China-originated Enterprises in Singapore: Some Preliminary Observations

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In the past two decades, China has successfully developed itself into a "world factory" and became a new global economic powerhouse. Since the turn of the century, the giant economy has emerged as a new source of global capital, as the Chinese government openly promotes a policy of encouraging domestic companies to "go out".

According to China's Ministry of Commerce, by end of 2003, Chinese companies had invested US$33 billion in 7,470 companies throughout more than 160 countries and territories. Of those, direct overseas investment by non-financial companies such as manufacturers reached a total of US$2.8 billion.[1] Although China's outward investment is still dwarfed by the scale of foreigners' inward investment in China, which is expected to hit a record US$60 billion in 2004, the fast rise of China as a global investor is a phenomenon too significant to be under-attended.

In this paper, we will first examine some general trends of China-originated investment in recent years and the Chinese government's policy in this regard. We will then present some preliminary observations of China-originated companies (COEs, *zhongzi qiye*) in Singapore. In particular we will look into data of the listed China-related companies and identify some of their business features. Finally, we will discuss the causes of COE development in Singapore.

1. A NEW SOURCE OF GLOBAL CAPITAL

Trends and Features

The rapid growth of outward investment by Chinese companies in recent years has displayed several features, as summarized by China's Ministry of Commerce recently.[2] First, these companies have ventured into geographical areas well beyond Hong Kong, Macao and a few OECD countries, the destinations traditionally favoured by Chinese companies. Many have invested in Southeast Asia, Eastern Europe, former Soviet states,

[1] AP, "Chinese firms on overseas buying spree", *Straits Times* (Singapore), 1 October 2004.
[2] "Five features of China's overseas investment", *Lianhe Zaobao* (*The United Mornings*, Singapore), 20 September 2004.

and even Africa. In terms of business scope, Chinese companies used to concentrate in export-and-import trades, navigation, and restaurant business. Nowadays, they have gone into manufacturing, construction, resource excavation, agriculture, and R&D projects.

Second, resource excavation has been a hot area of business. By end of 2003, a total of US$6 billion had been invested in 58 overseas oil and gas projects with annual sales of US$ 5 billion while another US$1 billion was invested in 10 mineral ventures. Chinese companies had also invested US$108 million in 71 ocean fishery ventures.

Third, offshore processing trade accounted for US$ 1.37 billion of contractual investment in over 500 projects by end of 2003. These projects involve textile, home electronics, electrical machinery, chemical and pharmaceutical industries.

Fourth, large enterprises have played a major role in outward investment. There are a total of 30,000 Chinese companies involved in overseas businesses and investment projects, among which 1,600 have been approved for qualification of doing overseas contractual projects and service-cooperation ventures. A few have become multinational corporations.

Fifth, Chinese companies have opened more channels for overseas investment. An increasing number of cases have involved trans-national mergers and share swaps. In 2003, Chinese companies invested US$ 834 million to merge or take over foreign companies, accounting for 40% of China's total contractual investment overseas. There have been more cases of Chinese firms buying foreign distribution networks and franchises.

On top of these developments, more China-originated companies have been listed in overseas stock markets. By July 2002, there were 135 COEs listed in Hong Kong stock exchange, 24 in New York stock exchange, and 9 in Singapore Exchange. By end of 2003, the numbers had shot up to 250, 39, and 33 respectively. In Hong Kong, COEs accounted for 38% of market valuation of listed companies.[3] In the first three quarters of 2004, another 19 COEs launched IPO in Singapore stock exchange.[4]

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[3] Sun Q, "Overseas listing: the new growth point of China's exports", *Lianhe Zaobao* (*The United Mornings*, Singapore), 18 February 2004.
[4] Tav, E. "Singapore ideal for global expansion of China firms", *Straits Times* (Singapore), 12 October 2004.

Causes

Why, as billions of dollars of foreign capital being attracted by low-cost labour and lucrative opportunities in China's booming economy, a growing number of Chinese companies are "going out"? The growing strength of some Chinese companies must be a primary cause. As these companies growing stronger and larger, it is just a matter of time that they are to venture overseas. Ahmad (2004) noticed that the three big Chinese oil companies, PetroChina, Sinopec, CNOOC, and the three big Chinese manufacturers, Baosteel (steel making), Haier (household appliances) and TCL (electronics), "have vast assets, healthy profits and listed subsidiaries. Increasingly, they are also buying assets overseas. The three oil groups have operations in more than a dozen countries." CNOOC has become Indonesia's largest offshore oil producer after its $585m takeover in 2002 of Repsol's operations there. Baosteel has negotiated China's biggest ever overseas corporate investment worth $1.5 billion in Brazil. Haier has long been ambitious to become a global leader in the industry and has in the past few years aggressively setting up overseas branches and manufacturing plants.[5]

Opening subsidiaries overseas, especially being listed in overseas stock markets, certainly makes it easier for Chinese companies to raise capital. Before 2000, China's stock market regulators had quotas for IPOs, which capped the number of companies to be listed in domestic stock exchanges. Under the quotas, companies qualified for public listing had to queue a long time for listing. Starting in 2000, the quota was removed and IPOs have been based on applicants' qualifications. Despite that, the fact that only 29 financial institutions were able to underwrite public listing has continued to limit the chance of companies to be listed in the domestic stock market. For firms corporatized for public listing, they have to wait for a "probation period" of one year before IPO.[6] Facing a long waiting time and limited opportunities, many companies seeking public listing have turned to overseas markets. The lower transaction costs of some overseas markets such as Hong Kong and Singapore also make them attractive to China-originated companies.

[5] Ahmad, S. "Behind the mask", *The Economist*, 18 March 2004.
[6] Sun Q, 2004.

Government support has given important impetus to the recent wave of outward investment by Chinese companies. China first adopted the so-called “going out” policy to encourage Chinese overseas investment in 1999. According to China’s Vice Premier, Wu Yi, China’s companies should “go global” and “to encourage capable Chinese companies to go out is an important policy of the Chinese government”.[7] The government support is highlighted by the dominance of state-owned companies in China’s overseas asset acquisitions in recent years. Meanwhile, the government encourages companies to seek listing in overseas stock markets for several reasons. One is to solve the dilemma of restructuring state-owned companies and the stable growth of the domestic stock market. To restructure the state-owned companies, the government has to make more of them listed in stock market and release more shares of those already listed from government holding to the public. However, if the supply of stocks for trading increases too fast, the stock prices may be dampened. To solve this dilemma, the government encourages corporatized (restructured) state-owned enterprises to go for public listing in overseas markets. Apart from that, the regulators also hope that restructuring these state-owned enterprises for overseas listing will facilitate the development of modern enterprise institutions and corporate governance in China. In a guideline document for capital market development issued in February 2004, China’s State Council stressed its continued support to qualified companies seeking public listing in overseas market. In October 2004, Ministry of Commerce eased controls and streamlined application procedures for local companies to invest overseas. In particular, it abolished the requirement for the Ministry to review companies’ investment feasibility studies prior to their approval. It also reduced the number of overseas investment application documents from 10 to 5, and in future, plans to introduce online application documents and approval certificates.[8]

Under China’s foreign exchange regulations, capital account transactions are strictly monitored and controlled by the monetary authority while the foreign exchange purchase for current account transactions is permitted on the principle of real needs. Having overseas business operations provides more leeway for firms to justify their needs.

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[7] AP, op. cit.
[8] AFP, “China eases rules for firms to invest overseas”, *Straits Times* (Singapore), 14 October 2004.

This is particularly important for companies that need to transfer funds overseas for whatever reasons. For many private entrepreneurs, the unsecured property right protection in China has prompted them to seek ways of transferring assets overseas. Compared to domestic regulations and capital market practices discriminative to private businesses, the institutional environment in some overseas markets may be more friendly to these businesses.

2. CHINA-ORIGINATED ENTERPRISES IN SINGAPORE

Trends and Features

Southeast Asia has been a major destination for China's outward investment. By the end of 2003, China-originated companies have invested US$ 940 million in 857 projects in ASEAN countries.[9]

The region is also China's major market for contractual construction projects and service cooperation. By the end of 2003, COEs had signed contracts for construction projects, service cooperation and designing services worth US$ 24.99 billion in this region, equivalent to 15% of China's total overseas contract value. They had achieved sales of US$ 17.05 billion in the region, accounting for 13.7% of Chinese companies' overall overseas sales.[10]

Singapore, with its strategic geographic location, excellent infrastructure, well-developed financial market, and business-friendly environment, has been one of the most favourite venues for the China-originated companies. According to Chinese Enterprise Association (Singapore), a total of 1,270 China-originated enterprises have registered in Singapore, with total assets exceeding S$ 9 billion and dozens of thousand employees. In Singapore Exchange, there are over 50 China-originated listed companies, most of which were listed in the last three years. All of the largest 100 companies in China have set up subsidiaries in Singapore.[11]

To observe the features of China-originated companies in Singapore, a difficult issue is identification. In a migrant society with 75% of population being ethnic Chinese,

[9] "China's outward investment: ASEAN as an important destination", *Lianhe Zaobao* (*The United Mornings*, Singapore), 14 July 2004.
[10] Ibid.
[11] Xu F. "China-originated enterprises clustered in Singapore", *Lianhe Zaobao* (*The United Mornings*, Singapore), 17 September 2004.

it is not easy to define the concept of China-originated companies. Many established enterprises operated and owned by Chinese Singaporeans can trace their roots to China by historical accounts. For our research interests, we want to identify those companies originated from PRC, or mainland China. These companies may include the following categories:

(1) Singapore subsidiaries of parent companies registered and located in mainland China;
(2) Singapore subsidiaries of parent companies registered and located in a third territory, such as Hong Kong or US, of which the main shareholders are from mainland China;
(3) Companies registered in Singapore with the main shareholders from mainland China;
(4) Singapore companies indirectly controlled by investors from mainland China;[12]
(5) Joint ventures between mainland Chinese investors and investors from Singapore and other places.

Of the above, only category (1) is relatively easy to identify. For category (2), it is not only difficult to identify the “real owners” but also tricky as how to draw the timeline for definition. Most of the business giants in today’s Hong Kong were founded by migrants from other Chinese cities such as Shanghai before or in the early 1950s. For our research interests, maybe we should focus on the companies founded by mainlanders who came after China opened itself up in the mid-1980s. However, it is still reasonable to assume the “China-originality” for those companies founded by Chinese government in the 1950s to 1970s. As for categories (3), (4), and (5), it is only possible to identify their China-originality by digging into each company’s historical profile or interviewing their CEOs. It is not clear what criteria the Chinese Enterprise Association (Singapore) used to come up with its statistics of 1,270 China-originated enterprises. As a reference, Singapore government’s Economic Development Board was quoted in November 2003 as counting about 250 China-originated companies operating in the city state, a 56%

[12] To bypass Chinese government’s approval procedures to seek overseas listing, a favourite way among mainland Chinese investors is to set up a shareholding company in Singapore as leverage to acquire the controlling share of a Singapore listed company. The Singapore listed company can also be used by the mainlanders as a leeway to transfer funds overseas, circumventing China’s capital account controls [Tan L. “China’s money flowing into Singapore”, *Lianhe Zaobao* (*The United Mornings*, Singapore), 15 July 2004.]

increase from 160 in 2002.[13] In April 2004, however, the chairman of EDB endorsed the CEA's claim of over 1,200 China-originated companies having been set up in Singapore.[14]

A recent count of COEs was provided by Lim Hng Kiang, Minister for Trade and Industry: "Today, Singapore has a diversified mix of Chinese companies. The number of Chinese enterprises incorporated here has jumped from about 100 a year from 1993 to 2002, to 200 in 2003. As at end 2003, we have a total of 1,160 Chinese wholly-owned and joint venture companies incorporated here. Most of these Chinese companies are in the trading, consultancy and construction-related sectors. But the number of Chinese technology-related companies here is growing. Today, there are already 74 such companies here."[15] From this statement, we can infer that the 1,160-1,270 figures may include all registered (incorporated) enterprises wholly or jointly owned by mainland Chinese.

Even if we focus our attention to listed companies in Singapore Exchange (SGX), the above identification issues remain. Of the total of 449 companies listed in the main board (as of September 2004), only 2 companies are categorized under "China", 3 under "Hong Kong", and 2 under "ROC, Taiwan" at Singapore Exchange website (info.sgx.com). Fortunately, the Chinese embassy at Singapore has compiled a list of 56 "China-related companies" (as of October 2004) at Singapore Exchange website.[16] Although the website does not give an explanation of the selecting criteria, a preliminary check with profiles of companies in this list suggests that it may include some companies in categories (1), (2) and (3). It is not clear whether the selection is exhaustive, i.e. whether all companies under these categories are included. Nor is it clear whether companies in categories (4) and (5) are included. Some companies such as Dragon Land, are owned and founded by Singaporeans, with most (or all) operations conducted in mainland China. It is quite plausible to assume that such companies have joint ventures with mainland Chinese investors and thus belong to category (4). Since the list does not

[13] Reuters, "'Little America': that's how some China firms see Singapore", *Straits Times* (Singapore), 18 November 2003.
[14] Teo Ming Kian, Speech on CEA's Fifth Anniversary Banquet, 24 March 2004, www.sedb.com.cn.
[15] Lim Hng Kiang, Speech at the Opening of Enterprise Exchange at Global Entrepolis 2004, 12 October 2004, app.sprinter.gov.sg.
[16] http://www.sgx.com/chn_emb/All_In_One_Info.html.

include several listed Singapore companies well-publicised for being controlled and acquired by mainland Chinese (such as TSM, Armarda, Cyber Village, Multi Vision)[17], we may conclude that those in category (5) are not selected for the list. Two Taiwanese companies, Hotung Investment Holding and Lankom Electronics Limited, are included in the list, perhaps due to Chinese embassy's principle of treating Taiwan as part of China.[18]

Despite that the list of "China-related companies" may not be a product of rigorous selection, it is the best data source available to study China-originated companies in Singapore. Excluding the two Taiwanese companies, I summarize some features of the companies in this list:

1. Most companies use non-Singapore currencies for capital and performance accounting but most (38) use Singapore dollar for share trading (Table 1).

Table 1. Currency Usage of China-related Listed Companies in Singapore (2004)

	Authorised capital valued in	Currency of issued and paid up capital	Currency of share trading	Currency unit for annual reports
US$	11	11	11	13
HK$	21	21	5	18
RMB	2	2	0	7
S$	20	20	38	16

Source: www.sgx.com

2. Most of these China-related companies were listed since second half of the 1990s (Table 2). It is worth noting that, according to Singapore Exchange, from January 2001 to mid 2004, a total of 35 China-originated companies had been listed in Singapore stock market "through various means", of which 17 became listed in the first half of 2004.[19]

Table 2. Listing Date Summary

Before 1991	5
1991-1995	12
1996-2000	27
2001-2004	9
Not recorded	1

Source: www.sgx.com

[17] Tan, op. cit.
[18] A check of two companies' profile does not suggest strong business interests in mainland China.
[19] Xu, op. cit.

3. All China-related companies have issued and paid-up capital over S$ 2.49 billion and annual sales above S$ 3.9 million. Almost all (except one) have been profitable.

Table 3. Size of China-related Companies in Singapore

Unit: S$'000	Issued & Paid-up Capital	Annual Sales (2003-04)	Profit Rate
Mean	86,804,261	978,572	24%
Median	50,980,044	392,033	19%
Standard deviation	100,276,374	1,850,989	21%
Maximum	520,482,279	7,497,000	74%
Minimum	2,490,244	3,960	-65%

Note: Annual sales are based on most recently available annual (or half-year) reports in 2003 or 2004.

4. China-related companies are concentrated in manufacturing (41%) wholesale trade (18%) and transportation & public utilities (11%).

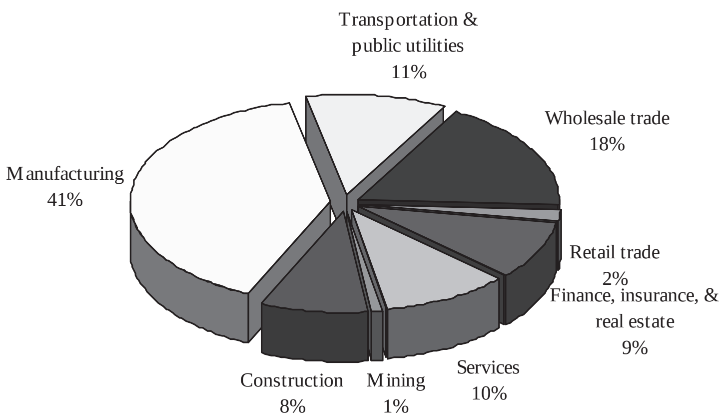

Figure 1 Business Scopes of China-related Companies in Singapore

3. CAUSES OF COE DEVELOPMENT IN SINGAPORE

The rapid growth of China-originated enterprises in Singapore is due to several causes. Based on anecdotal observations, we may highlight the following.

1. Conducive business environment. In words of Chen Jiulin, president of China Enterprises Association (Singapore), “Singapore’s excellent location, robust legal system and good infrastructure make it an oasis for Chinese firms that want a platform to launch themselves.”[20] Compared to Singapore, China is still an emerging market economy, where many market-based institutions (such as capital market facilities) are underdeveloped and irregularities in business practice are prevailing. To China-originated companies, a SGX listing gives them a stamp of credibility in the eyes of the financial markets thanks to better regulations on corporate governance in Singapore. A CEO of a Chinese company listed in SGX, the United Environment, says that “being a Singapore-listed company is a brand name in itself.” [21] To some Chinese business persons, “there’s a certain credibility in having a Singapore address on your business card.”[22]
2. Cultural and business links. Chen Jiulin pointed out that “Singapore’s East-meets-West culture makes it an easier venue from where Chinese businesses are able to communicate with international capital markets.”[23] While its population are predominantly Chinese descendents, Singapore is perhaps Asia’s most Westernised city, with English as the official language for business and education. As the base of 6,000 multinational companies, the city state has nourished Western and Asian influences for years. All this makes this city-state extremely appealing to Chinese business persons.
3. The “Trojan Horse” effects. Singapore has signed free-trade agreements with the US, Japan, Australia, and New Zealand. It is also a member of ASEAN Free-Trade Agreement and has special trade and investment arrangements with Indonesian government on several Indonesian islands in Singapore’s neighbouring waters. Singapore is actively negotiating FTA terms with a number of other countries. Some analysts thus believe that China-originated companies registered in Singapore may use the city-state as a “Trojan Horse” or a back-door channel for shipping to the United States and Singapore’s other FTA partners to

[20] Tav, op. cit.
[21] Tav, op. cit.
[22] Reuters, op. cit.
[23] Tav, op. cit.

bypass the tensed trade relationship between China and these countries. "It could be that China has an interest in getting US pressure off its back," said Mr Jan Lambregts, head of Asia-Pacific research at Rabobank. "Still, what may start out as a back door, may over the years grow into real investments, as Chinese companies increasingly come in touch with Singapore and mutual business relationships have a chance to develop."[24]

4. Lower listing barriers. As observed by Zhou Hongli, China's Counsellor of Commerce in Singapore, compared to China's stock exchanges, the listing conditions at SGX are more flexible with fewer constraints and greater transparency. Chinese companies, especially small and medium-sized ones, may save tremendous time and transaction costs by seeking listing in SGX rather than in China's stock exchanges.[25]
5. Singapore government's "springboard" policy. Being a regional hub for multinational firms, Singapore has been keen to attract foreign companies to be incorporated in the city state. Since the early 1990s, Singapore government has made systematic efforts to ride on China's economic rise. Singapore leaders have been well aware that "in the past ten years, China, especially its coastal belt, has undergone a vast transformation. Chinese companies are growing in strength. It is no longer just '*yin jin lai*', or attracting investments. Driven by economic and political imperatives, Chinese companies need to '*zou chu qu*' or venture overseas." "Singapore can be a useful springboard for Chinese companies who are venturing abroad."[26] Under this guideline, SGX has in recent years actively enticed Chinese companies to be listed in Singapore market. Meanwhile, Economic Development Board (EDB) has been successively attracting giant Chinese companies to invest in Singapore. For instance, recently Genesis (China) Investment Holding Company decided to move its Asia-Pacific headquarters from Hong Kong to Singapore and pledged to invest S$100 million in high-tech plants over 3 years in Singapore. Another company, Equation NanoTech, a Chinese firm

[24] Reuters, op. cit.
[25] Zhou H., "We help Chinese companies to be listed in Singapore", www.sgx.com/chn_emb/Speech_By_AST.html.
[26] Lee Kuan Yew, Speech at the Ceremony to Mark the Achievements of Suzhou Industrial Park's 10th Anniversary, 10 June 2004, stars.nhb.gov.sg.

specialising in consumer products engineered with nanotechnology, has committed to invest $6 million in two phases to build a packaging cum manufacturing plant in Singapore. The decisions by both companies are reportedly to be the result of “aggressive courting by the EDB’s Beijing bureau”.[27] In 2004, Singapore government has also helped China set up an internationalisation centre in the city-state for Chinese high-tech enterprises.[28]

[27] Tav, E., “Role reversal: China firms set up plants in Singapore”, *Straits Times* (Singapore), 13 October 2004.
[28] Lim Hng Kiang, op. cit.

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China has successfully developed itself into:

- a "world factory"
- a new global economic powerhouse
- a new source of global capital?

2

We will discuss

- some general trends of China-originated investment in recent years and the Chinese government's policy in this regard
- some preliminary observations of China-originated companies (COEs, *zhongzi qiye*) in Singapore
- causes of COE development in Singapore

3

Overall Trends and Features

- By end of 2003, Chinese companies had invested US$33 billion in 7,470 companies throughout more than 160 countries and territories.
- Features:
  – These companies have ventured into geographical areas well beyond Hong Kong, Macao and a few OECD countries
  – resource excavation has been a hot area of business.

4

Trends and Features

– offshore processing trade accounted for US$ 1.37 billion of contractual investment in over 500 projects
– large enterprises have played a major role in outward investment.
– They have opened more channels for overseas investment.

5

Causes

- Growing strength of some Chinese companies
- Opening subsidiaries overseas makes it easier for Chinese companies to raise capital
- Government support has given important impetus
- Having overseas business operations provides more leeway for firms to transfer funds overseas under capital account controls

6

China-originated Enterprises In Singapore

- Singapore has been one of the most favourite venues for the China-originated companies.

A difficult issue is identification.

- For our research interests, we want to identify those companies originated from PRC, or mainland China.

7

Five Categories of COEs

1. **Singapore subsidiaries of parent companies registered and located in mainland China;**
2. **Singapore subsidiaries of parent companies registered and located in a third territory, such as Hong Kong or US, of which the main shareholders are from mainland China;**
3. **Companies registered in Singapore with the main shareholders from mainland China;**
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"China-related companies" listed in SGX

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Features of these companies

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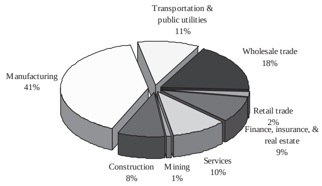
12

Features of these companies

•Business Scopes of China-related Companies in Singapore



13

Causes of COE development in Singapore

- Conducive business environment.
- Cultural and business links.
- The “Trojan Horse” effects.
- Lower listing barriers.
- Singapore government’s “springboard” policy.

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