI is really a zero-sum game. Yet, governments continued to incorporate FDI attraction as part of their developmental strategy. Even sub-national governments, such as regional authorities and city authorities are also competing to attract FDI for their own development projects.

But what exactly is the nature of competition amongst governments for FDI? How do governments actually compete? What are the rules of the competition, if any? This preliminary working paper will draw on entrepreneurship theories to explain the processes that underpin competition in general, and inter-governmental competition for FDI more specifically. Entrepreneurship refers to a process where specific economic agents introduce new products or create new market opportunities as a strategy to stay ahead of the competition (see Schumpeter [1934] 1968, Kirzner 1979). An effective or successful entrepreneur must therefore have the ability to capture niches in the market. Put another way, the successful entrepreneur must provide products or services that its competitor is unable to provide (see Shane 2003). Entrepreneurship theory is an important add-on to basic competition theory. The latter explains how products and services generally 'compete' on the basis of price and/or quality, while the former extends the explanation to the introduction of new products and services into the market (see Davidsson 2003: 9).

Given that global firms are seeking the most optimal locations where they can invest, it can be assumed that the price and quality of the factors of production (both primary and secondary), along with the potential of the domestic market, are key factors in the inter-governmental competition for FDI. This paper will assume that governments will have the capacity to make both aspects available (supply) to the global firm (demand). In addition to this, entrepreneurship theory suggests that the market is dynamic, as entrepreneurs (i.e. innovative governments) might introduce new products or create new markets, in order to attract the attention of the global firm. Also, the current environment is one where there is more supply than there is demand for such aspects (i.e. many governments are competing for a limited supply of FDI).

This paper will use these theoretical tools to explain Singapore's FDI-attraction experience between 1965 and 2005, and to illustrate the nature of inter-governmental competition for FDI. Data for this analysis will be drawn from official state statistics and publications as well as secondary literature.

Case Study: Singapore

The case of Singapore is particularly useful not only because the government of Singapore adopted an overtly FDI-oriented strategy since political independence in 1965, but also because it has been regularly cited as being highly successful at attracting FDI for purposes of development (see table 2).

Table 2: World's Top 20 FDI recipients (2003-4)

No	Name	US$m
	USA	95,859
	UK	78,399
	China	60,630
	Luxembourg	57,000
	Australia	42,594
	Belgium	34,366
	Hong Kong (SAR)	34,035
	France	24,318
	Spain	18,361
.	Italy	16,815
.	Brazil	18,166
.	Mexico	16,602
.	Singapore	16,060
.	Russia	11,672
.	Ireland	9,120
.	Japan	7,816
.	South Korea	7,687
.	Canada	6,293
.	Chile	7,603
.	Poland	6,159

Source: UNCTAD (2004: 11)

In this sense, Singapore ranked as the third highest recipient of FDI among non-developed countries (behind China and Brazil) for the years 2003-4. In addition, if industrial FDI inflow was taken into consideration, then Singapore would have been the 5th highest recipient for the year 2003-4. Within Asia, Singapore has been a recipient of fairly large stocks of FDI for over 40 years, even despite the entry of China as a competitor for world FDI stocks since 1979 (see Table 3).

Table 3: FDI inflows to Singapore and rest of Asia compared (US$m)

Year	*Rest of Asia*	*Singapore*	*Singapore's %*
1970	904	93	10.3
1975	5244	292	5.6
1980	2,685	1,236	46.0
1985	5036	1,047	20.8
1990	18943	5,575	29.4
1995	70901	11,591	16.3
2000	142640	16,485	11.6
2004	140920	16,060	11.4

Source: http://stats.unctad.org/fdi

It is not this paper's intent to explain Singapore's FDI policies, especially since this has already been extensively researched (see Lim 1995 and Pereira 2000). As mentioned earlier, the objective is to understand the underlying processes that underpin inter-governmental competition for FDI. However, some background information is necessary to explain why the Singapore government adopted an overtly FDI-oriented development strategy.

Prior to independence in 1965, Singapore was a trading emporium, self-governing, but administered by the British government. In 1963, after the British had announced that they were going to eventually withdraw completely from the region, Singapore (and several other states) joined Malaya to form Malaysia. From Singapore's perspective, this move was designed to give the resource-scarce island an economic hinterland that it could tap. However, due to political and economic differences with the government in Kuala Lumpur, Singapore was eventually expelled from Malaysia in 1965 (Huff 1994). At the time, Singapore was facing problems of a stagnant economy and a rapidly growing population. Thus, the government—led by Lee Kuan Yew's People Action Party (PAP)— chose the most 'pragmatic' solution, which was to turn to FDI in order create jobs quickly (Schein 1996). More specifically, the state sought 'greenfield' industrial FDI, which refers to the practice of a foreign firm establishing a completely new production facility that it owns and controls.

However, even though Singaporean labour was relatively cheaper than its counterparts in the developed world and the island was strategically located in the 'centre' of Southeast Asia, global

firms were still very hesitant to invest in Singapore at the time. The main reason was their lack of familiarity with the newly-independent government. Also contributing to the problem was the general distrust that global firms had of so-called 'third world governments,' which had a poor record in both delivering on their promises and in the spheres of industrial administration (see Huff 1994). Furthermore, Singapore was considered to be a very small market, given its relatively small geographic size and small population with relatively low earning power. In this sense, Singapore faced several disadvantages as far as competing for FDI was concerned.

The Singapore government introduced a package of policy instruments designed to attract FDI. This included offering highly favourable tax incentives to global firms involved in industrial production and even fully-prepared industrial infrastructure, such as providing ready-built factories, telecommunications, transportation links and utilities. It also heavily disciplined local labour, through the outlawing of work stoppages and corporatizing the labour movement (see Leggett 1993). The Singapore government even created a state-controlled committee, known as the National Wages Council, to ensure that wages remained highly attractive to foreign investors (rather than local labour) (Pang 1993). It also invested heavily in public education, healthcare and housing, not because it was an 'enlightened pro-welfarist' government, but because it wanted to improve the quality of human resources in order to attract foreign industrial investments (Rodan 1991). The state also embarked upon a drive to eliminate all forms of corruption within government and business in Singapore (Schein 1996). Although this took a long time to establish, Singapore's lack of corruption soon became one of the most commonly-cited reasons that global firms gave for investing in Singapore (see Huff 1994). The Singapore government also gave the global firms full access to the Singapore market, mainly through the establishment of Singapore as a free trade zone. However, this could not be viewed as an advantage because the market size was very small and was therefore not of great interest to global firms. Instead, the state's interventions to create competitive factors of production, particularly the cost and quality of labour, and the establishment of a stable investment regime (through strong governance of the economy and polity), were attractive to global firms.

Still, the Singapore government's FDI-oriented strategies were not the only reasons why the island attracted large volumes of FDI. After all, many other governments around the world had similar or even more attractive policy incentives, while at the same time offering global firms

access to large and lucrative domestic markets (see Lim 1988). One factor that really gave Singapore an advantage was the reality that very few countries within Southeast Asia were receptive to FDI at the time (see Felker 2003). The governments of Malaysia, Indonesia and Thailand were pursuing domestic import substitution industrialization strategies, which meant that national economic policies were protecting domestic firms from foreign producers. Communist governments such as those in China, Vietnam, Cambodia, Laos and North Korea, and heavily pro-socialist countries such as India almost completely shut out FDI. Thus, during that period, only Hong Kong—not fully an independent country—and certain enclaves in Taiwan and South Korea, were probably Singapore's only main competitors for FDI. The Philippines was generally open to FDI, but never took full advantage of it as it remained a mainly agricultural economy (see Jomo 1997). In this sense, the only East Asian location where American, European or Japanese companies could locate production during that period (1970-1980) was Singapore (Pereira 2000). Thus, Singapore was able to capture the initial niche as a manufacturing hub for global firms within the region.

Regional Competition

By the 1980s, the political economy of Asia had changed dramatically. Firstly, most Asian governments had conceded that their domestically-oriented ISI strategies were either progressing too slowly, or had failed altogether (see Booth 2004). Secondly, many of these governments—such as those of Malaysia, Indonesia, Thailand, and even China—had observed the rapid growth of countries, cities and regions which had adopted FDI-oriented strategies. The exemplars were not only Singapore and Hong Kong to a lesser degree, but also Ireland, Malta and Mexico (see World Bank 1994). Thirdly, and probably most importantly, there was an exponential growth in the volume of capital seeking to go 'multinational.' These capitalistic enterprises had seen how 'pioneer' global corporations had benefited from lower factor costs and domination of new markets, and were ready to emulate them (see Dicken 1998). The electronics sector—which also encompassed the Information Technology sector—was dominant in the global economy. Given that the cost of raw materials was relatively fixed for this electronics sector, corporations began a global search for the lowest labour cost regions for production (see Henderson, 1994). It is also interesting to note that there were even industrial enterprises from newly industrializing countries such as South Korea and Taiwan seeking to relocate in cheaper production sites, adding to the growing volume of global FDI. Fourthly, there was a 'neo-liberalism' ideology emerging from

the USA and Western Europe, where this political belief in 'free markets' and therefore free global markets was becoming more and more significant. In the 'West,' this was embodied in a heavy liberalization or de-nationalization programme; in the Third World, the call was made to governments of emerging economies to abandon their protectionist policies and embrace free global markets. Neo-liberal proponents stressed that economic globalization meant that the whole world stood to gain from liberal economic policies (see Moran 1998).

In the late 1970s, more and more governments began experimenting with FDI-led development, through the 'zone' strategy, which involved the establishment of Export-Processing Zones, Special Economic Zones, or the Free Trade Zones (see World Bank 1994). These were specially designated areas or estates, where foreign capital investment would be permitted (implying that foreign capital was restricted from the rest of the country). Such zones were a strategy to take advantage of global production needs, while still insulating the rest of the country from foreign capital. Good produced from these zones could not be sold in the rest of the country, thus still protecting domestic industrial enterprises. The main benefits of these zones were that employment was generated (because industrial global firms required labour), and that foreign income was generated (based on the wages paid to the local labour by industrial global firms). Many governments situated these zones in border areas, or areas which had airports or seaports, so that there would be little opportunity for 'economic contamination.'

Some such zones were established in Asia in the late 1970s and early 1980s. Most significantly, even heavily communist and anti-foreign governments such as China implemented the zone principle (these were known as Special Economic Zones in China). Malaysia, Thailand, Indonesia and the Philippines all introduced such zones across their countries at the same time. Coupled with the wave of neo-liberalism sweeping across the world at the time, many of these governments began to remove protectionist measures to open up their economies to global capital and global products. By the second half of the 1980s, countries such as Malaysia, Thailand and Indonesia had greatly liberalized their economies and incorporated FDI-oriented strategies alongside their ISI and agricultural strategies (see Felker 2003).

The consequence of this liberalization was that the competition for FDI in Asia intensified significantly. As a result, Singapore—the main beneficiary of the first wave of FDI in Asia—lost

its niche. In other words, Singapore's factors of production were unable to compete with those in the newly-emerging industrial regions of Asia, such as the Special Economic Zones of China, and parts of Malaysia, Indonesia, and Thailand. Even India and Vietnam, countries that were heavily protectionist or communist, were slowly opening up to FDI. Labour costs in Singapore, which were slowly rising because of continued economic growth between 1965 and 1980, were uncompetitive when compared to labour less than 50 kilometres north and south of Singapore, in Malaysia and Indonesia respectively. Land costs were spiralling as well, because of the island's limited land capacity. In the emerging industrial regions of Indonesia and Malaysia, factory and land rents were reportedly only 10 percent of those in Singapore (see Kumar and Lee 1991). Thus, not only was Singapore unable to attract new FDI, global industrial firms that had based their operations in Singapore since 1965 were beginning to 'hollow out', moving to the newly-emerging industrial regions in Asia, including to the Special Economic Zones of China. In addition, some of these governments began liberalizing their domestic markets. At one level, this was mainly for trade purposes. Yet, it was evident that these governments were also using access to their domestic markets as a strategy to attract FDI. This was potentially devastating to the Singapore economy, which was heavily reliant on foreign capital for both economic growth as well as generating employment. Indeed, in the 1980s, foreign industrial enterprises contributed over 75 percent of Singapore's output while employing 80 percent of the workforce (see Huff 1994). What was bad news to Singapore was good news to Malaysia, Indonesia, Thailand, and also China.

In response to the increasing competition, the Singapore government became more innovative with its FDI-oriented strategies. It realized that Singapore could not compete solely on the basis of low wages for industrial labour. Therefore, the Singapore government tried to differentiate Singapore's labour from that in the emerging regions. While labour in Malaysia or China had extremely low wages, they were not highly educated or able to undertake complex industrial tasks. The Singapore government invested heavily in tertiary technical education, especially in the industrial sectors. The aim was to attract industrial global firms with high value added activities to come to Singapore to establish operations, or for those existing enterprises to upgrade their operations. In the 1980s, the Singapore government built new polytechnics and established an engineering-oriented university (Nanyang Technological University), in addition to expanding the Engineering Faculty at the existing National University of Singapore. With

these moves, Singapore's highly educated labour force was generally 'cheaper' than similar workers in the USA or Europe. Although not immediately successful, Singapore's 'Second Industrial Revolution' eventually bore fruit when Singapore becoming the manufacturing hub for high technology products such as optical disk drives and semiconductors in the 1990s.[iii] This was the main reason why the country managed to retain a fairly high volume of FDI during the latter part of the decade. As such, Singapore was able to fill another niche within the global economy, providing lower-cost high-quality labour (when compared to counterparts in North America, Western Europe or Japan).

The period between 1980 and 1990 in Asia was characterized by intense competition from governments that had recently changed their stand on FDI. Much of the competition took place at the lower value-added sector, where countries such as Malaysia, Indonesia, Thailand, China and several other countries emerged as low-cost manufacturing regions. This competition initially affected Singapore's economy; however, at the same time, the competition spurred the Singapore government to upgrade the country's industrial capability, and to compete for higher value added manufacturing FDI. The lesson from this period was straightforward: governments cannot assume that global firms will remain in a particular location over long periods of time. These corporations will constantly search out new and more cost-effective locations in their drive for increasing profits. In short, global firms do not have any national loyalty or sentiment; they will characteristically base all decisions on their 'bottom line.'

Collaboration In Attracting FDI

Between 1990 and 2000, the Singapore government introduced an innovative twist to its FDI-oriented development strategy. Fully aware that there were many global firms seeking to relocate lower value added production away from Singapore, in a pre-emptive move, the Singapore government entered into negotiations with several other national governments in the Asia-Pacific region to collaborate on jointly attracting FDI. The simple logic was that global firms could shift lower value added manufacturing activities to 'the region' but introduce high value added services in Singapore. The latter group of activities included establishing research and development operations, as well as legal and logistics services, within Singapore. The strategy therefore involved the Singapore government acting as a broker for the global firms, assisting in their search for a suitable lower cost location for production. At the same time, the Singapore

government hoped that these corporations would locate their regional headquarters in Singapore to coordinate the units in the region (see Ho 2000). This strategy was part of the Singapore government's broader 'regionalization' policy (see Perry and Yeoh 2000).

To facilitate the global firms' entry into region, the Singapore government set up industrial parks in several cities across the Asia Pacific. The 'regional industrial parks' initiative, as it came to be known, involved the Singapore government in directly financing, developing and managing self-contained industrial estates. The logic here was that the Singapore government had a good reputation as an industrial infrastructure developer and administrator, based on its experience between 1965 and 1990. Thus, it was confident that global firms would prefer to locate operations within Singapore-administered rather than locally run industrial estates, which might have very cheap factors of production but might be inefficiently managed or suffered from poor quality industrial infrastructure. As the Singapore would be the main financier of these estates, the local host government would benefit from all the developmental effects of FDI (such as employment creation and income generation through wages), without having to finance this project. The Singapore government hoped to benefit from the income generated from leasing the industrial properties to the global firms. The multinational corporation would benefit from being able to operate in an industrial estate that was managed by the Singapore government while enjoying costs savings by being in a low-cost region. By 1995, the Singapore government had launched eight industrial parks; they were in Batam, Bintang and Karimun (Indonesia), Suzhou and Wuxi (China), Bangalore (India), Song Be (Vietnam), and Rayong (Thailand).

When the regionalization policy was first introduced at the beginning of the 1990s, the Singapore government argued that FDI was not a zero-sum game. It insisted that FDI could be disaggregated into lower and higher value added units, and that the region—if the governments collaborated—could mutually benefit from jointly attracting FDI (Pereira 2004). The regionalization strategy, however, was 'ambushed' by two situations. The first was the onset of the Asian Financial Crisis in 1997 (see Haggard and Low 2002). The outcome was a sharp decline in FDI into Asia in the subsequent years, as there was economic and political turmoil in several Asian countries (such as Thailand and Indonesia). While Singapore itself did not suffer heavily from the Crisis, the Singapore government's regional industrial parks strategy suffered

badly as many of its projects were located within affected countries, including Thailand and Indonesia.

The second situation, which the Singapore government was not adequately prepared for, was the 'ferocious' competition for FDI in Asia. This was most evident in the Suzhou Industrial Park project, which was a collaboration between the top leadership of the Chinese and Singapore governments. This Park, essentially a self-contained industrial estate located 60 kilometres west of Shanghai, on the outskirts of historic Suzhou city, was in fact the largest of Singapore's regional industrial parks projects, in terms of geographical size as well as financial outlay (see Pereira 2003). Between 1994 and 1997, the Suzhou Industrial Park was one of the highest drawing FDI zones in the whole of Asia, as multinational and transnational corporations saw that it had China-level costs (in terms of land and labour costs) but Singapore-standard industrial infrastructure and administration.

However, conflicts between the two governments began to emerge soon after 1997. This was in part also due to the onset of the Asian Financial Crisis. Even though the Crisis did not affect China, it had the effect of significantly reducing FDI as global consumer demand meant that transnational corporations were more cautious about investing in new operations around the world (see Haggard and Low 2002). With this decline in global FDI, the inter-governmental competition intensified. Indeed, even sub-national governments were competing against national governments. This was the case with the Suzhou Industrial Park, as it saw direct competition for FDI from the neighbouring Suzhou New District, which was administered by the Suzhou Municipal Authority. The Suzhou New District modelled itself after the Singapore regional park. It claimed to offer Singapore-standard industrial infrastructure and administration as it had learnt by observing. More significantly, it could offer even lower land rents than the Suzhou Industrial Park (see Pereira 2003).

The Suzhou New District strained Singapore-China inter-governmental cooperation. The Singapore government asked the China government to 'discipline' the Suzhou Municipal Authority, which naturally angered the local government. Although actual details of this incident are vague, it was reported that the Singapore government told the China government to re-direct all FDI within Suzhou towards the Singapore-run regional industrial park. In other words, it

proposed that FDI could only go to the locally-run Suzhou New District after the other Singapore-managed estate was ‘full’. The China government either chose not to do anything, or was not able to constitutionally ‘discipline’ the sub-national government. The Suzhou Municipal Authority remained defiant: it claimed that there should be ‘free and fair’ competition for FDI. In 2001, the Singapore government officially disengaged from the Suzhou Industrial Park project. Although it remains a minority shareholder in the project, it has effectively handed the reins of the Park to the China government.

The Suzhou Industrial Park project could be seen as an isolated or exceptional case. However, the incident served to remind the Singapore government how competitive the ‘game’ of FDI attraction was turning out to be, particularly in a situation when FDI seems to have levelled off in the late 1990s. The Singapore government’s attempts to remain competitive, despite the innovations, were not as successful as it had hoped. As Singapore enters the 21st century, the state’s interest in the regional industrial parks project has waned. It has given up direct control over most of the projects, either handing over management to a Singaporean government-linked corporation (such as Ascendas or SembCorp), or it has sold the controlling rights to the foreign partner (such as the host government). Since 1999, when the Thai-Singapore TS21 Industrial Park was launched after repeated delays, there have been no additional regional collaborative projects by Singapore to jointly attract FDI.

The Singapore government has also retooled its development strategies for the 21st century. It has on the one hand maintained an emphasis on attracting FDI, but is trying very hard to foster domestic enterprises to replace the need for FDI. In the first-mentioned sphere, the Singapore government is aggressively engaged in attracting biomedical and pharmaceutical FDI, as it feels that the country enjoys (for the moment) an advantage in having a highly trained workforce, excellent infrastructure and strong intellectual property rights over other countries in the region. Already, five years into the Biomedical Sciences Initiative, which is the official name of this new industrial policy, the volume of pharmaceutical FDI into Singapore has increased significantly. In terms of the latter aspect, the Singapore government is fully aware that global firms will eventually move out of the island, in search of more ‘efficient’ factors of production and more lucrative markets. It also does not foresee new FDI as being able to generate enough employment for the longer term. Hence, the state has embarked upon the so-called ‘Technopreneurship’

programme, where it is hoping to foster a new generation of domestic entrepreneurs through generous financial subsidies. The aim is to build up local firms that will eventually take on a larger share of employment in the country and reduce the current reliance on global firms for jobs.

In both cases, it is evident that the Singapore government, once perhaps one of the more successful ‘exponents’ of FDI-oriented strategies, has shown that it has come to the conclusion that long-term reliance on FDI for development is not a sustainable avenue for Singapore’s economic survival.

Conclusions

This analysis of the Singapore government’s FDI-oriented strategy has offered some insights into the nature of inter-governmental FDI competition. With FDI being viewed by many governments (especially of developing countries) as a quick-fix tool that could solve their domestic economic problems, the competition for FDI is intense. With the competition for FDI as a zero-sum game, there really only can be ‘winners’ and ‘losers’ in the game. The problem however is that over time, the nature of the competition will change, making it harder even for past ‘winners’ to repeat their achievements (i.e. staying ahead of the game).

Secondly, it appears that governments, especially of developing countries, that enter the ‘game’ to compete for FDI almost always intentionally try to take advantage of their economic ‘backwardness,’ when viewed from the uneven development perspective. This was true in the case of Singapore, which was initially trying to attract FDI on the basis of its cost-effective workforce that was only considered ‘cheap’ when compared against its counterparts in Europe, America or Japan. Later on, the governments of other Asian countries also adopted this same strategy. The conclusion that can be drawn from this process must be that such a strategy can really only be effective at the point of entry into the game. After this point, the dynamics of the unevenly developed global economy would probably suggest that some other country or region would ‘undercut’ in order to attract FDI, thanks ironically to their backwardness. In this sense, governments that have FDI-oriented strategies must understand that they must (figuratively) continue running just to stay still.

From a policy perspective, can a long-term FDI-oriented strategy be sustainable? Given its difficulties, the policy recommendation really ought to be that states should implement a concurrent strategy to wean itself off FDI almost as soon as the FDI-oriented strategy is adopted. This will necessarily place more pressure on policy makers and governments to utilize and harness FDI much more efficiently, so that the domestic economy no longer requires further injections of FDI. This, however, is much easier said than done, given the realities and constraints of today's global economy. Perhaps the only 'positive' conclusion that can be drawn from this analysis are that the competition must necessarily spur national governments to either become more innovative (in an entrepreneurial sense) with their FDI-attraction strategies, to create new advantages (such as improving the quality of the workforce), or to start retooling their domestic economies to become less reliant on FDI (or global firms), which tend to be ultimately 'fickle' and unreliable. For the latter two issues, it is hoped that state investments in education or promotion of domestic enterprises or the domestic market will ultimately bring about long-term economic as well as social benefits.

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[i] In this manner, FDI is different from portfolio investments, where a firm might have an equity stake in an overseas company, but not have control over management (see UNCTAD 2004).
[ii] This broad generalization remains true regardless of whether prior studies of FDI adopted a product cycle approach, conflict perspective, or rational choice theory (See Moran, 1998).
[iii] For details of the 'Second Industrial Revolution,' see Huff (1994). For details on the huge flow of high technology manufacturing, see McKendrick, Doner and Haggard (2000).