



**The Mountains Are High and the Emperor Is Far Away :
Developing the Suzhou Industrial Park in China**

Singapore's Senior Minister Lee Kuan Yew was not happy with the progress of the Suzhou Industrial Park (SIP). He charged that the Chinese local officials had not been as committed as they should have been. He complained of too much "tug-of-war for investments" between the Suzhou Industrial Park and the Suzhou New District (SND), a rival industrial park on the other side of the city of Suzhou. He also complained of municipal shenanigans which went against everything he stood for, such as trust and confidence in relationships. These were harsh criticisms, but then Lee had never been known to mince words.

Lee was particularly angry that Suzhou's vice-mayor, Wang Jinhua, had told a group of German investors in Bonn that they should put their investments in the Suzhou New District which had the full backing of the Suzhou government and that they did not need to go through Singapore to invest in China. He had also said that President Jiang Zemin of China did not support this project. This had been said openly in the presence of the German Special Commissioner appointed by Chancellor Helmut Kohl to foster tripartite economic co-operation between Singapore, Germany and China. Also present were Chambers of Commerce representatives. Lee asked for the matter to be clarified because "our credibility is at stake, and the credibility of the Chinese government as well in endorsing the SIP at a very high level".

The Beginnings

In 1978 China's paramount leader Deng Xiao Ping visited Singapore and liked what he saw: "good public order". In Singapore, Deng saw "a capitalist version of the communist dream" as S Rajaratnam, former Senior Minister in the Singapore Government, put it.¹ In 1992, during a tour of Shenzhen, a special economic zone in southern China, Deng remarked that "Singapore enjoys good social order and is well-managed. We should tap on their experience and learn how to manage better than them". This resulted in droves of Chinese delegations from all levels of administration visiting Jurong Town Corporation, the builder and manager of the industrial estates in Singapore, to learn as much as they could about Singapore's industrial development

This case was written by Teng Su Ching, National University of Singapore and supervised by John W. Thomas, Kennedy School of Government, Harvard University.

Copyright © 1998 by the Case Unit, Public Policy Programme, National University of Singapore.

¹ Quoted in Ang 1991:158

In February 1994 a joint agreement between the government of two countries was formally concluded by Chinese Vice Premier Li Lanqing and Singapore's Senior Minister Lee Kuan Yew, witnessed by Chinese Premier Li Peng and Singapore's Prime Minister Goh Chok Tong. It was a government to government agreement. In the words of Lee "we can guarantee that the agreement we have reached with China about Suzhou will be honoured". There was confidence that the park would succeed. After all "Lee Kuan Yew is the leading bulldozer for Singapore. Where he goes, everyone goes," said Frank Liu, director of the Taiwanese venture-capital firm, Transpac Capital.²

The US\$20 billion Suzhou Industrial Park would cover an area of 70 square kilometer in development and would be modeled after Singapore's industrial-residential community. It would be developed in 3 phases and within 15 years it would support a population of 600,000 and provide employment to 360,000 workers. The township would be developed by the China-Singapore Suzhou Industrial park Development Co. Ltd (CSSD), a joint-venture between a Singapore consortium and a Chinese consortium. The Singapore consortium held 65% of the shares in CSSD and the Chinese consortium 35%

Developing the second wing and transferring software

Singapore is a small island state 600 square kilometres in area, with a total population of about 3.7 million. Over 30 years it had achieved an impressive level of industrial development with a GDP per capita of US\$19,500 in 1997, no small feat for a country with no natural resources. However its smallness in size had been a constraint to its development potential. It quickly saw the need to develop an external economy, exhorting its businesses and people on the importance of developing a second wing to sustain its growth. Under the leadership of the Economic Development Board (EDB), whose officers were top government scholars, it embarked on an expansionist programme, which saw an increase in Singapore's direct investments abroad in its regionalisation drive. Much of its investments went into industrial parks in the region for example Vietnam-Singapore Industrial Park, Wuxi-Singapore Industrial Park in China, Batamindo Industrial Park in Batam, Indonesia. In FY1995/96, through JTC, Singapore doubled its commitment in regional investments to US\$105 million for 11 joint-ventures in China, Indonesia, Thailand, Taiwan and Vietnam³.

In the Suzhou enterprise, for the first time, Singapore conceived its role as not only building a township in China but also transferring its 30 years' experience of industrial development in what it called "software transfer". Software transfer is defined as "the sharing of Singapore's successful public administration and economic management experience with the Chinese authorities so that they can formulate pro-business policies in CS-SIP, and govern with transparency and efficiency".⁴ To the Chinese it was an opportunity "to accumulate new experience for the development of mutually beneficial economic and technical co-operation between China and the rest of the world"⁵ in the words of China's President, Jiang Zemin.

The Software Transfer Agreement signed in 1994 covered areas such as land-use planning and development control, building control, environmental regulation, planning and management of industrial estates, new towns and public utilities management, and labour management. Software transfer offices were set up in Singapore and SIP. Six hundred Chinese officials were sent to Singapore for training so that they could create a system of public administration friendly to investors. According to Chan Soo Sen, the first Chief Executive Office (CEO) of the CSSD, the joint venture company, "We want to promote Singaporean characteristics: pro-business, efficient and clean".

² Far Eastern Economic Review, August 6, 1998, page 14

³ Annual Report 1995/6, Jurong Town Corporation

⁴ Suzhou Industrial Park brochure

⁵ Suzhou Industrial Park brochure

Rivalry in the old city of Suzhou

Suzhou, located 80 km from Shanghai in China's richest province, was ideal for this experimental town. It is a historical city known for its cultural and intellectual orientation, "traditionally associated with statesmen, thinkers, writers and artists" claimed the SIP brochure. Nearby research institutions, universities, colleges and polytechnics, and vocational schools ensured an adequate supply of skilled workers. It was well served by an efficient artery of expressway, railway, waterways and an international airport.

Located on the other side of Suzhou city, and constructed in 1992, the rival Suzhou New District (SND) was built to be an international science and technology park which would serve as "the window of Chinese reform and opening up" and boasted of high efficient management system" and "bustling commercial centres"⁶

Both SIP and SND came under the administration of the Suzhou municipal government. The vice-mayor of Suzhou was the Director of the SND Administrative Committee and the mayor of Suzhou had been the Director of the SIP Administrative Committee (SIPAC).

Share the same bed but not the same dream

David Lim⁷, the second CEO of CSSD noted, "One of the major tensions right from the very beginning was a different sense of how we should mark our progress in the park. To the Chinese, the concept meant ground breaking, building roads, putting up buildings. To us it was laying a good foundation, making sure that you've got a good plan, making sure that the concept was robust, things you cannot see...the concept is in your mind".

Lim Chee Onn, Chairman of the Singapore consortium, felt that local officials had lost sight of the original goal. "They have become too engrossed with the excitement of physical development which is only a means to an end. The real purpose is for policies to be applied. Otherwise it becomes like any other commercial park. We did not go into SIP for the purpose of investment but for the Chinese officials to try out some of the policies in the way the government ought to be run".

Singapore stressed the importance of a pro-active pro-business mindset. Peter Ong, the former Director of Software Transfer Office was concerned that the Chinese did not understand the problem that policy changes would have on investors. For example, one area of contention was the change in the land tenure. When the land price was first negotiated and contract signed, it was based on a tenure of 70 years. Yet subsequently, the Singapore side was told that this went against the law of China, which allowed only a 50-year tenure for industrial land.

Another area of concern to Singapore was the slow pace of implementation of the SIP master plan. Notwithstanding that the target for industrial development had almost achieved its target, the overall objective of developing an integrated township was far from realised. Singapore was building a city from ground zero on what was basically marshy paddy land. The master plan envisioned an integrated township with good infrastructure, manufacturing, services, economic and social administration. "We are looking at the concept of a thriving township with residential and commercial activities, not just industrial activities. If we had stuck to the master plan, today we would have a community of 100,000. Instead we have 1000. It was part of the original plan to learn how to manage a large community. In the master plan too was the relocation of the commercial activities from the Suzhou old city to the SIP so that the old city can be maintained as a historical site. Instead, they have been tearing down old buildings in the old city and replacing them with new buildings. How do you plan and develop a country to generate that kind of growth of 8% to 10% consistently in 30 years without creating social disharmony, where things remain

⁶ brochure of the Suzhou New District

⁷ now Minister of State for Defence, Singapore

under control and people by and large are happy – they wanted to learn all that from Singapore”, said the present CEO of CSSD, Mr Lim Neo Chian. “Much depends on the willingness of the local officials to focus their energy and resources on the development of SIP and in the course of working together to adapt our software to their needs. Social order, social and economic administration are ideas which do not show and are hard to grasp. But if software is important, it is logical to focus on the development of SIP. SND is a distraction. Time has been wasted”.

The Chinese side did not see SND in this way. Chen Deming, the mayor of Suzhou pointed out that competition was healthy. “It will urge both the Chinese and Singaporeans to work even harder so that the park will be able to compete with other parks in China”. But there was also dissatisfaction on the Singapore side about the price of land in SIP which was US\$65 per square meter compared to US\$36 per square meter in the SND. The Singapore side accused SND of undercutting. The Chinese officials pointed out that the cost difference was due to the higher developmental cost of SIP, which had better infrastructure and could thus attract high-tech projects. Companies which preferred cheaper land and did not need sophisticated infrastructure would go to SND. Besides, they argued, SIP had a better marketing strategy and thus should not have been too concerned about the competition. David Lim noted that while it was true that SIP was built to a higher standard, the high cost differential was due to subsidies for infrastructure costs in SND.

To the Chinese, much had been achieved. Zhao Dasheng, head of the Chinese Software Transfer Office appeared to be fully aware of the essence of software transfer. “We have adopted the Singapore CPF, learnt about the HDB housing programme and neighbourhood centres, but these are only the visible adaptations of the software. More importantly are the ideas which will help the transformation of the old system to the new. But we have to combine them with the Chinese condition just as Singapore’s experience is the product of Singapore’s adaptation of experience from other countries. For example laws in SIP must be consistent with Central Government law. With regard to the tenure of land, the municipal government has no authority to approve a 70-year land lease. We are still working with the Central Government on this issue. We also cannot give an administrative order to resettle those in the old Suzhou city in SIP. SIP is attractive to the younger people. In future, the younger people will move there. Our Singapore friends must be more patient”.

Singapore had invested a lot of time and effort in the project. David Lim pointed out: “The goal was not that we would always be around ... the benefit of this project accrue largely to China, the investments go to China, the infrastructure is in China Suzhou, the exports benefit the Chinese workers, the jobs are created there. We have nothing of that spillover in Singapore except that experience of how to work in China, the knowledge that filters and effuses out to our businessmen... We have invested a lot of our best people in the project. They are not lightweights”.

The multi-layered government structure - central, provincial, municipal, city and town/village- added to the complexity of working in China. A senior EDB official explained that while this was a government to government project, what was considered important at national level might not be deemed so at the local level where the economic consideration may be different. The difficulty lay in the transfer of the public administration experience of a country which is one-tiered to a country which is five-tiered.

The Chinese admitted that there were problems but they could be resolved. They did not agree with the way the Singapore side dealt with problems. The Mayor of Suzhou, Chen Deming said, “When we have problem, we do not expose the problem to the media while the Singapore side seems to have the habit of raising issues to the press before the problem is resolved. In fact the publicity generated free advertisement for SND”. Yang Xiaotang, Suzhou Party Secretary, did not see the reason for the fuss about SND. He said that SND had been established earlier and in fact “paved the way for SIP”. He also found issue with the expression apparently used by the Singapore media “the mountain is high and the emperor is far away” . “It is politically disrespectful,” he said. “Our political cadres are known for their

loyalty to the Communist Party and President Jiang Zemin, as well as their steadfast adherence to the policies of the Party.”⁸

The End ...

In response to Lee’s concerns about the park, Chinese President Jiang Zemin assured the Singapore side that the park had his personal support and that it would be “the priority of all priorities”. He was also reported to have said that there would be no more such Singaporean parks in China.

⁸ TCS (Television Corporation of Singapore) interview