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Challenges & advantages of Singapore
with focus on cultural differences

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i. Quick Overview

ii. Content

iii. List of Figures

iv. List of Tables

v. List of Abbreviations

&	and
ACRA	Accounting & Corporate Regulatory Authority
ASEAN	Association of Southeast Asian Nations
B2B	Business to Business
BERI	Business Environment Risk Intelligence
BSC	Business Support Center
CEO	Chief Executive Officer
CH	Chinese
CIA	Central Intelligence Agency
CMBTA	Chinese Machine Tool & Tool Builders' Association
COE	Certificate of Entitlement
CSI	Corporate Social Integration
CSR	Corporate Social Responsibility
e.g.	for example
EDB	Singapore Economic Development Board
EIU	Economist Intelligence Unit
ERP	Electronic Road Pricing
est.	estimated
etc.	et cetera
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chamber of Commerce and Industry
FLA	Singapore Franchising & Licensing Association
FTA	Free Trade Agreement
GCIT	The German Center for Industry and Trade Pte Ltd
GDP	Gross Domestic Product
GM	General Manager
GNP	Gross National Product
GST	Goods and Services Tax
HK	Hong Kong

HQ	Headquarters
i.e.	which means
ICT	Information and Communications Technology
IP	Intellectual Property
IPOS	Intellectual Property Office of Singapore
IT	Information Technology
JETRO	Japan External Trade Organization
JV	Joint Venture
KFC	Kentucky Fried Chicken
KM	Kilometer
LTA	Land Transport Authority
MAS	Monetary Authority of Singapore
MNC	Multinational Corporation
MOF	Ministry of Finance
N/A	Not available
NIC	Newly Industrialized Country
NIE	Newly Industrialized Economy
NZ	New Zealand
OECD	Organization for Economic Co-operation and Development
OMV	Open Market Value
PAP	People's Action Party
PEST	Political, Economic, Socio-cultural, and Technological factors
PSA	Port of Singapore Authority
PSB	Singapore Productivity and Standards Board
PTE LTD	Private Limited
PWC	Price Waterhouse Coopers
R&D	Research and Development
SARS	Severe Acute Respiratory Syndrome
SES	Stock Exchange of Singapore
SGD	Singapore Dollar
SIE	Singapore International Enterprise

SIFA	Singapore International Franchise Association
SME	Small and medium-sized enterprise
SME	Small and Medium Enterprises
SPF	Singapore Police Force
SPRING	Standards, Productivity and Innovation Board
SQ	Square
TDB	Singapore Trade Development Board
TIE	The Indus Entrepreneur
TNC	Transnational Corporation
UN	United Nations
UOB	United Overseas Bank
US, USA	United States of America
USD	US Dollar
USP	Unique Selling Proposition
WIPO	World Intellectual Property Organization
WOS	Wholly Owned Subsidiary
WTO	World Trade Organization
TAS	Telecommunication Authority of Singapore

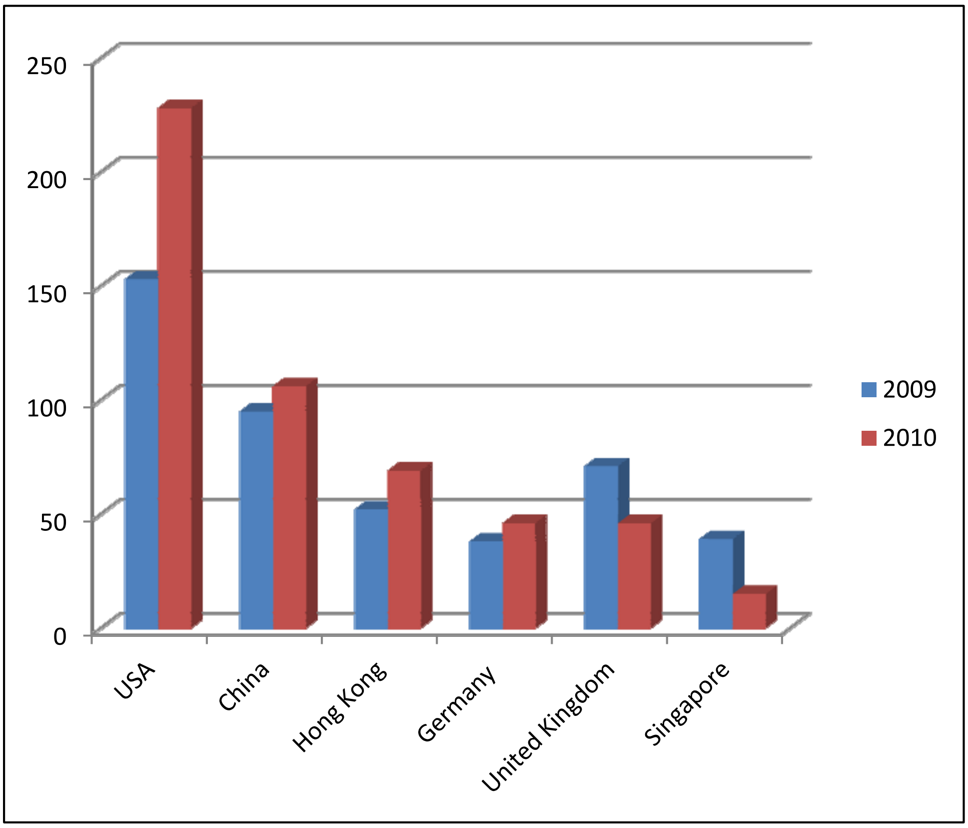
1 Introduction

1.1 *Background of Globalization and FDI in Asia*

In terms of globalization, it is remarkable that many multinational corporations (MNCs) are investing abroad today. With globalization the world is melting into one global economy and many firms are moving through foreign direct investment (FDI) within this market. According to Hymer (1976) there are two motivating factors of FDI: (1) Many firms are struggling with a lot of competitors not only in their home markets but also abroad. Therefore they attempt to reduce international competition through FDI. (2) MNCs strive for increasing their profits from the utilization of their special advantages. Dunning (1993) is explaining FDI with the location factor abroad (cheap labor, capital).

Figure 1-1 FDI Inflow by Country 2009-2010

(in Billions of dollars)

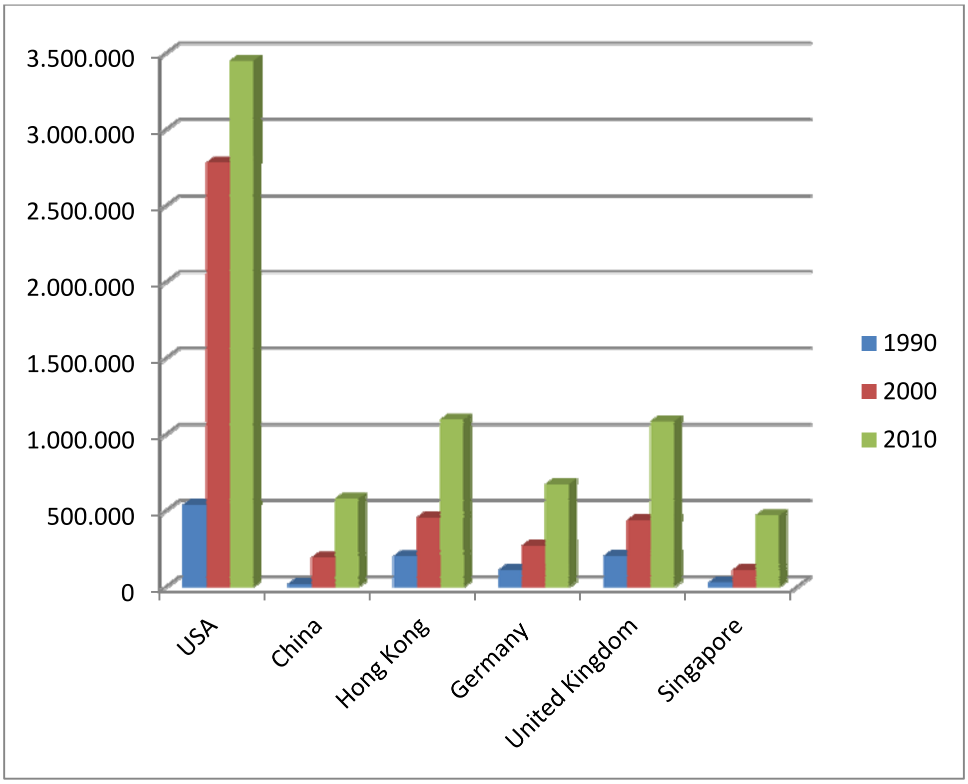


(Source: World Investment Report, 2011:29; Table Annex I.1)

In Figure 1-1 the FDI inflow of selected countries is presented from 2009 until 2010. The United States represented the world's largest recipient of FDI in 2010 with 228 billion USD among the industrialized countries. China was ranked in second place followed by Hong Kong (China) with 69 billion USD. With a 39 billion USD FDI inflow in 2010, Singapore reached the FDI inflow level of Germany in 2009. Figure 1-2 shows the FDI stock of selected countries from 1990 to 2010. The FDI stock of Singapore in 2010 was only 470 billion USD, yet it showed a 15-fold increase from 1990–2010. On the other side, the USA held the highest FDI stock with 3,45 trillion USD in 2010, however, this was only a sextuple increase from 540 billion USD from 1990-2010.

Figure 1-2 FDI Stock by Economy 1990-2010

(in Millions of dollars)



Source: World Investment Report, 2011:291; Annex Table 1.2

The New York Times identifies China as *The* country in Asia for future FDI and described the situation as: "China is grabbing much of the new foreign investment in Asia, leaving its once-glittering neighbors (Thailand, South

Korea, and Singapore) with crumbs (New York Times, 2006)." The Economist states that in the early 1980s China was already the world's tenth biggest economy (The Economist, 2006). In 2010, China maintained its strong surge upward, growing by a robust 10.3% (See Table 1-1).

Table 1-1 GDP Growth of China 2002-2007

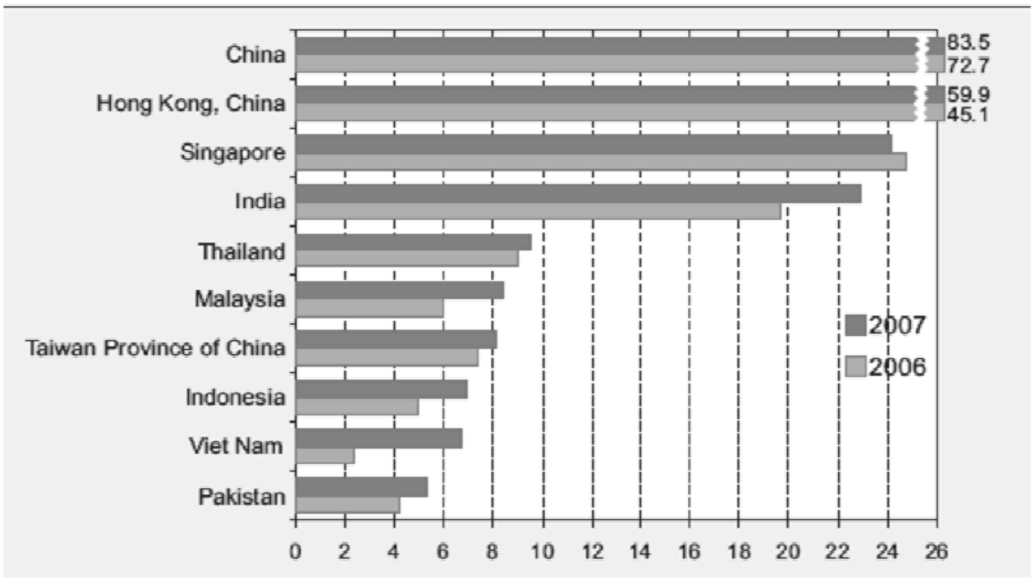
	2004	2007	2008	2009	2010
GDP growth (in %)	10,1	11,4	9,6	9,2	10,3

Source: Own illustration, data obtained from Statistical Yearbook 2008

The questions are: How attractive is Singapore concerning foreign investment and can it be as competitive as China or Hong Kong? A comparison between Singapore and other Asian countries might help answer these questions. Figure 1-3 compares the top 10 FDI recipients in South, East and South-East Asia. China, Hong Kong and Singapore form the top group of FDI inflow. India is approaching the level of Singapore with 23 billion USD FDI in 2007.

Figure 1-3 South, East and South-East Asia:

Top 10 Recipients of FDI Inflows (2006-2007) in billions of USD

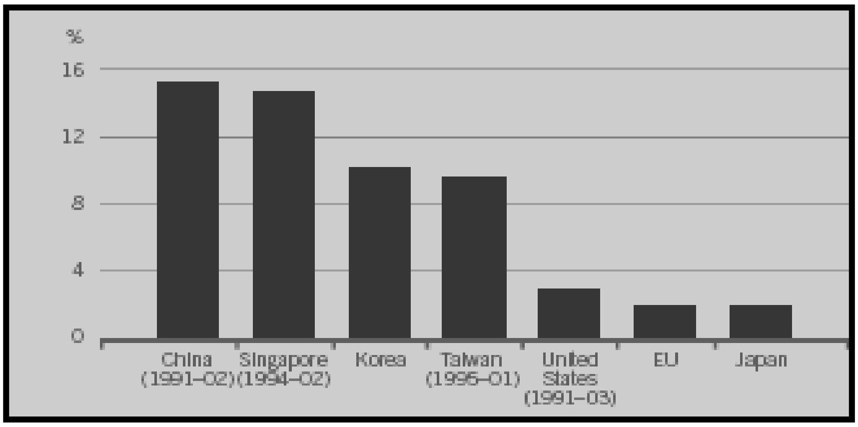


Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.
[a] Ranked by magnitude of 2007 FDI flows.

Source: UNCTAD, FDI/TNC database and annex table B.1

Concerning Research and Development (R&D) in Asia this sector has also been increasing in line with the increase of global FDI. Figure 1-4 states that Singapore has been number two concerning annual average growth rate in R&D expenditure 1991 -2001 worldwide.

Figure 1-4 Growth of R&D expenditure, annual average growth rate 1999-2001 [1]



Source: Anderson, 2005:26

In 2002 there were 14,502 wholly owned subsidiaries (WOS) in Singapore (World Investment Report, 2006:271). The trend of today's worldwide globalization in this city state is demonstrated by the presence of 7,000 foreign MNCs coming from a broad variety of industries, geographies and competencies in 2006. 330 MNCs have given Singapore a Headquarters (HQ) status and another 4,000 carry out their global and regional functions from the country (EDB, 2007). The significance of this high concentration of MNCs in such a small city state will be the focus of the thesis. With China offering many advantages for FDI, this thesis presents Singapore as an alternative entry point to the Asian market. The questions addressing MNCs concerning this decision as well as the problems and advantages this market contains will be presented in the next chapter.

[1] Based on national currencies in constant prices; There is a break in series for China between 1999 and 2000, breaks in the series for the United States in 1997 and 1998 and the US date for 2002 and 2003 are provisional.

1.2 *Research Questions*

As it has always been difficult to enter a new market, it will even get harder if the new market is located in Asia. This thesis elaborates on different market entry strategies towards Singapore. It will be helpful for Western companies, to get to know the market in Singapore and its context in the Southeast Asia region. For some reasons many MNCs have made the decision to enter Singapore for expanding to Asia. This thesis will work out the reasons why Singapore holds a strategic unique position among the developing countries in Asia and why it is so attractive to foreign investors. The market in Singapore itself will be presented regarding business potential and new opportunities, but also in terms of limitations, problems and cultural differences. The thesis will elaborate on different entry strategies for Singapore and will present arguments whether supporting or not the chosen entry mode respectively. The thesis will deal with the following questions:

- What does the market in Singapore look like for MNCs?
- What are the advantages of moving a business to Singapore?
- What are the challenges and problems of doing business in Singapore?
- Is there a generally advised strategy concerning the entry mode to Singapore?
- How to find the right business partner in Singapore?
- How useful is the Guanxi[2] [pronounced as “gwan-she”] factor for the entry strategy of a MNC?

People who have never been exposed to the Asian culture will get helpful information about the business environment in Singapore.

1.3 *Motivations for this thesis*

This thesis should give supportive explanations about the difference in doing business in Singapore. Due to cultural differences, Western companies are highly challenged to find the right business partner. The cultural gap between Western and Asian cultures is obviously large but often underestimated. The

[2] This thesis makes use of the pinyin system of Romanization of Chinese characters developed on mainland China

mistake of judging compatibility at a broad level and using national, ethnic of cultural matches are even done among Asian firms. For example many Singaporean firms believe that their shared Chinese heritage makes for ideal partnerships with Chinese and Singaporean firms. The danger of this hypothesis is shown in the numerous cases of failed alliances even between Singaporean and Chinese firms, and by the failure of Singaporean firms in China, because of unexpected cultural and other incompatibilities. Compatibility has to be established at the strategic level of firms' intents and strategies, and at the operational levels at which interaction between the firms and their people actually takes place (Singh, Delios, 2005:207). Nevertheless, Western managers still need to be aware of the Chinese heritage of many Singaporeans, but at the same time they are loyal to Singapore and not to China. Some MNCs believe that Asians want to consume the same products as Europeans and they are able and ready to pay similar prices. Other MNCs commit the same mistake but from another perspective, saying that Asians do accept older products and out-dated technology but are unable to afford them. Both of these theories are correct in some markets in Asia, but they are definitely wrong in other markets. Knowing the Asian customer and identifying the business environment in Asia will help to develop the appropriate strategies for MNCs (Singh, Delios, 2005:15). Shane (1994) discovered that national culture - especially the levels of trust – have an impact on the choice of the entry mode to the foreign market. Can this be true for Singapore as well? The scope of this thesis is therefore to evaluate the market in Singapore concerning new business opportunities for Western companies and how this market is to enter. It will show the importance of dealing with Guanxi while doing business with Asian partners in Singapore and will focus on how to develop "my own" Guanxi in the business world.

1.4 *Structure of the thesis*

This paper is organized in the following manner:

i. An introduction of Singapore from a historical and economical point of view.

ii. The important role of the Singaporean government and its influence on the economical development will be presented followed by tax incentives provided by the government to attract MNCs to Singapore.
iii. The roots and the theoretical background of the Guanxi factor is explained and briefly discussed in the Singaporean context. This part will not only define the term Guanxi but will also show how this is applicable to Western companies for their investment in Singapore.
iv. How these challenges can be managed in regard to different entry modes for foreign companies moving to Singapore.
v. The practical aspect of this work holds a view on the case study of TRUMPF, which is a German manufacturing leader in production technology. The internationalization process of this company from an organizational perspective is briefly described and will point out the pros and cons of doing business in Singapore and how they are managing the cultural gap between Germany and Singapore.
vi. Important concluding remarks are presented concerning the future outlook of Singapore and what new challenges MNCs are facing in the short, middle and long run.

2 Analysis of the Market: Singapore

2.1 *The Environment of the Asian Market*

Before the business market in Singapore will be explained it is crucial to provide information about the general differences of the Asian market compared to Europe. In 2005, Singh and Delios identified several new key factors in the Asian business environment which are significant and unique for the Asian market. The key elements of the environment are called "PESTs", meaning: political, economic, socio-cultural, and technological factors. Their importance can vary across industries. In mobile telecommunications, for example, technological change is a major driver of demand for many products and services, while political considerations often represent major constraints on firms, such as allowance of 100% foreign equity owners. These are the major PEST trends in Asia (Singh, Delios, 2005:25):

1. Political factors
   - Growing acceptance of the benefits of free trade and foreign investment
   - Increasing resistance by non-government organization to “globalization”
   - General decrease in political risks
   - More local and other free trade agreements
   - Government protection of domestic firms and industries is decreasing and becoming less effective

2. Economic factors
   - Fewer obstacles to trade, investments, and financial flows
   - Increases trade and investment flows
   - Improved institutional frameworks for trade, investment and business Continued growth of China, the emergence of India, and the relative decline of Southeast Asia
   - Growing risk of contagion within and across regions during economic and financial crises

3. Socio-cultural factors
   - Increasing educated, trained and competent consumers and populations
   - Continuing convergence in consumer needs, desires, and wants
   - Growing disposable income in East Asia
   - Easier and greater movement of skilled manpower within and outside Asia
   - Emerging pressures for greater corporate social responsibility
   - Trend of ageing populations in many Asian countries in the long run

4. Technological factors
    - More rapid and disruptive change in technology
    - Greater ability of emerging economies to utilize and absorb technology
    - Widespread diffusion of information and communication technologies, allowing broader geographic dispersion and integration of business activities
    - Changing “make or buy “ decision and less defined firm boundaries

Now that that the big picture of Asia has been described, a close look at the country profile of Singapore is needed for a better understanding of its market.

2.2 *Key facts of Singapore*

Singapore rests along the equator and is located between Malaysia and Indonesia (See Figure 2-1).

Figure 2-1 Map of Singapore

Source: CIA Factbook 2010

The small size of Singapore (697 sq km) would indicate a less importance meaning from an economical view, but with only 5,1 million people and a gross national product per capita of 62.100 USD this city state country is playing in the same league as high developed countries like the US (43,500 USD) or the average of European Union (EU27) (29,400 USD) (see Table 2-1).

Table 2-1 Key facts of Singapore compared to the USA, EU27 and the World

	Singapore	USA	Austria	World
Area (sq km)	697	9826,68k	83,87k	510072
Capital city	Singapore	Washington D.C.	Vienna	n/a
Population	5,1 mil.	313,2 mil.	8,2 mil.	6,9 bil.
GDP (USD)	291.9 bil.	14,66 trillion	332 bil.	46, 66 trillion
GNP per Capita (USD)	62.100	43,500	40.400	11.200

Source: Own illustration, data obtained from CIA World Factbook July 2010, Department of Statistics Singapore, 2011:40

A look at the GDP growth rate in Singapore shows an overall increase since 2003 again. Singapore suffered from 2001-2003 under the global recession and the decline in the technology sector. On top of that tourism and consumers spending were hit hard by the outbreak of Severe Acute Respiratory Syndrome (SARS). The real GDP growth rate between 2004 and 2007 was on average 7%. Due to the financial crisis GDP growth dropped down to 1.2% in 2008 (SINGSTAT, 2009).

2.3 *Limitations of the analysis of Singapore*

Hence Singapore consists of so many ethnic groups this thesis work will only focus on the Chinese ethnic group. It is not stated that Malays and Indians have no influence on the culture in Singapore but this thesis only focuses on the Chinese and the characteristics of this culture.

2.4 *Infrastructure of Singapore*

Singapore is a highly developed country and shows a strong infrastructure. A world class public transportation and the latest communication system are just few examples. Here are some facts about the infrastructure:

Port of Singapore

Singapore holds the biggest and busiest container port worldwide (PSA, 2009). This largest transshipment hub is managed by Singapore Terminals Corporation Ltd. (PSA) [3], which handled 23.98 million of Twenty-Foot Container Equivalent Unit (TEU)s in 2006. There are four main Terminals in Singapore:

- Tanjong Pagar
- Keppel
- Brani
- Pasier Panjang

Singapore deals with 200 shipping lines and has connections to 600 ports in 123 countries (PSA, 2009). This means daily sailings to every major port worldwide (See Table 2-3).

Table 2-2 Daily Destinations from Singapore

Destination	Daily Frequency
USA	2
Europe	4
Japan	5
China, HK and Taiwan	9
South and Southeast Asia	70

Source: PSA, 2009

Figure 2-2 shows that the busiest transshipment hub of the world is situated in Singapore and points out the strategic position of Singapore

[3] Formerly known as Port of Singapore Authority

Figure 2-2 Transportation Network of Singapore's port

Source: PSA, 2009

Airport

There is one airport in Singapore, Changi Airport, with 80 airlines operating over 4,000 weekly scheduled flights to more than 57 countries (Airliner 2008).

Road

Space is rare in Singapore. That is why paved roads only have a length of 3,234 km, which already includes 150km of expressways (CIA Factbook, 2008)

Water

The small size of Singapore and the increasing demand for water make water to a precious resource. Therefore rainwater is collected in the catchments in the reservoirs. 50% of the area of Singaporean is used as catchments to collect rainwater as much as possible. The government encourages the people to save water by all means since the demand for water is continuously increasing and space is also limited in this small city-state. With new projects like water reclamation started in 2003 and building new water reservoirs, drains, canals launched in 2005, Singapore aims for preserve the water supply in the country (Ministry of Environment and Water Resources, 2009).

Energy

Singapore has a stable and safe power supply. In 2004 the energy production in Singapore accounted 32.6 billion kilowatt hours coming from: oil (89%), natural gas (11%), coal (0%), nuclear (0%), hydroelectricity (0%), and other renewables (0%). All fossil fuels have to be imported (EIA, 2007).

2.5 *Historical Development*

Singapore was inhabited by a small Malay community when the British East India Company decided to purchase it in 1918. With the efforts of Sir T.S. Raffles Singapore could develop rapidly and became the center of government for the newly created Straits Settlements Colony[4]. During World War II Japan was occupying Singapore from 1942 till 1945. This change weakened British control so that Singapore became self-governing in 1959. (Chow ed all, 1997:551) On September 16, 1963 Singapore joined with Malaya, Sarawak and Sabah[5] the Malaysian Federation but two years later, on the 9th of August 1965, Singapore became a separate nation due to tensions between Malays and ethnic Chinese. Singapore consequently developed to one of the world's most prosperous countries with strong international trading links (its port is one of the world's busiest in terms of tonnage handled) and with per capita GDP equal to that of the leading nations of Western Europe (CIA World Factbook, 2006).

2.6 *Economical Development*

Singapore, a highly developed and successful free market economy, enjoys a remarkably open and corruption-free environment with stable prices. In 1990 the United Nations identified Singapore as a Newly Industrialized Economy (NIE) due to its rapid growth. Literature also names them as “Four Asian Tigers” or “Four Little Dragons” (Singapore, HK, Taiwan and South

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[4] The Straits Settlements, the British Crown Colony that existed 1826-1946
[5]Malaya , Sarawak and Sabah are Malaysian provinces on the Island Borneo

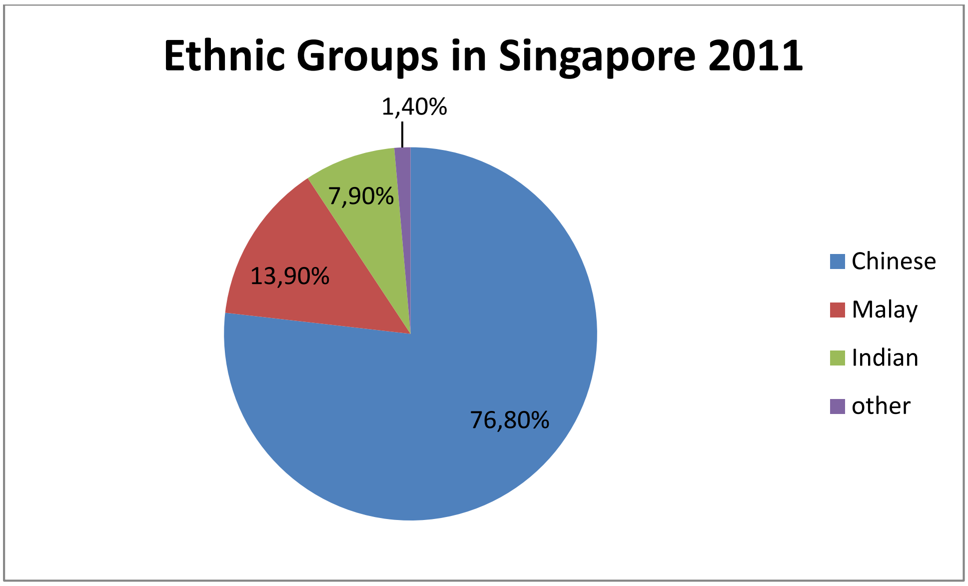
Korea). From then on the strategic economic plan was to change Singapore into a developed country (Yoshikawa and Phan, 2004:5). The absence of natural resources in Singapore and only having a small domestic market, economical growth had to depend on increasing exports (Tamney, 1995:8). In the 2009 World Competitiveness Scoreboard Singapore was ranked as number three in overall economic competitiveness (IMD, 2009). According to Tamney (1995:9) the importance of Singapore's economic growth is incorporated in people's mind as well as controlled by a powerful government. The strong government in Singapore represents also a distinctive aspect in comparison with other East Asian countries such as South Korea, Japan and Taiwan. Foreign Corporation would be provided with political power, but due to the fact that the government of Singapore is cooperative, they are not interested in this power.

During the 1990s Singapore experienced a rapid growth and development. In the years between 1990 and 1997 economic growth was accounted for approximately 9% and the inflation rate averaged over 2% (Singapore 2005: 18). Furthermore in the years between 1990 and 1997 two economic crises occurred; the East Asian Financial Crisis (1997-1998) and the SARS outbreak. The East Asian Financial Crisis was characterized by an increasing unemployment rate and an intense decrease of currency value. In contrast to other East Asian countries, Singapore was undergoing a short and relatively minor crisis due to superior macroeconomic and structural fundamentals. In 2001 Singapore was hit again by regional financial crisis which led to decreases in GDP and Exports. Nevertheless, Singapore recovered from these crises and increased economic growth in the following years (Singapore 2005:19). On the other hand, the SARS outbreak led to a recession in 2003 which was marked by standing exports and declining growth rates. However, a weak demand in imports and the strong export growth caused a considerable increase in the current account surplus, approximately 30% of GDP. Moreover, due to increasing export demand economic growth of Singapore continued to rise (Singapore 2005:19).

2.7 *Cultural Development*

Defining the Singaporean culture requires a wide view on the different aspects. (Tamney, 1995:19) Singaporeans are facing Western influences because they meet tourist, read English-language books, newspapers, and consume English-language mass media products. Nevertheless, they remain Asian with the aim of continue enjoying economic growth and social peace. The fact that a pure Singaporean culture is hard to define, leads to the use of Chinese, Indian, and Malay cultural traditions. That is why Singapore is called a multi race country (Chow et al., 1997:551). Figure 2-3 shows the composition of ethnic groups in Singapore in 2008.

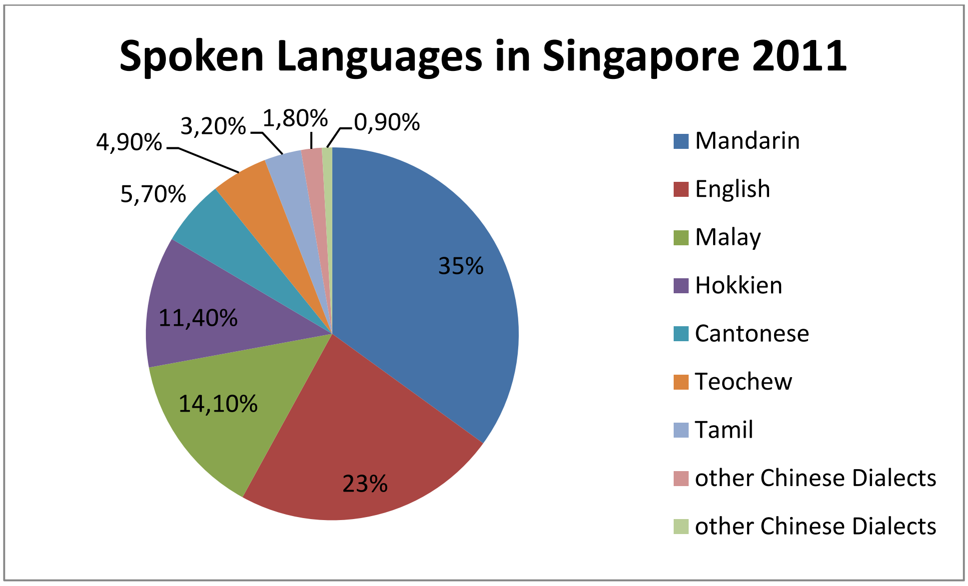
Figure 2-3 Ethnic Groups in Singapore



Source: Own illustration, data obtained from CIA Factbook, 2011

With 76.8% the Chinese people represents the largest ethnic group followed by Malays with 13.9% and Indian with 7.9%. Therefore Singapore's culture also contains different subcultures, ergo different spoken languages, as well. With four official languages (English, Mandarin, Malay and Tamil) the government is reacting to the high amount of ethnic groups in this small country. Figure 2-4 reflects the percentage of each spoken language in Singapore in 2008. Mandarin Chinese is the most spoken language in Singapore with 35% of the population, followed by English with 23%. Although English is ranked on the second place, it is the language for administration affairs and also utilized in court. 14.1% of the population speaks Malay and Tamil is only used by 3.2%.

Figure 2-4 Languages spoken in Singapore



Source: Own illustration, data obtained from CIA Factbook, 2011

2.8 *The 5 Cs in Singapore*

With the fast economical growth in Singapore materialism also have come to existence in people's mind living there. Through personal communications with locals in Singapore[6] the "5 Cs" was often used in order to name the ultimate goal in this society and the Singaporean version of living the American Dream. The five goals in materialism are the following: Car, Cash, Credit Card, Condominium and Country Club. These things define the status quo in the Singaporean society.

Car

The small size of this country forces the government to take action in order to manage and limit the amount of cars in Singapore (LTA 2007). Car ownership comes along with high cost, such as: (1) Registration fee, (2) Cost Price, (3) Road Tax via Electronic Road Pricing (ERP)[7], (4) Certificate of

[6] Personal interviews with people on the streets were conducted by the author.
[7] ERP became operational in September 1998 in Singapore and replaced the manual congestion pricing schemes in the Central Business District and expressways

Entitlement (COE)[8], (5) Additional registration fee (140% of open market value (OMV) and (6) Customs duty (31% of OMV). All these obstacles make driving in Singapore to an exclusive privilege. In 2008 the total vehicle population counts 894,682 cars (The Europe World Yearbook, 2009:4042). In 2010 this number has grown to 945,829 cars (Yearbook of Statistic Singapore, 2011:180).

Cash

Cash is self explanatory and the universal symbol for purchasing power. Therefore, Singaporeans are striving for ways to collect as much cash as they can in order to retrieve financial security.

Credit Card

This paying device enjoys high popularity among Singaporeans. But the Monetary Authority of Singapore (MAS), which is the eye of the government on the financial sector, has laid down many requirements to qualify for basic cards at banks (HSBC, UOB, DBS, etc.):

- 30,000 SGD minimum annual income for Singapore Citizens/ Residents
- 40,000 SGD[9] minimum annual income for Non-Singapore Citizens/ Non-Singapore Permanent Residents
- If the minimum income requirement is not met, a minimum fixed deposit of 10,000 SGD is required as collateral.

Condominium

Space is rare in Singapore, freestanding houses are hard to find and often only available to the high society of Singapore. Therefore, people from the middle class are seeking for condominiums, as they stand for luxurious housing in Singapore and often include additional facilities like swimming pool, sauna and private gym.

[8] To reduce traffic congestion, in May 1990 the Land Transport Authority (LTA) introduced a private vehicle ownership scheme known as the Certificate of Entitlement (COE). A COE is necessary to own a car and is obtained through a closed-bid auction.
[9] United Overseas Bank even asks for 80,000 SGD

Country Club

There is a very small amount of golf courses and country clubs in Singapore due to limited space. Accomplishments to hold a membership in those rare clubs are highly recognized in this society.

2.9 *The Government in Singapore*

The government and the president are both elected by universal suffrage, but the ruling of the People's Action Party, re-elected continuously since 1959 (USDS, 2009) and its manipulation of media and smothering protest puts the political system in Singapore the middle between democracy and authoritarianism (Singapore, 2005:13). As the sixth president of Singapore, elected in 1999 and re-elected in 2005, Sellapan Rama Nathan is the first representative of this country. The head of government is portrayed by Prime Minister Lee, Hsien Long, since 2004 (Factbook, 2011). Singapore intended to become an integral cog in the international production networks of foreign-controlled industries and therefore, the strategy of the government was to pursue an open door policy with trade and financial liberalization as core elements (Ritchie, 2001:6). A study of companies ranked Singapore better than Taiwan, Malaysia, Hong Kong and Japan concerning corporate governance in 1997 (PWC, 1999). A more recent study (PWC, 2000) rated Singapore as second only to Australia among principal markets with reference to auditing and compliance, accountability to shareholders, disclosure and transparency and board processes. This rating is important in as much as 76% of Asian Chief Executive Officers (CEO)s consider corporate governance as a key factor in attracting foreign capital and investments and eight out of ten Asian CEOs view it to be an important consideration in selecting business partners (Gonzalez, 2004:316). According to CG Watch 2004, reported by CLSA and Asia Corporate Governance Association (ACGA), Singapore, Hong Kong and India are listed as the top three markets ranked by corporate governance (CG, 2004).

2.9.1 The Influence of PAP on the Economy

Until the mid-1990s, FDI from Singapore was relatively insignificant, heavily concentrated in neighboring Malaysia, and focused on the manufacturing and financial services sectors. To increase FDI, in 1994 the Government introduced a regionalization strategy with two distinct objectives: to facilitate FDI by Singaporean enterprises and to transform Singapore into a regional headquarters for translational corporations (TNCs) operating in Asia (World Investment Report, 2006:214). The Singaporean took pro-active microeconomic measures to help businesses through a lot of governmental agencies. The executing hand of the government in Singapore for promoting FDI and foreign trade is the Singapore Economic Development Board (EDB), which was established in 1961 under the Ministry of Finance (MOF). EDB provides leans and equity financing, industrial training schemes and marketing assistance. Foreign governments and companies are maintaining industry training centers and institutes of technology together with EDB (EDB, 2007). Jurong Town Corporation (JTC) has also its roots in the EDB and was formally incorporated in 1968 (JTC, 2007) to offers key physical infrastructure for industrial sites like building and cargo handling facilities. The Monetary Authority of Singapore (MAS) is in charge of the financial sector in Singapore and controls every step regarding financial issues. As the government's trade promotion agency International Enterprise (IE) Singapore supports the goals of EDB and is reinforced by others like DBS, National Science and Technology Board (NSTB), Singapore Institute of Standards and Trade Development (TDB). Standards, Productivity and Innovation Board (SPRING) grants quality assurance for products and services and works on the reduction of technical barriers to trade. Last but not least, Maritime and Port Authority of Singapore (MPA) and Singapore Tourism Board (STB) are also there to provide trade information and assist companies in their globalization plans.

2.9.2 Critical view on the government in Singapore

Singapore has been characterized by an extremely active state industrial policy (Nolan, 1993:73). The former Prime Minister Lee Kuan Yew argued (The Economist, 1986:4): "You concentrate on those skills, on those products, which will sweep the market." The Economist describes the strategy of Singapore as (The Economist, 1986:6): "Singapore picked some early winners, like shipping and ship-repairing. It happened on others, like ship building, oilrig-building, printing and electronics. It established an excellent airport, airline and postal and communications service as a business-promoting infrastructure. It avoided areas like textiles, vulnerable to regional competition and Western protectionism. And it made a few mistakes." The fast economic growth is often associated with the strict policy of the former Prime Minister Lee Kuan Yew[10] and his ideas of a strong Singapore (Country Profile, 2007:4).

In Singapore, Republic of Korea and Taiwan the state was faced with a much larger and less manipulate workforce. In each case the labor market was kept "free" via direct state action (Nolan, 1993:77). The initially belligerent, communist-led trade unions were incorporated in Singapore into the state decision-making process (wages are largely fixed by the tripartite National Wages Council, including employers, trade unions, and government) and the Communist Party was outlawed (Deco, 1987:150). Florian von Alten analyzed the influence of the government on the economy in 1995. He discovered that Singapore's economic development is mainly a political process, decided upon and guided by a strong government determined to overcome the country's backward economic status and to enter the first league of industrialized nation in the beginning of the next century. The existence of government interventions in Singapore suggest that a passive state, as argued by classical and neo-classical economists, is not necessary condition for rapid economic growth. Government activities do not have to be disastrous per se (von Alten, 1995:230). Surprisingly, this result is in contradiction to Michael Porter's theory as to which a government cannot create directly a competitive advantage in a country (Porter, 1990:86).

There are more worries about the immense influence of the PAP on the economy. The ongoing interventions may ultimately hold back the economic development of Singapore. A sector in particular is the financial service industry. There is complaining about the tight control on information and

[10] The Prime Minister from 1959 until 1990

intolerance of public criticism of government policies, which could prevent Singapore from truly turning into a financial center for South-East Asia (Chow ed all, 1997:557).

2.9.3 Investment Incentives provided by the Government

There are many ways through which the government has led the direction of economic change of Singapore (Smith, 1985:82):

- An initial phase of protection for selected industries
- Incentives to MNCs to invest in selected sectors
- High state investments in education to encourage skill-based activities (e.g. finance for high-tech industries)
- Orchestrated wage rises to encourage investment in high valued added industries
- Huge state investment in telecommunications which is seen by the government as part of the strategic investment in the infrastructure of the economy rather than as a profit-maker in itself

The government issued tax incentives to attract foreign investment into selected core industries, e.g. foreign companies in selected core industries are entitled to tax exemption for five to ten years due to the Pioneer Status Scheme (Islam and Chowdhury, 1997:206). Double deductions for approval R&D expenditure, concessional tax rates for approved operational headquarters and expansion incentives are provided by the government. For details about all tax incentives see in Appendix 9-3 until 9-13.

2.9.4 Taxation in Singapore

Singapore is able offer an attractive environment for international business in regard of taxation. The white paper on Goods and Service Tax (GST) with a rate of 3% was approved on April 1, 1994 and was part of a tax reform effort striving for a reduction of fiscal reliance on direct (income) taxation. By reducing the burden of income taxation Singapore aimed at preserving the incentive to work, encouraging enterprises and maintaining international competitiveness to attract foreign talent and investments. Additionally, in regard to the rapidly aging population GST was considered to provide a more stable tax revenue resource (Poh, 2003: 52). GST was raised from 3% to 4% on 1 January 2003 and was raised again from 4% to 5% on 1 January 2004. The last increase from 5% to 7% was approved in July 2007 (MOF, 2007). The increase of 2% is argued to fit into the actual economical situation in Singapore and should not be implemented when Singapore is passing a recession. "It is not just an offset package to deal with the GST. It is a whole set of measures which we are taking in order to tilt the playing field in favor of the lower income group, which is what we have to add and tally in the balance ... It's part of being one society. I'm not going to tax 15% on income tax, I'm not going to tax 25% from GST the way the Scandinavians do, but I have to make the adjustments of 2% which I think is fair and I think Singaporeans will support," added Mr. Lee (Channel News Asia, 2006).

Corporate income taxes were introduced in 1965 with a rate of 40% until 1986 (See table 9-21). With the continuously decreasing corporate tax rate over the years, various foreign companies were moving to Singapore to conduct businesses. In 2007, corporate tax is set at 20% and faced another reduction in 2008 according to IRAS (2007). This projected decrease should have to make sure that Singapore belongs to one of the countries with the lowest corporate tax rate worldwide. Table 2-3 lists countries by their effective corporate tax rates from 2005 and shows that Singapore is leading the list in regard of the marginal effective rate. In 2011 the corporate income tax rate in Singapore has been reduced again to 17% (IRAS, 2011). This proves again the intention of the government to maintain an attractive tax environment for foreign and local business.

Table 2-3 Comparison of Corporate Tax Rate worldwide (2005)

Country	Corporate Income Tax Rate (in %)	Effective Tax Rate (in %)[11]
China	24	45.8
Canada	34.3	39
Brazil	34.6	38.5
US	39.2	37.7
Germany	38.4	36.9
Italy	39.4	36.2
Russia	22	34.5

[11] The marginal effective tax rate is the tax paid as a percentage of the pre-tax return to capital, under the statement that the after-tax rate of return is sufficient to cover the cost of equity and debt finance given by international lenders.

Japan	41.9	33.6
France	35.4	33.3
Korea	27.5	30.8
New Zealand	33	29.3
Greece	32	29.3
Spain	35	27.3
Norway	28	25.1
Netherlands	31.5	25
India	33	24.3
Australia	30	24.1
Finland	26	22.9
Luxembourg	30.4	21.9
United Kingdom	30	21.7
Belgium	34	21.4
Poland	19	20.2
Denmark	30	19.8
Austria	25	19.4
Hungary	16	18.2
Czech Republic	26	17.7
Switzerland	22	17
Mexico	30	16.7
Ireland	12.5	13.7
Portugal	27.5	13.5
Sweden	28	12.1
Iceland	18	12.1
Slovak Republic	19	9.1
Hong Kong	17.5	8.1
Turkey	30	6.4
Singapore	**20**	**6.2**

Source: C.D. Howe Institute, 2005

By remitting the overseas income into Singapore a company in Singapore can front double taxation. In order to avoid this situation, a resident company is entitled to the benefits conferred under the Avoidance of Double Taxation Agreements (DTA) that Singapore has approved. Singapore has entered into 54 comprehensive, 7 limited DTAs worldwide and 8 treaties, which are signed but not ratified. See in Appendix table 9-14 till 9-17 for more details about those countries.

3 Management Strategy for Western Companies

3.1 *Reasons for going to Singapore*

When weighing the pro and the cons of the business environment of Singapore these five reasons give a favorable opinion of this business location:

1. Strategic Location

Due to its location Singapore holds the 4th position ahead of New York (5) and Tokyo (9) for being as the most vital international air travel hub in the world according to the National Academy of Science, 2005

2. Close Proximity to Regional Markets

   Since Singapore is a member of ASEAN (Association of Southeast Asian Nations), business ideas can easily reach this combined market of over 500 million people in Asia.

3. Reasonable Corporate Tax – from 2010 onwards only 17% (See Appendix table 9-24)

4. Low Cost of Living

   Due to a safe and clean environment to live and work Singapore’s standard of living can easily keep up with many First World countries. Living conditions in Singapore belong to the best in Asia with state-of-the art facilities for education, shopping, sports and recreation. The inflation rate is comparatively lower than most other countries. Mercer's Cost of Living Survey 2009 listed Tokyo, Osaka and Moscow as the most expensive cities. Singapore is ranked on the 10th place (See Table 9-2 in Appendix). According to a study by accountancy firm KPMG in 2006, Singapore belongs to the most cost-competitive business location among nine industrialized countries. The bi-annual study - which covers 128 cities in nine countries - indicated that Singapore was 22 per cent (see Table 3-1) cheaper than the benchmark United States.[12]

Table 3-1 Cost Competitive Comparison 2006

Country	Cost Index Rank	Rank
Singapore	77.7	1
Canada	94.5	2
France	95.6	3
Netherlands	95.7	4
Italy	97.8	5
United Kingdom	98.1	6
United States	100	7
Japan	106.9	8
Germany	107.4	9

Source: Own illustration, data obtained from KPMG Competitive Alternatives Study, 2006

3.2 *The Challenges and Risks of Doing Business in Singapore*

Singapore offers an attractive environment for foreign business affairs but Western companies are in need of understanding the characteristics of this location. Alliances with Singaporean partners have to be built with carefulness and should have rather pragmatic than unrealistic expectations about the outcome of the alliance. In the planning stage firms must consider closing costs and salvage values for worst scenarios in Singapore. On top of that, overestimating the potential and ignoring the danger of failure is the most common mistake in this context (Inkpen, ed all, 2001:144). If government intervention or environment uncertainties are expected to be high, e.g. Chinese government, firms tend to use Joint Venture as entry mode. Since the government in Singapore has strong influence on the economy, this would indicate a preference for Joint Ventures in Singapore.

[12]KPMG'S 2006 Competitive Alternatives study analyses 27 cost components, including wages, freight, business taxes, rent and utilities

But if FDI is surrounded in an open economy, then wholly owned subsidiary (WOS) is preferred. The main considerations about the entry mode must secure the firms proprietary knowledge and control over worldwide operations (Luo, 2001:465). Singapore does have an open economy, which leads to the questions like how attractive are WOS as an entry mode for Singapore.

3.3 *Cultural differences in Singapore*

Despite the fact that Singapore provides an overall good investment climate especially for foreign businesses with its strategic location, physical and financial infrastructure, human resources and political and social stability (Chia, 2000:1998), entering this new market still requires local knowledge of the country itself. The early theory of organization forms implies that structure follows the chosen strategy (Chandler, 1962:314). But in terms of globalization, cultural differences have also impact on the organization forms of MNC and especially their networks today. The concept of business networks is globally recognized but holds a prevailing position especially in Asia. These networks are identified as Keiretsu in Japan, Chaebol in South Korea, the Chinese family business groups across much of all Asian countries and the government linked corporation in Singapore (Leung and White, 2004:68). Today, the practice of traditional Chinese Guanxi is still present in Singapore as another example of cultural patterning (Kopina, 2005:490). This thesis will point out the Guanxi factor in Singapore, since the Chinese represents the largest ethnic group.

4 Guan Xi Factor in Singapore

4.1 *Where does it come from?*

The existence of the Chinese culture and its history go five thousand years back in time (Chung, 1995:50). Singapore is, ethnically, mainly a Chinese country, since over 70% of population is Chinese (See Figure 2-3). The impressive trade links with China can be explained by the strong trading advantages that overseas Chinese have in the China market (Goodman and Segal, 1994:332). The Guanxi (=relationship) belongs to the major dynamics in Chinese society and has been a universal factor of the Chinese business environment over the past few centuries. It mainly connects millions of Chinese firms into a business and social web. Before the meaning of Guanxi is explained in the context of doing business, the original definition of this term must be found.

4.2 *Definition of Guanxi*

Guanxi, which is loosely translated in English as ‘relationships’, has developed from one of the deepest roots in Chinese culture (Luo, 2001:2). As Guanxi has been used in speeches for centuries in China; surprisingly, it does not appear in either of the classic Chinese dictionaries, Ci Yuan (词源) (”Source of Words“) published in 1915 or Ci Hai (词海) published in 1936.

The term Guanxi(关系) consists of two Chinese characters. An isolated view will help to understand the meaning of each character and the implication of the combination of Guan and Xi. Lou Yadong approaches from this direction:

- (关)Guan firstly means a door, and secondly, “to close up”. From a metaphorically perspective inside the door the individual is “one of us” but outside the door one’s existence is hardly recognized. So the key is to overcome this obstacle by passing through this door. Additionally, Guan can stand for “doing someone a favor”. For example, Guanxin means “showing solitude for”.

- (系)Xi implies to tie up and extend relationships, such as kinship (Shi xi) and directly-related members of one’s family 直系亲属 (Zhi xi qin shu). It implicates formalization and hierarchy. Although the world applies to individuals, in the first place, the concept can also be used similarly with organizations (e.g. Xi means “department”. Last but not least, Xi can also refer to maintaining long term relationship (Weixi means “to maintain”) (Luo, 2000:2)

Guanxi is a deceptive and intricate concept compared the English word "relationships", (Kipnis, 1997; Dunfee and Warren, 2001) which cannot be clarified with a single definition (Law, 2004).
Here are some semantic meanings:

- Gate or pass (Yeung and Tung, 1996:54)
- Interpersonal Connections (Xin and Pearce, 1996:1641; Leung, 1996:749)
- Networking to create win-to-win situation (Haley, Usha C.V. and Haley, George T. 2006:49)

Guanxi stands for a system of debts, obligations and favors among individuals. Guanxi is also closely linked to *Renqing* (favor), and *Li* (etiquette, propriety, and rules of conduct) and *Mianzi* (face) in regulating relationships (Ghauri P. and Fang T. 2001:309). The face not only represents one's position in the Chinese society, but is also among the highest qualities of being an individual in the Chinese living culture, so that criticizing someone in public can result in the loss of his face and therefore, this situation should be avoided. Through the time new terms associated with Guanxi have come to existence and immediately permeating the society. Table 4-1 shows the used terms in Chinese society and their meanings:

Table 4-1 Guanxi terms in Chinese society

Chinese Character	Pronunciation	Meaning
拉关系	La guanxi	"Pull" guanxi means to get on the good side of someone and store social capital with him or her; it carries no negative overtones
挂关系	Gua guanxi	"work on" guanxi means almost the same thing, but has more general, less intense feeling and usually has negative overtones

关系够呛	Guanxi gou qiang	"guanxi made ruined" means the relationship has gone bad
理顺关系	Li shun guanxi	"straighten out" guanxi"
关系网	Guanxi wang	"Guanxi wang" represents the guanxi network
关系户	Guanxi hu	"Guanxi hu" stands for the guanxi family

Source: Yeung 1996, Luo 2001, Dunning 2007

Guan Xi can be very powerful and useful instrument to reach goals in Asia but it can also be an obstacle which is hardly to overcome if people don't know how to handle this special factor.

4.3 *Core Elements of Guanxi*

Guanxi is regarded as the key determinant of the performance of an organization or the lifeblood of the Chinese business community (Luo and Chen, 1997:2). Meaning any entry mode to Singapore should also consider this principle for a successfully start.

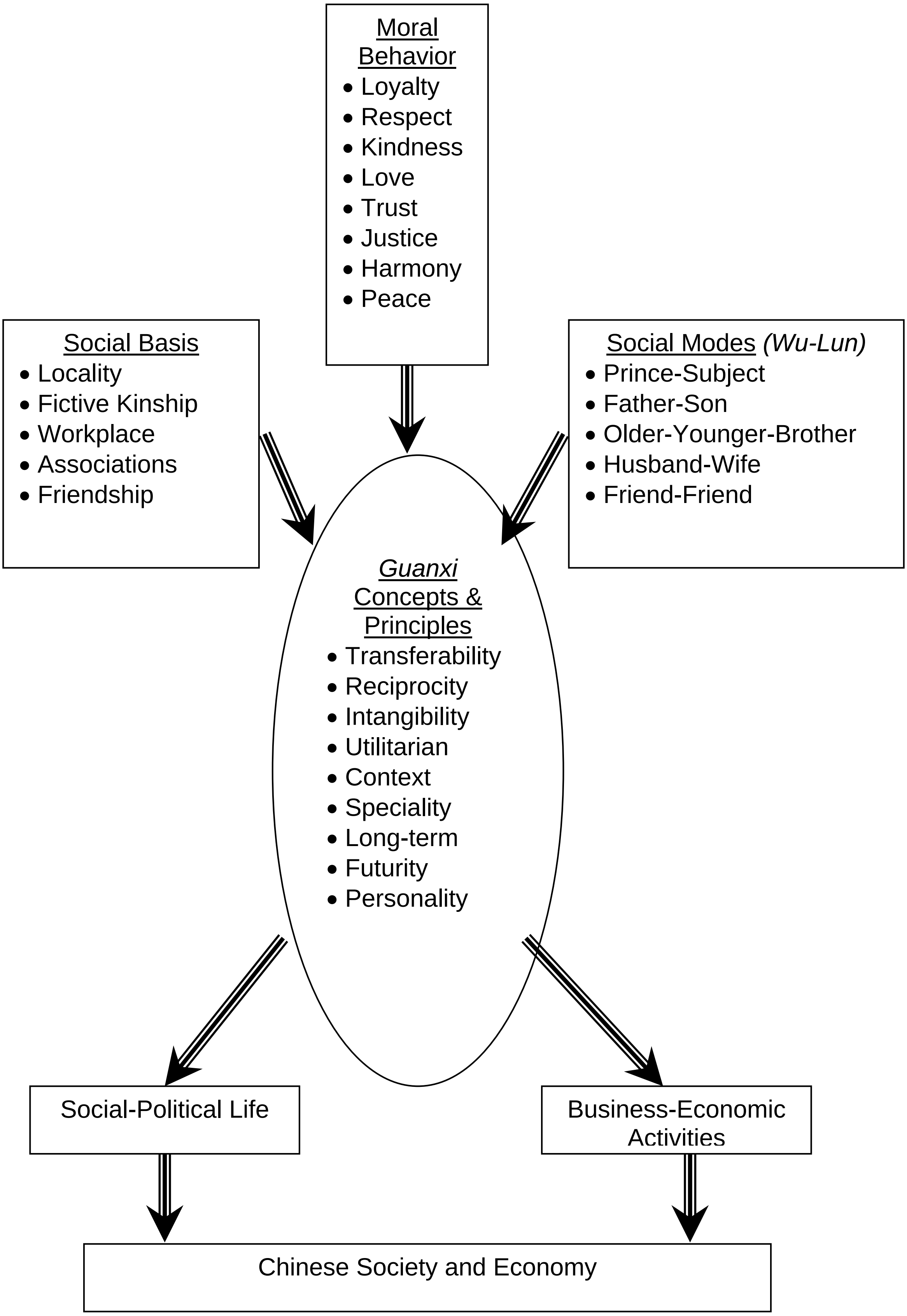
The following figure 4-1 describes the concept of Guanxi. (1) The social basis lays down the foundation where Guanxi can exist, e.g. at workplace or among friendships. (2) Moral behavior is the motivation of Guanxi and can be driven by respect, love or peace, for instance. (3) Another influencing factor on Guanxi is the fact that Guanxi is embedded in the Chinese social modes, also known as Wu Lun. According to Confucianism an individual is a relational being. Social order and stability depend on properly differentiated role relationship and occurs in these five cardinal relationship roles: (Berling, 1982:5):

- boss ruler, prince -subject
- father-son
- husband-wife
- older- younger brother

- friend-friend.

These three factors are rooted from Confucian thoughts and do inherently influence the concept of Guanxi, which has the following nine main characteristics. (1) Guanxi is transferable, which means that if A has Guanxi with B and C is a friend of B, then C may be introduced to A by B. (2) The reciprocity of Guanxi deals with the fact that not following rules or refusing to return the favors will automatically result in the lost of someone's face and that person will be seen as untrustworthy. (3) Guanxi is intangible, i.e. that there is no certain or fix amount of favors, which has to be exchanged in order to maintain Guanxi. But once Guanxi is established between two people this unspoken relationship is always heading for the long run, which is meant by characteristic point long-term (7). (4) Guanxi is mainly utilitarian than emotional. The connection between the members of the Guanxi family is bounded by the exchange of favors and not by expressed feelings. (5) Guanxi has always a defined context and is related to a certain situation, which means that kinds of exchanged favors are always particular and dependent on the contextual situation in order to overcome the certain obstacle by passing through the Guanxi door. This makes Guanxi to a specialty (6) and its existence cannot be reproduced in another context. The process of establishing Guanxi between to individuals has a long durance and therefore aimed for a long term process (7). This means that all efforts in building up this relationship will also define someone's future (8) and the success is dependent on each personality (9) of the person, who using Guanxi. Once Guanxi is established it can be utilized in the social political life, e.g. with Guanxi individuals are given a way to get around rules in order to overcome cumbersome Chinese bureaucracy (Luo, 1997:46). Another usage for Guanxi can be found in business activities and therefore these areas do finally form Chinese societies and economies.

Figure 4-1 Core Elements in the conceptual framework of Guanxi

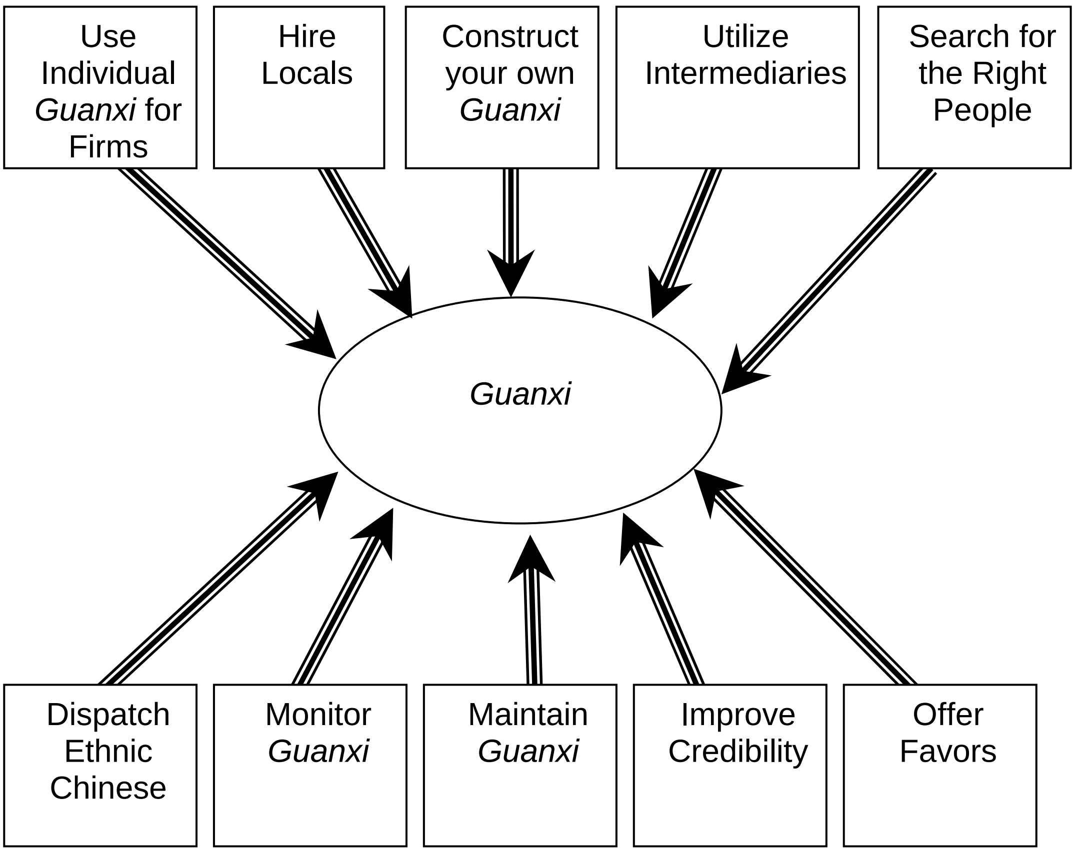


Source: Luo, Yadong, 2000:20

4.4 *Developing "My Own" Guanxi*

The use of the traditional Chinese Guanxi stands for cultural patterning and is still relevant in Singapore today. The important meaning of families, friends and firms are prevailing in countries with an outstanding Chinese population. Ben-Porath (1980) described this phenomenon as the "F-connection". Now that the core concept of Guanxi is clear the following figure 4-2 contains suggestions and guidelines how Guanxi can be developed and which actions are to take in order to establish this kind of relationship between two people.

Figure 4-2 How to develop Guanxi



Source: Luo, 2000:257

Figure 4-2 does not only show the different ways how Guanxi can be developed but even more how it can be improved. (1) Forming a standard Guanxi out of the box is not possible since it is always related to the contextual situation therefore to the individual persons. Teamwork between Western employees and Chinese is definitely challenging due to cultural differences. According to a Chinese proverbs the paradoxical nature of

Chinese teamwork can be described as “One monk carries his own water, two monks share the load, but three monks will be left thirsty to death” Some difficulties may occur when Western managers address team performance issues with local employees (Hao & Fong, 2000). (2) Hiring locals provides extended knowledge about Singapore and helps to adapt the required soft skills for an appropriate interaction with Singaporean employees. (3) It is important that Western firms construct their own Guanxi. (4) By the use of intermediaries the process of finding the right people (5) in Singapore can be accelerated. (6) Dispatch Ethnic Chinese is essential since of the high amount of Chinese people in Singapore. (7) Monitoring Guanxi gives a brief description of the current status of Guanxi. (8) Good Guanxi needs to be maintained and it is an ongoing process. By this a firm gains more credibility (9) and this again will have a positive influence on the company’s performance. (10) Offering favors to the people in the Guanxi network is an effective tool to act correctly in this relationship environment. Although Guanxi has a high complexity of its appearance, it is just about building interpersonal relationships. Valuing the trust of someone or the well hidden sense of obligation and face-giving between the related parties are good ways to develop Guanxi (Lim, Selina; Goh, June and Sriramesh, Krishnamurthy; 2005:333).

4.5 *Managing the Challenges of Guanxi in Singapore*

Chinese society do have important cultural and social elements like Guanxi, which effects significantly on survival, growth and business operations (Luo, 2000:122). Guanxi holds its prevailing importance among Chinese societies. “Without any Guanxi one simply cannot get anything done” (Davies et al., 1995:212). According to the study of Bian and Ang in 1997 the percentage of those job changers who have succeeded with the help of Guanxi amounts to 75% in Singapore (Bian, Yanjie; Ang, Soon, 1997:1000). On a micro level this means that people are using Guanxi to get in touch with important social contacts and obtain useful information. The Chinese society has uplifted Guanxi to a high calculated art. Managers, officials and even students follow the rules of building and maintaining Guanxi because it is seen as a common deeply rooted preoccupation for these people (Dunning and Changsu 2007:339). Due to these conditions of the Singaporean environment foreign companies have to manage these challenges in order to conduct successful business in this country. The best place for foreign companies in regard to constructing their own Guanxi network can be found in one of the economic hubs in Singapore. In these areas firms from a certain country have come together not only in a physically way by renting the same office buildings but also in a figural meaning in terms of knowledge sharing. Those companies who have already set up a business in Singapore for a long period can be addressed or used as information sources in order to get a profound and critical market overview of Singapore. Table 4-2 shows a sample of foreign based incubators in Singapore:

Table 4-2 Foreign based incubators in Singapore

Name of the Incubator	Target group
German Center	German companies
Japan Business Support Center	Japanese companies
Nordic European Center	All European companies

Source: Own illustration

(1) The German Center for Industry and Trade Pte Ltd (GCIT) was founded as a non profitable organization in 1995 by the Landesbank Baden-Württemberg connected to the Financial Group of the savings banks of Baden-Württemberg. The aim of GCIT is to provide comprehensive support especially for German small and medium-sized companies in their purposes to set-up and expand their presence in Asia.
The German Center network nowadays includes seven locations:

- Beijing
- Jakarta
- Mexico-City
- Shanghai
- Singapore

- Yokohama

(2) The Japan Business Support Center (BSC) founded in 2001 helps start-ups and small medium enterprises (SMEs) with origins in Japan to establish and grow their operations in Singapore. The Japan External Trade Organization (JETRO) facilitates this center which is laying down a platform for networking between Japanese and local SMEs in Singapore (JETRO, 2009).

(3) The Nordic European Center was founded in 2000 and is surrounded by enterprises from the Nordic European countries. The aim is not only to lower the start up costs for those enterprises but also to help them to expand from Singapore into other Asian countries.

5 Entry Modes for Western Companies in Singapore

5.1 *Singaporean People*

Independent on the chosen entry mode doing business comes always together with dealing with people. Leading people in Singapore should consider the following in order to build up an effective management style. Although Singapore is a Chinese society, Singaporeans discover values of individualism since their economy is strongly linked to the West. In order to compensate the absence of natural resources, Singaporeans start to realize the need to continuously knowledge development, because skilled labor belongs to the factor conditions and is necessary to deal with global competitiveness (Porter, 1990:5). Today, Singapore can rely on this special diamond due to a highly skilled workforce and an excellent educational system for the next generation (Singapore Country Profile, 2007:16). Many Singaporean leaders believe in a heroic and dominating way to treat their employees for efficient performance. Driven by the pressure to succeed, Singaporeans have a strong fear to fail and subsequently, they avoid experimenting. Western managers would appreciate their employees to be more proactive because they tend to avoid risk and have become accustomed to highly directive control, because committing mistakes is regarded as highly costly (Leung and White 2004:381).

5.2 *Overview of entry modes to Singapore*

Once a company decides to target a particular country, it has to determine the best mode of entry. Each succeeding strategy involves more commitment, risk, control, and profit potential (Kotler, 2003).

5.3 *FDI in Singapore*

Singapore and the United States belong to the most open countries regarding foreign investment (Shujiro and Sasuya, 2007:22). As a matter of fact, Singapore holds an “open door” policy concerning foreign investment, which should attract FDI because the Singapore government does not intend to raise restrictions towards foreign investors (Hall, 1984:136). 100% foreign ownership for MNCs is allowed. Exceptions are only for the production of arms and ammunition, water, electricity, gas and telecommunication service (El Kahal, 2001:227). Figure 1-3 has already shown that Singapore is one of the four highest FDI recipients worldwide with an amount of 20.1 billion USD in 2005. Therefore this entry mode is very attractive for foreign companies investing into Singapore. This high amount of FDI inflow has also an impact on the export competiveness of this country. Indeed, Singapore and Hong Kong are the only two countries (regarding Hong Kong as an own state for this assumption) whose exports surpass their GDP (Zweig, 2002:100). The determining factor for this export growth can be found in the minimal restrictive trade policy pursued by the government in Singapore which leads to the fact that a large contribution of FDI is running into the export sector (Tongzon, 1998:148).

5.4 *Joint Ventures in Singapore*

5.4.1 Definition of Joint Ventures

The literature holds many definitions of Joint Ventures (JVs). While Friedman and Kalmanoff define JV as: “In the widest sense, the joint venture comprises any form of association which implies collaboration for more than a very transitory period. It excludes pure trading operations” (Friedmann, 1961:6) Robinson (1964:147) supports this definition and puts emphasis on the continuing relationship between the joint venture partners and the shared risk. Hall defines JV like this: “Broadly, a joint venture could be any arrangement by which two or more parties come together and combine resources to accomplish a specific commercial purpose for gain (Hall, 1984:19).” The author will stick to this definition: An (international) joint venture is a separate entity created by two or more active companies (of different nationalities) as sponsors.

5.4.2 Reason for Joint Ventures

Peter Killing identifies four basic purposes for establishing international joint ventures. The first is to strengthen the firm's existing business, the second is to take existing products into new markets, the third is to obtain new products which can be sold in the firm's existing markets, the fourth is to diversify into a new business (Killing, 1982). Joint Ventures are often used to enter foreign markets, which are available for companies with less funds, technology or human capital (Hall, 1984:1). So for those companies, who are facing the above mentioned problems can make use of JV to enter Singapore. So with JVs it is possible for the partners to pool resources and coordinate their efforts to achieve results that neither could obtain acting alone. Furthermore it is a popular approach to sharing development and production costs and penetrating new markets.

5.4.3 *Formation of a Joint Venture in Singapore*

The worldwide number of established JV has been increasing in the last decade, but the same increase is shown by the dissatisfaction rate of JVs between Western and East Asian firms (Wang et al., 2005:17). Forming a JV in Singapore should consider the following:

(A) According to Morris et al. there are two common misunderstandings in JVs between East Asian and Western companies. On the one hand, Western managers tend to ignore the objections indirectly expressed by the East Asian partners, whereas Asian managers might mistake the direct adversarial argument of the Western partners. If each party does understand what the other party is expecting at each stage of the conflict process an easier handling of these cross cultural problems can be assured (Morris et al., 1998:730).

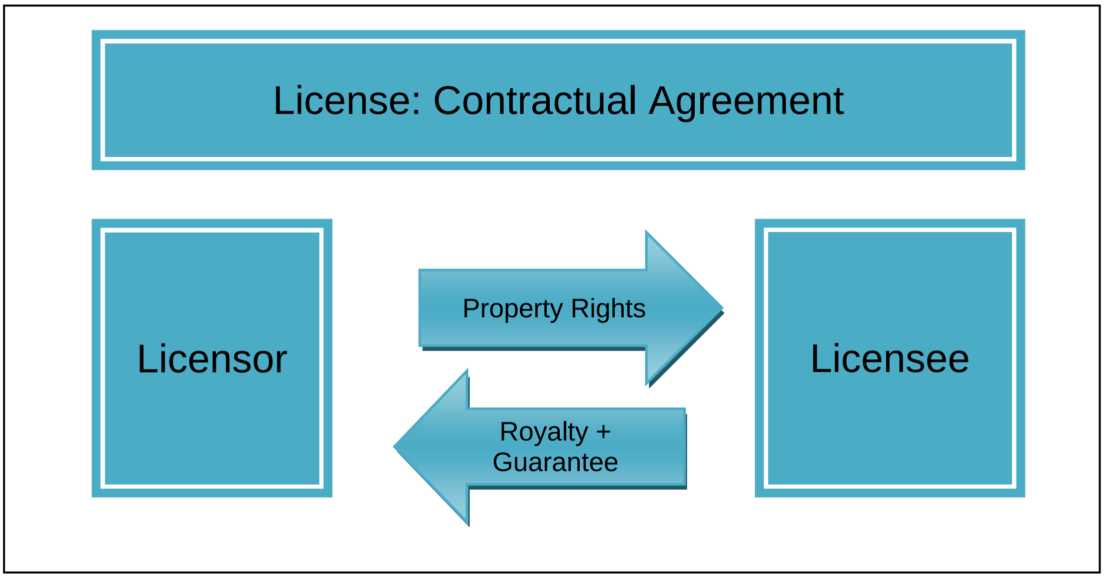
(B) Foreign investors do have an advantage over their competitors by knowing and factoring Guanxi into their business decision (Luo and Chen, 1997:14). Regarding the three life-cycle stages of JVs (Kogut, 1988:39, namely: Creation, Institutionalization and Termination, the question arises when Guanxi is applicable. Finding the right partner for a JV in Singapore takes place during the first stage: the creation stage. At this time, the use of Guanxi can help to succeed in Singapore.

5.5 *Licensing*

5.5.1 *Definition of Licensing*

A contractual agreement between two parties sets the basis for this entry mode. Licensing is the business of leasing the right to use a legally protected name, graphic, logo, saying or likeness in conjunction with a product, promotion, or service (Czinkota, 1999:420). The owner of the property is known as the licensor and the renter of the rights is called the licensee who is usually a manufacturer. With this formal permission the licensee is allowed to use the licensor's property according to the conditions of the agreement (Raugust, 1995:116). From the realized profits the licensee is paying the royalty to the licensor. Additionally, a minimum amount of royalty, the guarantee, is paid in advance to the licensor and is independent on the revenue from the licensee's sold products (Raugust, 1995:3). Figure 5-1 shows the relationship between these two parties in the license agreement.

Figure 5-1 Relation between Licensor and Licensee

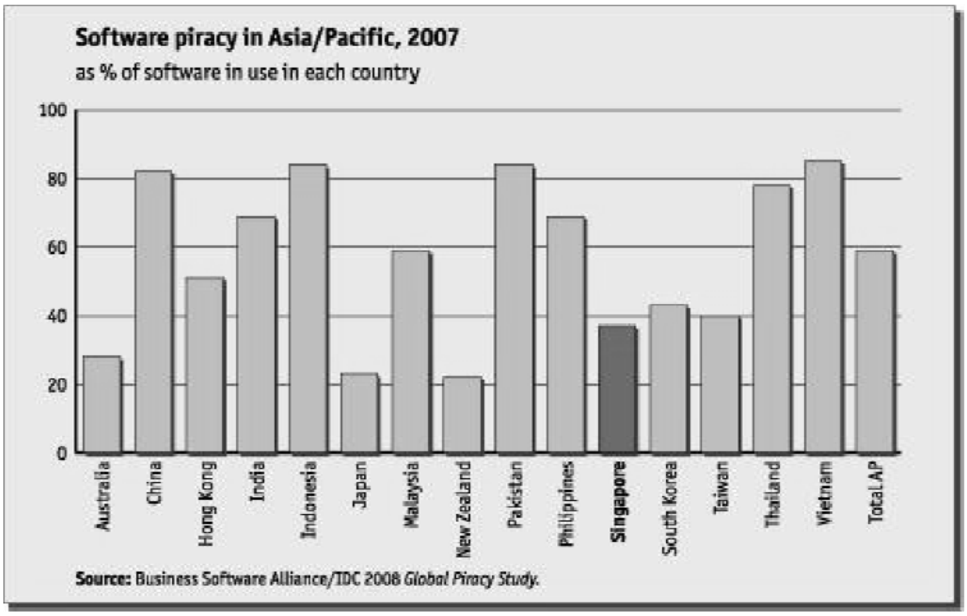


Source: Own illustration

5.5.2 Reason for Licensing in Singapore

Today, internationalization through licensing is one most modes to enter foreign markets. Therefore many firms are keen on building up a famous brand to preserve recognition by the costumers and to differ themselves from their competitors. According to the Economist Intelligence Unit, the small domestic market size of Singapore limits a wide expansion within the country (The Economist Intelligent Unit, 2009). Therefore this entry mode, except for franchising, is not as common among the foreign companies as in other countries. But since the amounts of knowledge-based enterprises are increasing, the commercialization of intellectual property is becoming more and more popular. The attractiveness of this entry mode can be found in the extent of intellectual property of the target country. Software companies usually use licensing to sell their products abroad. But nowadays software piracy points out a huge problem in this industry.

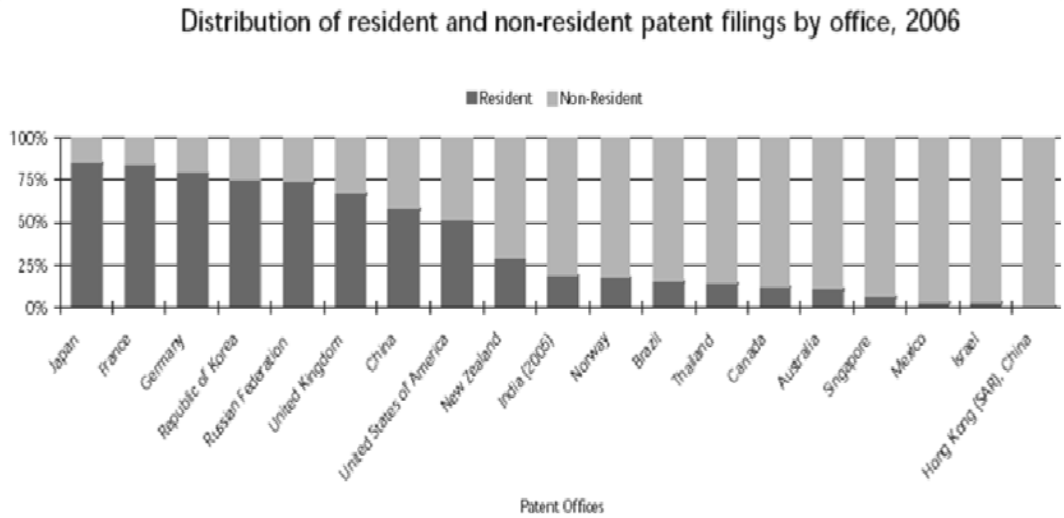
Figure 5-2 Software piracy in Asia/ Pacific, 2007



Source: BSA and IDC 2007:10, Table 3

Figure 5-2 illustrates the relation of pirated software to the used software in each country. Over 80% of the used software has not been legally acquired in countries like Pakistan, Indonesia, China or Vietnam. Although the central government e.g. in China has taken strong steps to fight software piracy, but the process to create an environment with a low piracy rate will take a long time. (BSA and IDC, 2006:3). The low piracy rate in Singapore with only 37% is one proof for a better intellectual property right system compared to the other countries of the Asia Pacific region.

Figure 5-3 Top 20 Patent Offices 2006



Source: WIPO Patent Report 2008:7, Figure B.2

Another proof for a good environment in Singapore shows figure 5-3, which is listing up the top 20 patent offices worldwide in regard with the total number of patent filling in 2006. While Japan, USA and Chine states that a minimum of 50% of all patent applications were filled by resident, Singapore belongs to the minority of countries, where only non residents have filled out patent applications. The Intellectual Property Office of Singapore is in charge of administration of the intellectual property laws and was founded in 2001. Singapore's overall good protection of intellectual property (IP) has been improved further under the free-trade agreement (FTA) which was signed with the United States in May 2003. In January 2005 important changes to local IP laws and harder penalties for copyright infringement were implemented, e.g. fines up to 100.000 SGD or imprisonment up to five years (See Table 9-1 in the Appendix for further details). Summing up, licensing is a very attractive entry mode for Singapore since so many patents have been applied from non residents and intellectual property rights are respected in Singapore; therefore foreign investors are willing to share their knowledge through this entry mode with local partners.

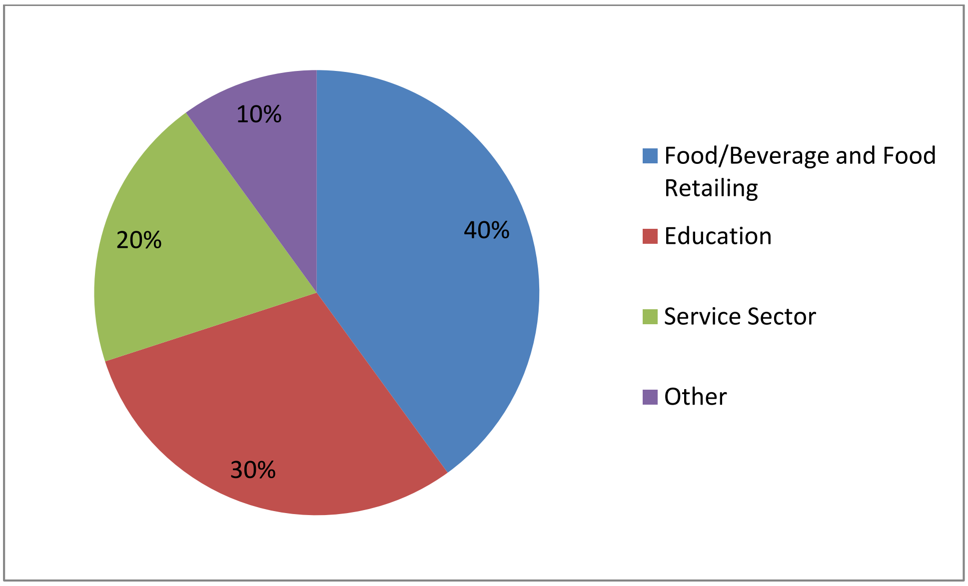
5.5.3 Definition of Franchising

Franchising is a special form of licensing in which the franchiser makes an entire marketing program accessible to the franchisee. This program does not only contain the brand name, logo and products, but also technique of business operation (Gillespie, 2004:235). For example, Burger King Hamburgers are following strict order given by Burger King Corporation concerning ingredients, taste and packaging. “The franchisee must comply with all specifications as to uniformity and quality of product preparation, service formats and standards of clean line” (Burger King 2007).

5.5.4 Franchising in Singapore

In order to form a franchise body of Singapore the Franchising & Licensing Association Singapore (FLA) was founded in 1993. Its mission is to support Singapore franchise industry by forming Singapore a franchise hub, which leads to more franchise concepts coming from abroad in Singapore (FLA, 2007). The Singapore Trade Board Development (TDB) represents another franchising promoting entity and supports franchise business concepts by offering help in form of legal services, subsidies and tax reliefs. The Singapore Productivity and Standards Board (PSB) founded in 1996 (National Library, 2009) aims to create new opportunities and incentives to enhance an overall growth of the franchise industry. Today, the Franchising business has been well established in Singapore and can refer to many brands. There are more than 380 franchise concepts and over 3000 franchise outlets in Singapore. Among these over 50% are coming from foreign brands. By looking at the type of industry where franchising has been used to succeed in Singapore, a significant market segment is the food service sector (Scott, 2007:20).

Figure 5-4 Franchise Market Segments in Singapore 2006



Source: Own illustration, data obtained from US Embassy 2006

Figure 5-5 describes the different franchise segments in Singapore and reveals the popularity of franchise concepts coming from the food service with 40%. Education makes up the second largest market segment in Singapore with 30%, e.g. Berlitz or Cambridge Child Development (Liang, 1999). Franchising in the service center is ranked on the third place with 20%.

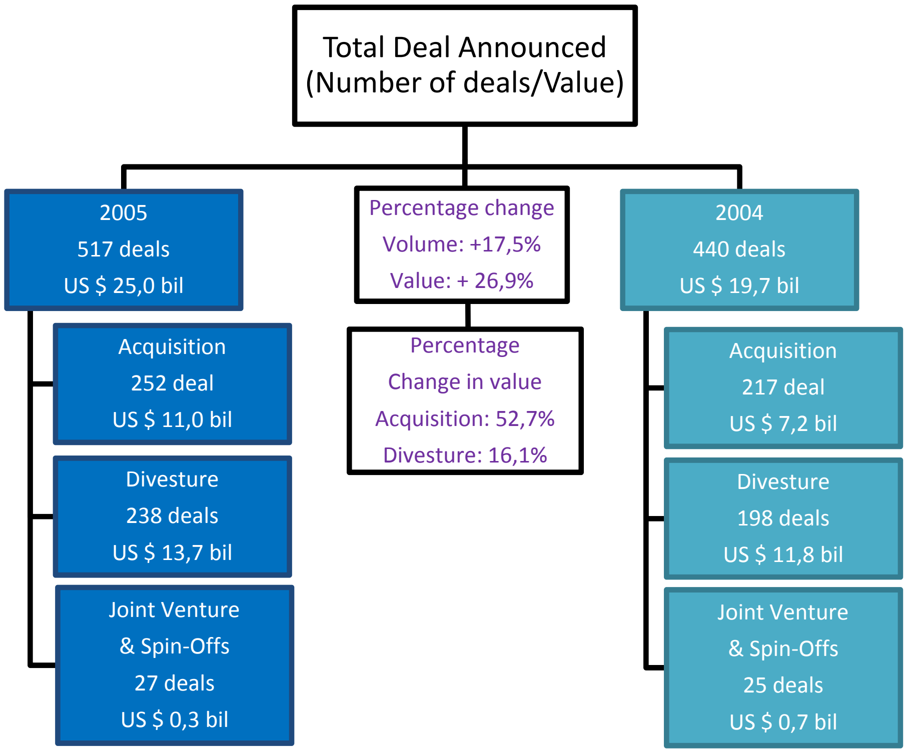
5.6 *Wholly Owned Subsidiary (WOS) in Singapore*

A wholly owned subsidiary is a separate legal entity located in the host country and is owned by a holding company. The ownership can differ between 50.1% and up to 100%. A WOS does not always have to contain the entire value-added chain but its purpose can also strive for production, sales or financing needs (Schmid, 2006:16). As mentioned in chapter 1.1 the amount of WOS in Singapore came to 14,502 in 2002 (World Investment Report, 2006:271). This high amount of WOS proves the following: (1) the open door policy of the government of Singapore makes this country favorable for this entry mode. (2) A WOS in Singapore does not only relocate the presence of MNCs to Singapore but also allows them to operate from Singapore into more Asian countries. International investments banks, accountancy and consulting firms do have regional headquarter in Singapore and conduct from Singapore their business in India (CII, 2007). A view on China shows the comparison: Since foreign companies tend to rely on strong managerial control, it explains the high amount of wholly foreign-owned enterprises (WFOEs) in China, namely over 7000 WFOEs in China. This explains the popularity of this investment vehicle for FDI because it makes up 43% of the total FDI. On the other hand only 5000 equity joint ventures have been approved in China in 1997(Luo, 2001:172).

5.7 *Acquisitions in Singapore*

One way of expansion is to find in acquisitions, which are fast methods to obtain knowledge from other organizations without facing long development processes (Parch, Candy and Ellis, 2005). MNCs can gain unique resources from target organization through a acquisition (Chua and Go, 2009:79) “Acquisitions play an important role in the trading sector in Singapore, therefore private foreign investment has been the main force behind Singapore's rapid development over the past 30 years," reports the Economist Intelligence Unit. The investment laws in Singapore have been issued friendly for new businesses, especially for foreign businesses, since they are treated just like local businesses. Previous restrictions in Singapore have been successively lifted, e.g. in the telecommunication sector the 49% foreign shareholding removed by the Telecommunication Authority of Singapore (TAS) in 1999 (Internet News, 1999). In 2002 trading restrictions on stockbrokers owned by foreigners were removed (USDS2, 2009). Figure 5-5 summarizes the M&A deals in Singapore in the years 2004 and 2005. On the one hand, with a volume growth rate of 18% (from 440 to 517) and an increase of the volume of 27% (from 19.7 billion to 25 billion USD) the implication of a recovery on deal sizes in Singapore is given.

Figure 5-5 Summary of 2005 & 2004 M&A deals



Own Illustration, Source: Corporate Finance Reports,
The Singapore Mergers & Acquisitions Bulletin, 2006:2, Figure 1

On the other hand, a look at the breakdown of cross-border and local deals in Figure 5-6 explains the globalizing trend of Singapore. Although 92 inbound acquisitions (a domestic firm is acquired by a foreign firm) seem to be small compared to the 231 outbound acquisitions. The growth rate of foreign buy-outs with 21% exceeds the local buy-outs increase with only 16% foreign investors are therefore willing to increase their share in the local business or even to take over, because they are confident in the economic prospects of Singapore.

Figure 5-6 Breakdown of cross-border and local deals

Deals Breakdown	2005				2004			
	Inbound Acquisitions	Outbound Acquisitions	Total Cross-Border	Pure Domestic Deals	Inbound Acquisitions	Outbound Acquisitions	Total Cross-Border	Pure Domestic Deals
Number Of Deals	92	231	**323**	**194**	76	199	**275**	**165**
Value (US$ billion)	6.7	13.6	**20.3**	**4.7**	2.0	10.4	**12.4**	**7.3**

Inbound Acquisition: *Where a foreign company acquires a domestic company*
Outbound Acquisitions: *Where a domestic company acquires a foreign company*

Source: Corporate Finance Reports,
The Singapore Mergers & Acquisitions Bulletin 2006:2, Figure 2

6 Case Study: TRUMPF in Singapore

6.1 *Introduction of the case study*

This case study shows the entry strategy of TRUMPF to the Asia Pacific region, which is a Germany base company that specialized in manufacturing technology.

6.1.1 Purpose of the TRUMPF case

The aim is to reflect the theoretical framework of internationalizing in TRUMPF's process of expanding to Singapore with the focus on culture differences and the effect on the chosen entry mode respectively. The analysis reveals the strong ethnocentric German culture of this organization, which plays a distinctive role of surviving in Asia and deals with the rising manufacturing industry in China. This case study analyzes the implications this culture brings along in an international business setting with the focus on Asia as some of the most significant emerging markets of the industry can be found here. TRUMPF encounters many critical issues while operating in Singapore, but the greatest fear of TRUMPF is a Chinese competitor copying TRUMPF's products and offering them to a cheaper price. This hypothetical situation could shortly become reality according to the report by KPMG (2004). Several problems with regards to starting up in China are discussed,

but the key issue remains that TRUMPF will be forced to work together with other Chinese firms in order to maintain its leadership in the market.
TRUMPF seems to be interested in low-end industry, since this segment is willing to move up the value chain to increase its profit margins. The reason that Singapore was chosen to be the regional HQ for the Asia-Pacific competence center for this business coordination will be become clear after this case study.

6.1.2 *Methodology of the TRUMPF case*

The data for this project is mainly collected from personal interviews with the TRUMPF management in Singapore. In addition, the communication with lower level employees is added to provide different viewpoints for the case study. On top of the company releases and primarily annual reports, secondary literature is used to build an understanding of the steel industry and market. This background knowledge is needed to analyze and reflect on future business implications.

6.1.3 *Limitations of the TRUMPF case*

This analysis only focuses on TRUMPF headquarter located in Germany and its relationship with its Asian markets, although there are also essential differences between the within the European and North American markets. The communication with representatives in Singapore was limited due to internal control mechanisms with reference to internal politics. The scope of the master thesis did not cover analysis of the American and Japanese markets, but comparison with these would improve the understanding of the conflicts the strong German corporate culture implies.

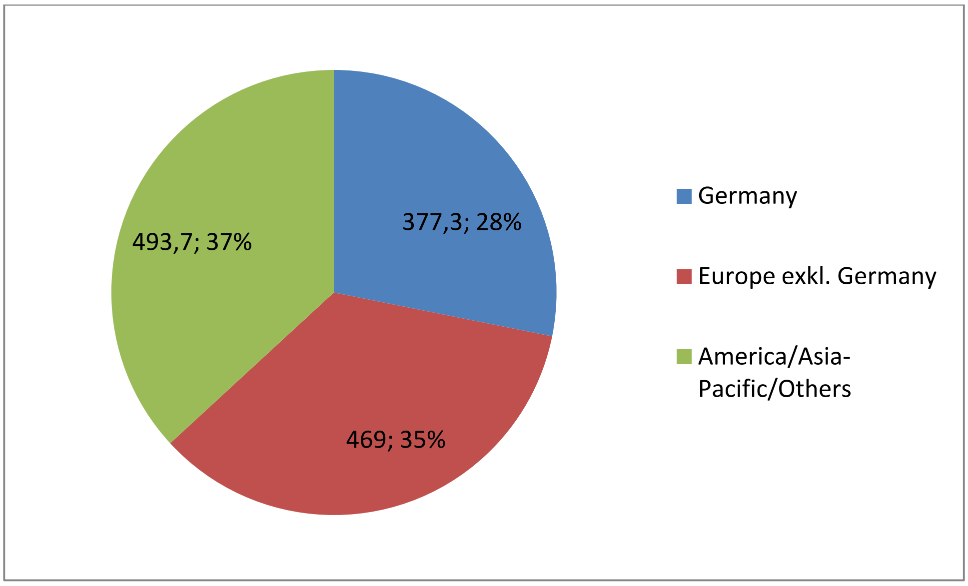
6.2 *Facts and Figures of TRUMPF*

TRUMPF is a German leading company in production technology, founded in 1923 by Christian Trumpf, it has an average annual sales of 1,34 billion € and 7.928 employees worldwide in 2009/10 (TRUMPF, 2010:2). The four business fields of TRUMPF are:

- Machine Tools
- Power Tools
- Laser Technology and Electronics
- Medical Technology

Machine and power tools divisions are the core business of TRUMPF and make up more than 66,2% of total sales (Trumpf 2010:31). These machines provide crucial services in the manufacturing industry and can process sheet metal, perform metal punching, forming and bending. Laser technology is another prospective industry, serving important applications such as the cutting and welding of metal. This division together with Electronics makes up 24,3% of the sales. Medical Technology represents the remaining 9,5% of total sales and is also a growing business area. TRUMPF has a wide global presence, covering the European, North American, and Asian markets with 59 subsidiaries (TRUMPF, 2010:25). Figure 6-1 shows the sales by region in 2009/10 and it is clear that 63,2% of TRUMPF's total sales are from both Germany and other European countries.

Figure 6-1 Sales of TRUMPF by Region in 2009/10 (in million €)



Source: Own illustration, data obtained from TRUMPF, 2010:32

Europe has always been regarded as the largest market for machine tools, with Germany being the biggest machine tools market by tradition. But China overtook Germany and became the world's largest market in 2002 (KMPG, 2004:8) due to the rapid growth in the Chinese manufacturing sector. As China is the single largest manufacturing market in the world it will be interesting to see the changes in the laser technology. The study of Frost &Sullivan (2005) has determined a global market share of 65.7% held by North America and Europe, while Japan and Asia-Pacific have been sharing the rest of 34.3%. This relation is likely to change in the long run, since Asia is becoming more important for this industry.

6.3 *TRUMPF's position in the world*

The machine tools and laser technology markets have not yet been strongly influenced by global competition rising in Asia. In general, few giant companies situated in USA (e.g. Cummins, Schuler), Europe (e.g. AGIA, DMG, Siemens) and Japan (Makino, Yamazaki) are dominating the global market. The German family owned manufacturer TRUMPF belongs to one of the big companies. This thesis aims at the strong corporate culture of TRUMPF, reflecting its German heritage. It also discusses the implication of the firm's culture and observes whether this culture can fit the international business setting especially in Asia, where some of the most significant emerging markets of the industry are located. TRUMPF's current market strategy for Asia contains setting up subsidiaries in Singapore, Japan, Korea and China.

The important development for TRUMPF is the change of the top management. On the 18th of November 2005, Professor Berthold Leibinger passed his position as chairman to Dr. Nicola Leibinger-Kammüller after leading the TRUMPF for four decades. The new president can rely on three years of Asian experience through running the Japanese subsidiary of TRUMPF. It will be interesting to see the next generation contributing with new perspectives and dealing with the traditional family owned company culture. As the first major management shift in the history of the company, TRUMPF's strategy and view on international business are expected to change.

6.4 *The Asian Market of TRUMPF*

The Chinese machine tool market is not only rapidly growing in regard on the expanding manufacturing industry, but also the world's biggest when sales reached US $ 5,7 billion in 2002. Within the top ten machine tools market, the Chinese market was also the only growth market. Due to domestic expansion within China and foreign investments into China, KPMG (2004:11) calculated approximately that the Chinese machine tool consumption grew at an annual growth rate of 15 percent and is likely to grow through in 2005, reaching an estimated sales value of US$7 billion. In order to stay competitive in the world market by producing quality products, Chinese manufacturers are in need of quality machines. Foreign manufacturers are coming to China because of its low manufacturing costs. Nevertheless, they must maintain the same quality product and therefore they must bring along the same production equipment into China.

The machine tools market in China contains three markets: low-end, middle, and high-end. Small domestic firms posses the low-end market and starting to move into the mid-range market, which was traditionally in control of Taiwanese and Korean manufacturers throughout cooperative production with foreign manufacturers and joint ventures. However, the high-end market is run by foreign machine tools manufactures from Japan, the United States, Germany, and other European nations. Their unique selling proposition (USP) lies in their qualitative machines with advanced "precision, speed, reliability, and ease of maintenance." Therefore, they can charge a price premium for their machines and still be able to hold their market share. The largest buyers of machine tools come from the automotive, aerospace and military sectors. The automotive sector makes 50% of the total consumption in 2001 (CMTBA, 2002). This industry together with the aerospace industry is very important for the high-end machine tools manufacture because they have a need of "special purpose precision machine tools" (KPMG, 2004:12). These industries are expected to keep growing into the future. The Chinese automotive industry was the seventh largest market for the sale of cars and is projected to reach the third rank by 2010 (KPMG, 2004:12). The aerospace industry is growing faster thanks to the increasing demand for air travel in China. In 2020, the number of commercial aircrafts will be four times larger than today. Additionally, many aerospace companies have repositioned their repair, maintenance, and parts production to China. The growth in these markets will increase the demand for more high-end machine tools.

6.5 *The TRUMPF Subsidiary in Singapore*

TRUMPF Singapore has been registered as a private limited company with the number 199106396H under the Singapore Business Registration Act at Accounting & Corporate Regulatory Authority (ACRA). This subsidiary is 100% owned by the German holding company in order to preserve the strong German corporate structure and thereby the strict control over this office. Working areas are asked to be kept clean and well organized. To attain high quality standards, the employees are provided with top-of-the-line laptops and stationary. The background influence of the German culture also ingrains a form of family business mentality within the employees inviting them to think in terms of long term profits, believing that fewer barriers to change creates a culture that supports innovation.

TRUMPF Singapore is located in the German Center of Singapore in Jurong East. This advantage is crucial in terms of dealing with the Asian culture and in terms of the Guanxi factor because the German Center is an ideal place for TRUMPF to exchange new local news and build up new relationships with other German companies, in the first place. In addition to that, Asian customers, who have relationships with TRUMPF, can easily take on the advantage of retrieving new contacts of other German firms. TRUMPF considers Singapore as its South-East Pacific regional headquarter, due to its strategic location, political stability, financial situation and strong legal system.

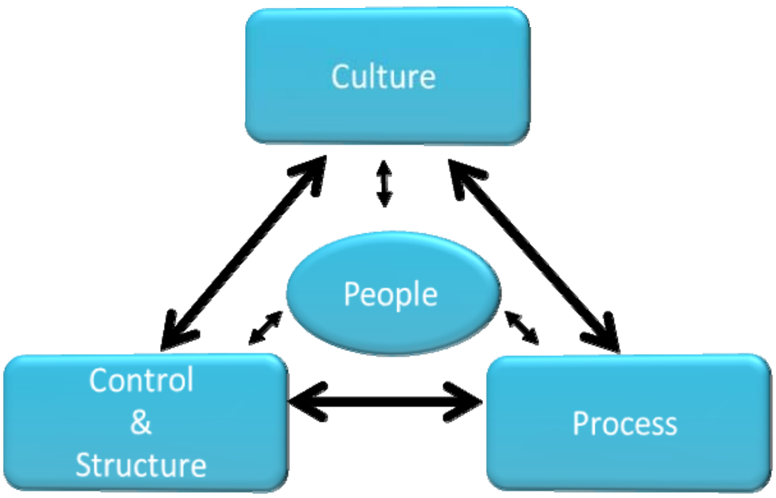
6.6 *Organization Architecture of TRUMPF*

TRUMPF will be analyzed at four key subjects: culture, controls, processes and finally people (see Figure 6-3).

6.6.1 Culture of TRUMPF

TRUMPF, as a German based company, has a typically German business culture. The people here are very harsh especially with the use of the titles. It is crucial to know the exact position of other employees and normal to use this information in the daily communication. "Quality over costs" is the key message of this corporate culture. They are willing to accept substantial increases in costs, if it allows them to improve their products. This is reflected in the culture as employees are proud of promoting the high quality products.[13] However, a very strong belief to prevail in the future is shown because the employees do not see any firm in China being able to duplicate their products within the next five years. Nevertheless, the strong culture (ethnocentric) certainly has a down-side as it can be less willing to spot new trends. A strict policy makes clear that the choice of placing high-end R&D had to be Germany and Switzerland and not Asia.

Figure 6-2 The Four Key Subjects of TRUMPF



Source: Own illustration

6.6.2 Controls and Structure of TRUMPF' subsidiaries

TRUMPF's regional offices are lead by the general managers and product managers. The subsidiaries are in control of one or two managerial positions

[13] Personal communication GM

covering sales, services, and support. Concerning the subsidiaries, subsidiary reports from the regional offices are sent directly to the German top management. Uwe Vogel is the general manager of the subsidiary in Singapore. TRUMPF management is watching the operations of the organization very closely. The database records every service activity, e.g. a breakdown of a machine.[14] The TRUMPF companies at its regional level have to submit yearly plans to the German headquarters, who will then announce which decisions to be carried out concerning new sales targets, marketing strategies and other performance indicators.

All computer stations are secured with a personal login and the configuration of the operating system only allows work-related assignments. A more general philosophy indicates that employees should differentiate between private and activities. Therefore, programs like instant messaging, game related programs and social network websites are blocked, unless the business need is given.

6.6.3 Processes of TRUMPF

The SYNCHRO process refers to a systematic method of identifying and eliminating waste. The principle of SYNCHRO lies on three pillars, which includes (1) just-in-time production to prevent overproduction, (2) manufacturing high quality products by using safe work processes and (3) incorporation of creativity and knowledge in the employees of TRUMPF. The supply chain management software is able to summarize the whole process, so that TRUMPF can efficiently monitor overall quality in the production process. Despite the fact that the influence of SYNCHRO is not simply limited to the production because its focus on efficiency is a quality pertinent to the entire process starting from product development until the line to sales.

6.6.4 People of TRUMPF

The employees of TRUMPF are the key elements in this entire structure. It comes clear that the employee’s relationship to Germany is important. All employees with higher positions are sent to the HQ in Germany for

[14] Personal communication, Service manager

management training. Staffing policy strictly calls for ability to comply with German values and culture, e.g. punctuality, precision and quality. The ethnocentric approach allows the subsidiaries and the headquarters in Germany to communicate easily; but on the other hand, the “German prospective” holds a prevailing opinion in all subsidiaries. This implies that the willingness to attempt new alliances in e.g. Asia does practically not exist, hence a corporate culture with very little interaction with local environment. Moreover, the control mechanisms, for example, keeping private activities away from work may only be accepted in Germany, yet for the Singaporean, this restriction hinders their ability to “think out of the box”. The subsidiaries of TRUMPF add value in terms of distribution, service, and support, but not R&D.

6.7 *Subsidiary Strategies in Singapore*

The Singaporean office is divided into two divisions; one division focuses on the Singaporean market and the other division (TRUMPF Asia Pacific) focuses on the Asia-Pacific region, excluding the countries which have their own offices. The analysis will take a close look at the subsidiary strategy utilized in Singapore, as this location is seen as the hub of the Southeast Asian region.

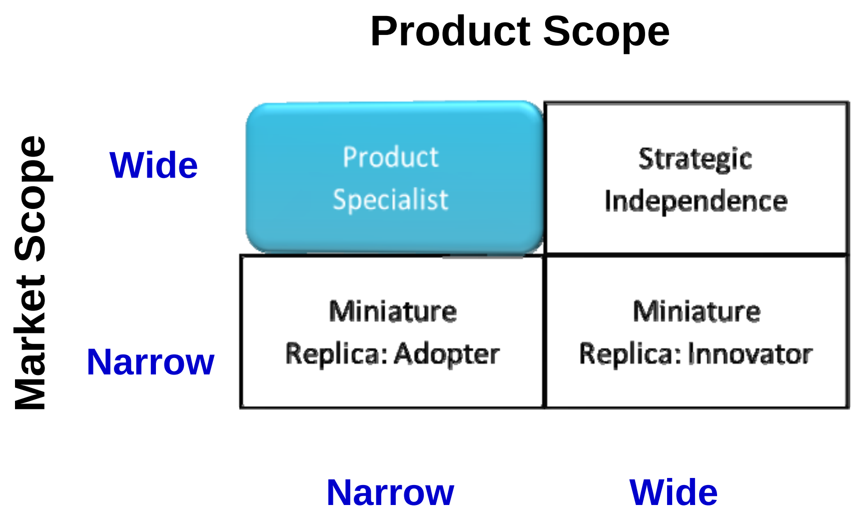
6.7.1 Product and Market Scope

Figure 6-4 shows TRUMPF’s position on the product and market scope. The market scope measures the number and extent of geographic markets a subsidiary or firm is facing while the product scope is the measure of the influence a subsidiary has over its own product offers. Before analyzing the subsidiary’s market scope, it is crucial to analyze TRUMPF’s market scope as a whole. TRUMPF Asia-Pacific has the general goal of “growing the business” in the Asia-Pacific region.[15]The different subsidiaries throughout Asia and the rest of the world reflect an attempt to extend the market scope outside the important European and North American markets. This move

[15] Personal Communication

preserves the company's future with this foundation in the Asian markets, which contain the fastest-growing markets for most of their products.

Figure 6-3 Product and Market Scope of TRUMPF



Source: Own illustration

TRUMPF Asia Pacific's market scope is as wide as its customer base. Service technicians are generally spread throughout South-East Asia. In terms of product scope, the subsidiary aims to be a sales office and training center. Its purpose are three value-adding functions: (a) providing information on products and services to possible new customers and allows to the existing customers to place customized orders, (b) acting as a hub for service technicians to be qualified and send regularly report and (c) securing the delivery of the product and ensuring after sales servicing and customer relations. The narrow product scope of the TRUMPF subsidiary in Singapore can be explained by the lack of influence over the offered products. As a sales office, its purpose is to fill orders, ensure delivery, and to offer after-sales service. Customizations are only possible through the headquarters in Germany, which limits the local subsidiary's ability to design new products. The narrow product scope and wide geographic scope of TRUMPF Asia Pacific identifies it as a product specialist of the region (See Figure 6-4).

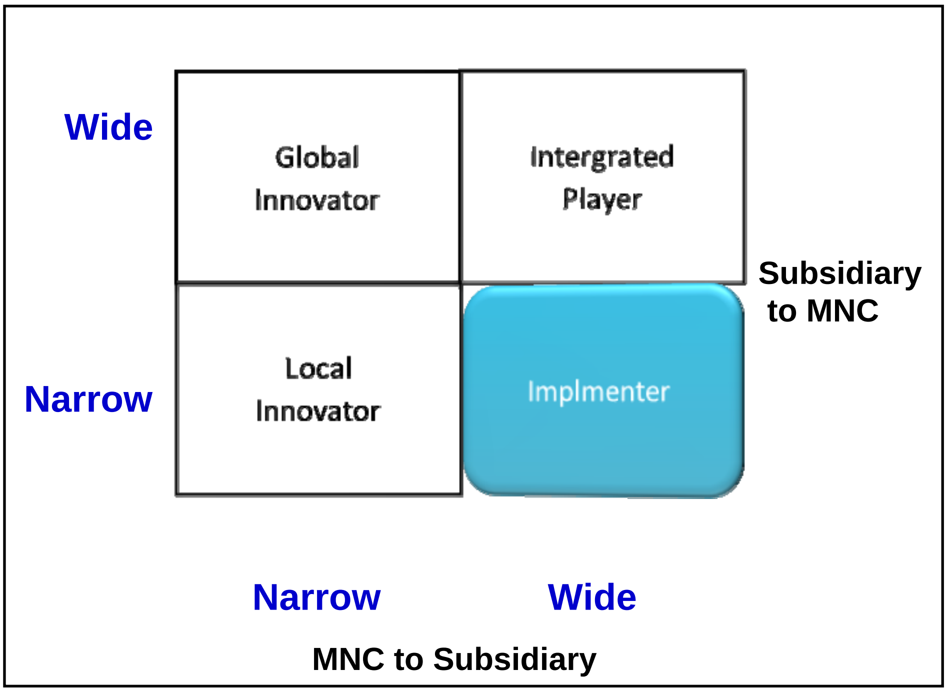
Obviously, Asian customers have much different perceived values than those in Europe and North America, where TRUMPF is already holding a strong position. For example, the power tools market in Asia has been unsuccessful because of the lack of demand for high quality power tools. Most of the power tools customers in Asia are identified as small companies and individuals who prefer price advantages rather than quality advantages, which is completely the opposite in Europe and North America[16]. As well known as a product specialist, TRUMPF has been only able to succeed in the machine tools and laser technology market due to the high-end nature of these products.

6.7.2 Knowledge Flows in TRUMPF Company

The role of TRUMPF Asia Pacific is identified as an implementer according to the knowledge flow structure between the HQ in Germany and the subsidiary. Figure 6-5 shows low knowledge flows from the subsidiary to headquarters and high knowledge flows from headquarters to the subsidiary. Headquarters gives out the product offerings, and constantly controls TRUMPF Asia Pacific. The subsidiary relies heavily on knowledge disseminated from headquarters. As an implementer, valuable feedback about the details of the Singaporean market is unseen. Only one engineer from TRUMPF Asia-Pacific is in the development board in Germany. This may not be sufficient for all of Southeast Asia, which is developing at a rapid rate. It has already been expected that product scope should be increased in order to provide a more well-rounded service for the Asian market. This increase has to go along with a parallel increase in the knowledge flow from the subsidiary to headquarters, at the same time.

[16] Personal Communication

Figure 6-4 Knowledge Flow in TRUMPF



Source: Own illustration

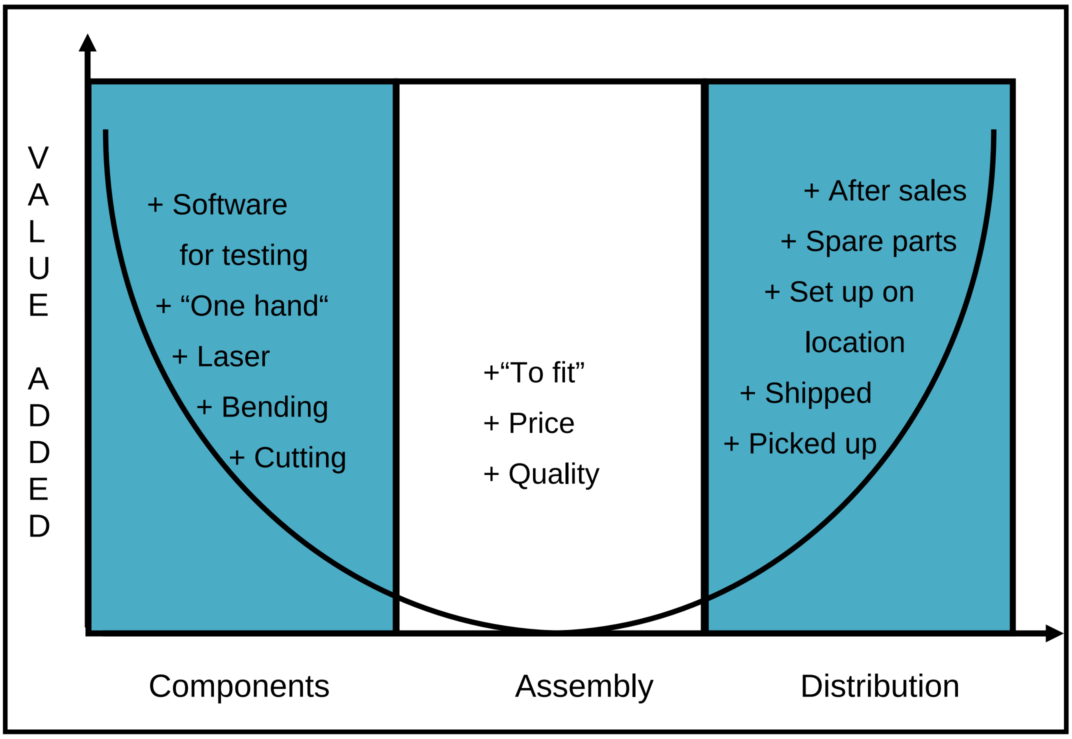
6.7.3 Strategic Emphasis of TRUMPF in Singapore

The aim of the subsidiary in Singapore is in harmony with the overall company strategy of TRUMPF, which is to emphasize high quality, customized products and service. The goal is clearly to give the product a high value. The competitive scope is broad because TRUMPF competes on two fronts. They try to differentiate on product innovation through R&D as well as provide quality after-sales service. The Stan Shih's Smiling Curve can illustrate this strategy as this model is helpful to determine how a company can add supplementary value to its products (Barlett, and Ghoshal, 2000:136). This curve was invented by the former CEO of ACER Stan Shih and showed how ACER could stay competitive in the international market. In

Stan Shih's smiling curve for TRUMPF, the management is trying to compete on both ends of the model for maximum total value (See Figure 6-6).

Figure 6-5 Stan Shih's Smiling Curve for TRUMPF

Value Chain Analysis



Source: Own illustration

TRUMPF scores with its software, which allows realistic tests and provides quality assurance of the products. The "One hand" feature of TRUMPF refers to the interconnection of the machines. Basically, only one hand is needed to give out the instructions from the monitor to the machines for, e.g. bending, or cutting. On the other side, the subsidiary's role is to carry out the after-sales service segment of the differentiation.

This may become a problem, when they enter the China machine tools market. For example, TRUMPF will deal with increased competition from domestic and other foreign competitors. Key findings from the KPMG China Machine Tools report indicate that the machine tool is a fast-developing industry, and the quality level of Chinese-made products is constantly rising. This reduces the competitive advantage of TRUMPF, which so far has been the differentiation through product quality. In addition to the competitive advantage, after-sales service is also becoming less of a differentiator as local manufacturers rapidly increase their service quality. Western companies still dominate the mid to high-range end of the machine tools market in China, but some leading domestic manufacturers are starting to compete with improved machines. TRUMPF should have to consider differentiating on additional parts of the value chain in order to maintain its competitive advantage.

TRUMPF Asia-Pacific is given the order to "grow the business" in the Asia-Pacific region. The physical presence in Singapore has been the first step to the expansion to Asia. [17] The various subsidiaries throughout Asia and the rest of the world reflect a try to widen the market scope besides the important European and North American markets. To preserve the future of TRUMPF, new projects were assigned to set a foundation in the Asian markets, which contains the fastest-growing markets for many of their products. The time is right for this business decision, since China has now overtaken Germany as the largest machine tools market in the world, for instance.

6.7.4 Alliances of TRUMPF

There is no interest into working with foreign or domestic partners because TRUMPF highly prefers internal R&D, own service and support processes. Instead of setting up R&D subsidiaries in Asia, TRUMPF has centralized R&D mainly in Germany and Switzerland. The Asian subsidiaries provide only low-end production (accounting of less than 10% of total group revenues) and focus on more importantly activities, e.g. sales and service, to support the high-end products coming from Europe.

Since the technology of TRUMPF is the key to their success, TRUMPF does not intend to share this knowledge with other competitors, of course. Although, the use of JVs as entry mode could help TRUMPF in gaining profound knowledge in local markets, TRUMPF prefers to set up WOS for market penetration moves. This corporate strategy of TRUMPF helps to protect the intellectual property of this company. But JVs are used as the most common entry mode for China in this industry, while the parent

[17] Personal Communication

company is able to maintain a high degree of control and still benefiting from the knowledge of locals (KPMG 2004:31).

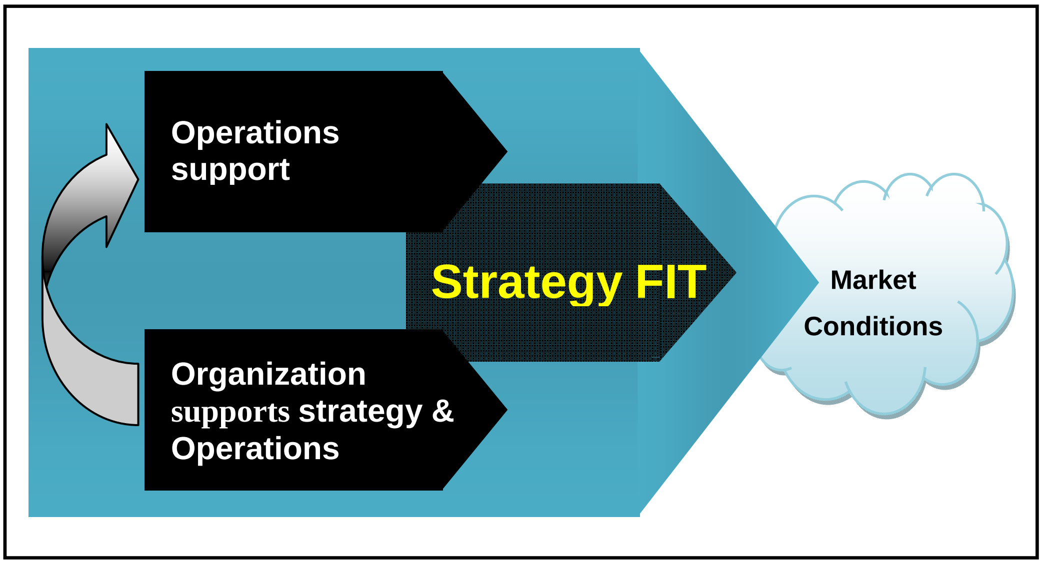
As an example for this, TRUMPF joined together with the Swiss firm SiberHegner, a leading marketing and services group. The cooperation, which existed since 1995, resulted in a joint-venture entering China in July 2002. The aim was to combine TRUMPF's products with SiberHegner's experiences with the market. More than 20 distribution agencies, service, and application centers where initiated by this alliance to respond to the rapidly growing Chinese market. TRUMPF's alliance with SiberHegner comes with three advantages: (a) facilitating the entry into the Chinese market, (b) benefitting from SiberHegner's proficiency in market intelligence and local expertise and finally (c) a strong market penetration. Although, sharing sales channel may be useful but the potential of the local economy for R&D and production has not been revealed. Furthermore, this Joint Venture in China between these two European companies does not evaluate to hire Chinese managers, which could contribute with deeper knowledge of the local market and the Asian culture in order to improve efficiency of the company.

As TRUMPF has changed its top management in Germany and passed the control to the former CEO for three years of the Japanese TRUMPF subsidiary Dr. Nicola Leibinger-Kammüller, TRUMPF will set a new direction towards more alliances with Asian firms.

6.7.5 Strategic Fit of TRUMPF

An evaluation of the match between organization, operations and the market conditions needs to consider the change of the market conditions at any time. This case study will both analyze the match with current and likely future market. Figure 6-7 illustrates the Strategic FIT of TRUMPF. Organization supports strategy & Operations and Operations support strategy. The strategic situation from the perspective of the regional office in Singapore and the HQ in Germany are reflected in the market. The German headquarters are following a strategy based on high end products and services. Referring to the previous conducted value chain analysis (See Figure 6-6) it is clear that TRUMPF succeeds in both areas. The company philosophy demands quality rather than quality to costs. In fact, TRUMPF will firstly keep on delivering state of the art products and services and secondarily look for cutting costs processes.

Figure 6-6 Strategic Fit of TRUMPF



Source: Own illustration

In order to implement this strategy TRUMPF has placed R&D in Switzerland and put Germans into all managerial positions throughout Asia, although the rates for Asian salaries are significant lower.

According to the interviews[18], the Singaporean office obviously follows all rules from Germany, e.g. product development is meant to be so crucial that it is to be handled in Germany. These rules also apply for all sorts of marketing material which cannot be given out to local agencies.[19] Local presence is, nevertheless, required for service and support to maintain a good relationship with Singaporean customers. There is a market demand for high end products including service and support, e.g. the auto and plane industries. The price sensitivity of high end products in Europe and USA is lower, whereas a manager in Asia is more price sensitive. However, the strategic fit of TRUMPF seems to exist in Singaporean market. Nevertheless,

[18] Interviews with GM and Service Manager
[19] GM

over the last few years the Chinese market has seen a fast development. Low end producers intend to get involved to the new technologies, so that they can move up the value curve (KPMG, 2004:23). It is very likely that TRUMPF will soon get a competitor offering same products, same quality, and same level of service/support, but at significantly lower cost. This new situation will force TRUMPF to consider a change of strategy in order to stay competitive in the Asian market.

6.8 *New Challenges for TRUMPF in Asia*

What the project has not dealt with so far is the significant lack of intellectual property (IP) rights in China compared to Singapore, which so far has been the primary reason for TRUMPF not to setting up manufacturing plants there.[20] According to TRUMPF, Chinese competitors do not have the knowledge to get close to TRUMPF R&D or manufacturing technology. Hypothetically, the management of TRUMPF does consider the possibility of this thread, but more efforts need to be done in terms of strategic planning of the China case. In addition, the cultural differences between Germany and China may also cause different conflicts.

Although the Chinese market consists of a large number of low level producers, they have to find a way to add value to their production in order to get a bit away from the strong price competition (KPMG, 2004). One key issue is obvious which management has not yet dealt with: If a Chinese competitor replicates TRUMPF products and sells the very same product under a different brand but cheaper. This realistic scenario should be briefly discussed by the TRUMPF management. Hence, it is very likely that a manufacturer will duplicate one or several of TRUMPF's products. The resources, i.e. capital, knowledge, and production units are already present in China.

Assuming the duplication scenario, TRUMPF will be able to rely on their brand as well as their significant better performance in customizing and distribution of their products at the beginning of the competition. Nevertheless, that competitive advantage will not hold in the long run. To understand the

[20] Service manager

situation, it is useful to consider the car industry, such as the large German brands such as BMW and Mercedes. These firms have moved to China not only to cost cutting reasons but also due to the research and development opportunities.

In order to sustain in Asia, TRUMPF must collaborate and find technology partners who are able to provide R&D in the periphery areas.[21] Additionally, though cost is not a major topic in TRUMPF, they still have to put cost cutting processes on the agenda. Not necessarily to match directly to the low level Chinese competitors, but at least to offer realistic products at reasonable prices for price sensitive customers in Asia.

Since there are many low level producers in China, TRUMPF should consider this as an opportunity to take proactive move in order to move up the value curve. Nevertheless, the strategy of TRUMPF "being the best" cannot always be realized, especially not in terms of all sorts of R&D. Since TRUMPF has a competitive advantage in the laser technology based on its unique knowledge, this division should be the core business for further implications.

6.9 *Conclusion of the TRUMPF case*

The purpose of this project was to analyze TRUMPF's current subsidiary strategy in Asia Pacific and to evaluate future managerial implications of this.

TRUMPF's decision to choose WOS as the entry mode for Singapore was the basis for setting up a regional HQ for the South Pacific area and more importantly to ensure the control of the German parent company. As a tenant of the business offices of the German Center in Singapore, TRUMPF is coping with the Guanxi factor in Singapore. Building up strong relationship with other German firms to create their own network is a good approach the Chinese culture and attracts more Asian costumers to do business with TRUMPF. Having the HQ region situated in Singapore refers to the strategic location of Singapore. The highly developed infrastructure and the political stable situation are underlying the attractiveness of Singapore, but most important for TRUMPF is the fact that Singapore is the hub not only for

[21] Examples of this could be Samsung providing robot technology

transportation but also for the financial sector in Asia. Surrounded by this stable financial environment in Singapore TRUMPF has built up its strong position in South-East Asia. Though the ethnocentric approach (very strong German culture) seems to have a somewhat restricting effect on the working environment, TRUMPF is overall meeting current market conditions well. TRUMPF has been quite successful in driving their high-end products forward in a Business to Business (B2B) market which could be expected to be quite sensitive. TRUMPF’s market situation is likely to be challenged by indeed very qualified competitors from China. TRUMPF should make use of the collected experiences in Guanxi and the influence of Chinese culture in Singapore to target the Chinese market as the next business step in the long run. With smaller R&D and manufacturing clusters TRUMPF should get started in the low end market of China. The choice of China lies in the fact, that it is the largest market within the industry and holds new opportunities for TRUMPF in growing their business in Asia.

7 Conclusion

7.1 *Recommended Strategy to enter the Singaporean Market*

So far, this thesis has presented the market in Singapore concerning its challenges, risks and advantages for new businesses. The economic success arises from conventional comparative and competitive advantages (Low and Toh 1996:27). Nevertheless, there is no universal strategy for Western companies to enter the business market in Singapore. Choosing the best entry mode is complex and requires many considerations. The respective relevance of these considerations differs from industry and from the strategic goals of each firm. (Gillespie, Jeannet, Hennessey 2004:253). The Guanxi factor has been briefly discussed regarding the different entry strategy and it is clear how useful pulling Guanxi in Singapore can be for western firms. Networking is more important than information. “Who you know” has more value than “What you know” in Asia (Yeung and Tung, 1996). The chosen location of TRUMPF in the German Center of Singapore works out just perfectly to connect with partners and helping out each other in this country.

Table 7-1 summarizes the general characteristics of different entry modes. It is obvious that depending on the chosen entry mode the company is facing different advantages and disadvantages. The entry strategy is mostly influenced by the business environment. When property rights are secured, licensing is recommended and joint ventures are preferred for poorly protected property rights countries (Che and Fachhini, 2009:482). Singapore's environment offers strong intellectual property rights but it was the right decision for TRUMPF to set up a WOS because in this technological industry knowledge is the key to success. With a WOS in Singapore TRUMPF has a lead in technology knowledge over the Asian competitors and can move from Singapore into new markets in Asia.

Table 7-1 Characteristics of Different Entry Modes 2004

Strategic Consideration	Mode of entry					
	Indirect Export	Direct Export-Marketing Subsidiary	Licensing	Wholly Owned Production	Joint Venture	Acquisition
Speed of Entry	High	High	High	Low	Low	High
Ease of exit	High	Moderate	Moderate	Low	Low	Low
Rapidly changing technologies	Low	High	High	Moderate	Moderate	Moderate
Resource demands	Low	Moderate	Moderate	High	High	High
Profit potential	Low	High	Low	High	Moderate	Moderate
Competitive intensity of market	Low	Moderate	Moderate	Moderate	Moderate	High
Integration into global network	Low	High	Low	High	Low	Moderate
Strategically important country	Low	High	Low	High	Moderate	Moderate
Unimportant Market	High	Low	Moderate	Low	Low	Low
Cultural Distance	High	Low	Moderate	Low	Moderate	Low
Congruence with host government's goal	Low	Low	Moderate	High	High	Moderate

Source: Gillespie, Kate, 2004:254, Table 9.3

7.2 *Future Outlook of Western Companies in Singapore*

There is no doubt of China being the fastest growing market worldwide. But Singapore can score with its strategic location, high infrastructure and open mind towards foreign business ideas. FDI was always encouraged by the government which has led Singapore to an open economy towards foreign companies. Profitable business opportunities come along with high risk potential as well. The key to success lies in the process of “finding the right partner”. Growing with partners also means becoming a part of the Asian Family in Singapore. Luo’s and Chen’s (1997) study also shows, either JV or WOS, the selection of an appropriate local partner is thus an essential way to adapt to the indigenous environment and achieve the benefits of Guanxi for entering a Chinese or Chinese dominated market.

7.3 *Locating in Asia*

Concentrating all business activities into one single location is risky and considering the rising currency and economic overheating forces companies to evaluate alternative locations for their businesses. Nowadays, it seems hard to neglect the fact that China holds attractive locations for many industries. China offers a strong microeconomic environment, especially for the manufacturing sector, but its overall macroeconomic environment should be regarded with caution. Table 7-2 shows an analysis of key resources needed for a range of industries. Considering these factors may help to see if the current preferred location may change in future, since the location decision is based on many firms, market and industry factors and influenced by resources (Singh, Delios, 2005:72). Singapore and Hong Kong, which are among the most conducive locations for high end financial services in Asia, have seen the departure of many firms in other industries because of high cost structures. But for these countries, the high cost of skilled human and other resources offsets their other advantage.

Table 7-2 Locating in Asia

Industry	*Key Resources*	*Current Options*	*Emerging Options*
Automobile manufacturing	• *Supplier networks* • *Manufacturing & logistics infrastructure* • *Local demand*	• *Japan* • *South Korea* • *Thailand*	• *China* • *India*
Automobile components	• *Technical HR* • *Automobile assemblers*	• *Japan* • *Taiwan*	• *Thailand* • *China* • *India*
Biotechnology	• *Scientific HR* • *Intellectual property rights protection* • *University & private R&D*	• *Japan* • *Australia* • *Singapore*	• *South Korea* • *India*
Consumer electronics	• *Supplier networks* • *Low –cost HR*	• *Japan* • *South Korea* • *Taiwan*	• *China*
Education	• *Educational institutions* • *Hospitable environment* • *Extensive, quality HR*	• *Australia* • *New Zealand*	• *Malaysia* • *Singapore*
Electronic components (high-end)	• *Technical HR* • *Supplier networks* • *Manufacturing excellence* • *R&D infrastructure*	• *Japan* • *Taiwan* • *South Korea*	• *China*
Electronic components mid to low end)	• *Low-cost technical HR* • *Low cost manufacturing* •	• *Taiwan* • *Malaysia* • *Thailand*	• *China* • *Vietnam*
Hard disk drives	• *Operations & technical HR* • *Manufacturing & logistics infrastructure*	• *Singapore* • *Thailand* • *Malaysia*	• *China*
IT-enables services	• *Technical HR* • *Telecommunications*	• *India*	• *Philippines* • *Malaysia*
Pharmaceuticals	• *Technical HR* • *Manufacturing excellence* • *R&D funding* • *IPR protection*	• *Japan* • *Australia* • *Singapore*	• *India* • *Thailand*
Regional HQs	• *Communications links* • *Hospitable environment* • *Low-cost structure*	• *Singapore* • *Hong Kong* • *Sydney*	• *Shanghai* • *Kuala Lumpur*
Shoes	• *Low cost HR* • *Low-cost materials, assembly, & transportation*	• *Indonesia* • *Thailand*	• *Vietnam* • *Bangladesh*
Telecoms hardware	• *Technical HR* • *Manufacturing excellence* • *Supplier networks*	• *Japan* • *South Korea* • *Taiwan*	• *China*
Telecoms software	• *Technical HR* • *Telecoms firms & users*	• *Japan* • *South Korea*	• *India* • *China*
Textiles & clothing	• *Low-cost HR* • *Low-cost manufacturing & materials*	• *Malaysia* • *Indonesia* • *China*	• *India* • *Sri Lanka* • *Vietnam*
Water fabrication plants	• *Scientific & technical HR* • *Low-cost land & utilities* • *R&D & technology*	• *Taiwan* • *South Korea* • *Singapore*	• *China*

Source: Singh, Delios, (2005:72)

With the rise of competition in South-East Asia some traditional manufacturing industries are repositioning elsewhere and some are staying and upgrading their products. Singapore has been lifting up the value chain to certain knowledge intensive business doings, e.g. pharmaceuticals. In order to continue to attract MNCs and FDI Singapore must focus on high end products and new technologies, since China scores with cheap production costs and low end products (ADO 2006:223). By looking at the natural resources, it is obvious that the 36th rank of Singapore cannot be the convincing key driver for an investment move to this small country (See Appendix 9-18 and 9-19). But taking to account that Singapore offers one of the best human resources (5th place) and enough capital resources (4th place worldwide), these facts explain the high concentration of international business in Singapore (See Appendix 9- 20 until 9-23).

7.4 *New Challenges for MNC in Singapore*

Since Singapore is a resource-poor country and is dependent on Malaysia concerning water and food supply; however, Singapore holds a strong economy with significant growth in the past decade. This environment was supported by the strategic location along international shipping, air routes, and high skilled human capital. Singapore as a business hub can offer strategic alliances to international companies, who intend to start in Singapore and look for a base from which they aim to launch and manage further investment projects not only in China but also in the Southeast Asia market. (Luo, 2000:63). TRUMPF was an excellent example for this business strategy.

Since China entered the WTO (World Trade Organization) the problem for Singapore lies in its high cost base for manufacturing. Therefore, Singapore is changing from a manufacturing-based export hub into a knowledge based economy. With the help of the comparatively skilled labor force and advanced infrastructure, Singapore will become the center for financial, business and other high valued-added services. (Singapore, 2005:20)

New developments in the Asian region such as the WTO accession of Vietnam on the 11th of January 2007 will definitely open up new opportunities for Western companies in Asia (WTO 2007). Having a Headquarter in Singapore holds a strategic advantage for entering Vietnam due to the geographical close distance to Singapore. As the 150th Member of the WTO, Vietnam will become more important for trading with European enterprises.

Past views on wealth-creation of a nation were based on restricted access to land, raw materials and capital, but since of globalization these assets can be offered respectively with no limits. Today, the scarce resource is knowledge. Birkinshaw refers here to the knowledge of the invention of new products and services and from patents to process to higher-order capabilities, but most important from the skill and experience of individuals (Birkinshaw, 2005:19).

By looking at the business environment in Singapore several trends become apparent: The most important is deregulation and liberalization. Singapore and Hong Kong have opened up protected sectors of their economies, such as banking, power generation, air travel and telecommunications. Additionally, regional giants such as Japan, China and India have also carried out liberalization in the manufacturing and service sectors. That economically growth from the last two decades of the 1990s will continue in the 21st century with a generally slower rate along with economic maturity and prosperity (Singh, Delios, 2005:326).

Low birth rates, namely 9.34 births/1,000 population (2006 est.) and a growth rate in Singapore of 0.998% (2009 est.) (CIA Factbook 2009) have to be balanced out with attracting new immigrants in order to fight the aging effect of the population and to preserve the human capital in the country. Table 7-3 shows the fertility rate in Singapore from 2000 until 2010 and points out that it is consistently decreasing. Singapore fears that it will shrink into oblivion so that the government is forced to promote Singaporeans to have three or more children (Washington Post Foreign Service (2004).

Table 7-3 Total Fertility Rate in Singapore 2011

Year	Total Fertility Rate
2000	1,6
2005	1,26
2006	1,28

2007	1,29
2008	1,28
2009	1,22
2010	1,15

Source: Own illustration,
data obtained from Yearbook of Statistics Singapore (2011:27)

Over the medium term, Singapore will face increased low-cost competition from regional competitors, particularly China. On the other hand, with the entire region recovering relatively well from the 1997-98 financial and economic crises, Singapore benefits as a regional hub for trade, investment and financial intermediation.

Over the longer term concerns remain as to whether Singapore's regimented and deferential political and social climate will be conducive to the creation of a more vibrant and less risk-averse business environment. On the other hand, political and social stability are significant assets, as is the well-educated and motivated workforce.

Hence, Singapore's long-term future as one of East Asia's most dynamic trading economies seems relatively secure (Singapore, 2005:21) but Singapore will also recognize the next wave of changes that will incorporate government and corporate respect for "new" issues, such as those due to corporate social responsibility (CSR), corporate governance, and environmental responsibility. Porter (2006:92) is suggesting to move from CSR to corporate social integration (CSI), meaning that the moral of doing business should be changed and not only to provide damage control to our environment. This approach holds promising solutions but the implementation will be hard to realize. Nevertheless, in regard to doing business in Singapore these considerations should not be off the table when western companies intend to enter this market. Further research concerning these new strategic factors is strongly suggested, especially during the global economical crises.

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9 Appendix

Appendix 9-1 Criminal Offences in Singapore 22

Criminal Offences

In Singapore, criminal offences under copyright law include the following:

- **manufacture** of infringing copies for sale;
- **sale** of infringing copies;
- **possession or importation** of infringing copies for the purposes of sale, hire, or distribution for trade or for any other purpose to an extent that will affect the copyright owner prejudicially;
- **distribution** of infringing copies for trade or for any other purposes to such an extent as to affect the copyright owner prejudicially.

In any of the instances above, it must be proved that the infringing party knows or ought reasonably to know that the copies are infringing copies.

The law provides that where a person is found to have more than 5 infringing copies of any work, unless otherwise proven, it is presumed that the possession of the infringing copies was not for the purpose of private or domestic use; or that such possession was for the purpose of sale.

The penalties for manufacture for sale; sale of infringing copies; and possession or importation of infringing copies for the purposes described above are:

- a fine not exceeding $10,000 per infringing copy, up to a total of $100,000 per charge; and/or
- imprisonment up to 5 years.

The penalties for distribution of infringing copies for trade or for other purposes to such an extent as to affect the copyright owner prejudicially are:

- a fine not exceeding $50,000; and/or
- imprisonment up to 3 years.

The making or possession of an article specifically designed for making infringing copies, e.g. machinery for manufacturing infringing copies, is also an offence attracting the following penalties:

- a fine not exceeding $20,000 per article; and/or
- imprisonment up to 2 years.

Criminal Liability for Wilful Infringement

It is also a criminal offence if a person wilfully infringes copyright for the purpose of obtaining a commercial advantage and/or to an extent that is significant.

» Commercial advantage means any direct advantage, benefit or financial gain for a business or trade. As to whether the infringement is to an extent that is significant, this is judged based on the volume and value of infringing copies, whether the infringement has a substantial prejudicial impact on the copyright owner and all other relevant matters.

The penalties for such wilful copyright infringement are:

- 1st offence, a fine not exceeding $20,000 and/or imprisonment up to 6 months;
- 2nd or subsequent offence, a fine not exceeding $50,000 and/or imprisonment up to 3 years.

» Other acts that have civil and criminal liabilities include:
- circumventing a technological measure (page 10); and
- removing or altering the rights management information electronically attached to a work (page 12).

Source: Copyright Infopack, 2006:8

Appendix 9-2 Cost of Living Survey 2009

Rank 2009	Rank 2008	City	Country	Index 2009	Index 2008
1	2	TOKYO	JAPAN	143.7	127
2	11	OSAKA	JAPAN	119.2	110
3	1	MOSCOW	RUSSIA	115.4	142.4
4	8	GENEVA	SWITZERLAND	109.2	115.8
5	6	HONG KONG	HONG KONG	108.7	117.6
6	9	ZURICH	SWITZERLAND	105.2	112.7
7	7	COPENHAGEN	DENMARK	105.0	117.2
8	22	NEW YORK CITY	US	100.0	100.0
9	20	BEIJING	CHINA	99.6	101.9
10	13	SINGAPORE	SINGAPORE	98.0	109.1
11	10	MILAN	ITALY	96.9	111.3
12	24	SHANGAI	CHINA	95.2	98.3
13	12	PARIS	FRANCE	95.1	109.4
14	4	OSLO	NORWAY	94.2	118.3
15	89	CARACAS	VENEZUELA	93.3	79.3
16	3	LONDON	UK	92.7	125
17	14	TEL AVIV	ISRAEL	91.9	105
18	16	ROME	ITALY	91.2	103.9
19	21	HELSINKI	FINLAND	90.5	101.1
20	52	DUBAI	UAE	90.1	89.3
21	19	VIENNA	AUSTRIA	89.3	102.3
22	61	SHENZHEN	CHINA	89.0	86.3
23	55	LOS ANGELES	US	87.6	87.5
23	70	GUANGZHOU	CHINA	87.6	83.9
25	16	DUBLIN	IRELAND	87.4	103.9
26	65	ABU DHABI	UAE	86.7	85.7
27	34	DOUALA	CAMEROUN	86.1	95.1
28	25	ATHENS	GREECE	85.9	97
29	25	AMSTERDAM	NETHERLANDS	85.7	97
30	45	BRATISLAVA	SLOVAKIA	84.8	90.6
31	89	WHITE PLAINS	US	84.7	79.3
32	30	LAGOS	NIGERIA	84.6	95.9
33	74	TEHRAN	IRAN	84.1	82.2
34	51	ABIDJAN	IVORY COAST	82.5	89.6
34	41	DAKAR	SENEGAL	82.5	92.2
34	78	SAN FRANCISCO	US	82.5	81
37	28	MADRID	SPAIN	82.3	96.7
38	43	LUXEMBOURG	LUXEMBOURG	82.1	91.3
38	31	BARCELONA	SPAIN	82.1	95.2

40	57	ALGIERS	ALGERIA	81.7	86.8
41	77	HONOLULU	US	81.6	81.4
41	39	BRUSSELS	BELGIUM	81.6	92.9
41	80	BEIRUT	LEBANON	81.6	80.8
44	44	ALMATY	KAZAKHSTAN	81.5	90.7
45	75	MIAMI	US	81.4	82
46	18	ST PETERSBOURG	RUSSIA	81.3	103.1
47	37	MUNICH	GERMANY	81.2	93.1
48	40	FRANKFURT	GERMANY	80.9	92.5
49	38	BERLIN	GERMANY	80.8	93
50	84	CHICAGO	US	80.7	80.3

Source: Mercer, 2009

Appendix 9-3 Tax Incentives for Investments in Singapore 1 new

Tax Incentives – Trade (continued)/Investments

Type	++	Requirements	Incentives	Relief Period
		g) support and make use of Singapore's trade infrastructure.		
		ii) LNG trading (w.e.f. 24 May 2007).	5% tax on qualifying income.	10 years.
		iii) High-growth, medium-sized trading companies.	10% tax on qualifying income.	3 years.
• Approved Cyber Trader (ACT)	IES	Company must: i) conduct its principal e-commerce activities and handle a whole range of business activities and support functions in Singapore; ii) incur a significant amount of directly attributable business spending in Singapore; iii) contribute to manpower training and development in Singapore; and iv) make significant use of Singapore's business services.	10% tax on incremental qualifying income from qualifying electronic commerce transactions. Investment allowance of up to 50% of cost of qualifying new fixed capital expenditure.	5 years.
• Enterprise Investment Incentive (EII)	SPRING	i) Investor may be an individual or a company. ii) Qualifying start-up companies must be: a) unlisted in their initial years of existence with paid-up capital of at least $10,000; b) primarily engaged in innovative and high-growth activities with substantial development content for specific products, processes or services; and c) incorporated in Singapore with business activities primarily in Singapore.	Deduction for investors of losses of up to $3 million incurred on disposal of qualifying shares/liquidation of the start-up company.	5 years for start-ups approved before 1 September 2009.

26 PRICEWATERHOUSECOOPERS

Source: PWC, 2009:26

Appendix 9-4 Tax Incentives for Investments in Singapore 2 new

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
		iii) Investments must be: a) in the form of a purchase of new ordinary share capital in the start-up and not replacement capital or debt instruments; b) without any condition that would eliminate the investor's risk; c) at least $1,000 per investment; and d) issued and acquired by the investor during the start-up's approved status and sold between the start of the second year and the end of the sixth year from the date of purchase of the shares. iv) Technopreneur companies supported under the Innovation Commercialisation Scheme (ICS) automatically qualify. v) Overseas start-ups may be approved on a case-by-case basis provided that there is a significant link for Singapore to enjoy the economic spin-offs from their activities.	As above, but confined to Singaporean/SPR investors.	
• Approved Investment Companies	MOF	Companies whose business is to invest in securities and the principal part of their income is derived therefrom.	Proportion of gains subject to tax based on holding period of investments.	Indefinite.
• Asset Securitisation	MAS	Approved Special Purpose Vehicles (ASPVs) incorporated in Singapore to conduct asset securitisation activities. The ASPV must: i) carry out all transactions at arm's length; it must not have a profit motive;	i) Tax exemption for income derived from asset securitisation arrangements entered into between 27 February 2004 and 31 December 2013.	Date of transfer of assets into ASPV to latest maturity date of securities issued within the period from 27 February 2004 to 31 December 2013; and entire

PRICEWATERHOUSECOOPERS 27

Source: PWC, 2009:27

Appendix 9-5 Tax Incentives for Investments in Singapore 3

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
		ii) not carry out any activity other than those ancillary to the asset securitisation purpose for which it was established; iii) not carry out the asset securitisation with tax avoidance as its purpose; iv) have an issued and paid up capital of not more than $10,000. W.e.f. 5 November 2007, this condition may be relaxed for Special Purpose Reinsurance Vehicles (SPRVs) registered under the Insurance Act; v) have all its issued shares held in trust for the benefit of 1 or more organisations or institutions that are established for charitable, benevolent or philanthropic purposes; the trust must be administered by a trust company in Singapore; vi) transact any cross-currency or interest rate swaps with a swap counterparty in Singapore; vii) be tax resident in Singapore; viii) ensure that all debt securities issued are qualifying debt securities and the size of the issuances is not less than $20 million. W.e.f. 16 February 2008, the ASPV is allowed to issue non-qualifying debt securities; and ix) not have 30% or more of the issued debt securities beneficially held or funded by the originator.	ii) Withholding tax exemption for payments on over-the-counter (OTC) financial derivatives. iii) Fixed GST recovery rate of 76% on all business expenses incurred during the incentive period, regardless of the input tax recovery formula of the originator. iv) Stamp duty remission for transfer of specified assets into the ASPV.	duration of contracts entered into between 27 February 2004 and 31 December 2013.

Source: PWC, 2009:28

Appendix 9-6 Tax Incentives for Investments in Singapore 4

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
• Maritime Finance Incentive (MFI)	MPA	i) Approved Ship Investment Manager (ASIM) incorporated in Singapore to manage an Approved Ship Investment Vehicle (ASIV).	10% tax on qualifying management income.	10 years, with window approval period from 1 March 2006 to 28 February 2011.
		ii) ASIV that is a company incorporated and tax resident in Singapore or a registered business trust engaged in the chartering or finance leasing, for operation in international traffic, of: a) ships to non-tax residents of Singapore; and b) Singapore-registered ships or foreign-registered ships to AIS companies. Partnerships are eligible for the above w.e.f. 1 April 2008.	Tax exemption on qualifying lease income.	Entire life of qualifying vessel acquired during the 10-year incentive period.
		iii) Approved Container Investment Management Company (ACIM) incorporated in Singapore to manage an Approved Container Investment Enterprise (ACIE).	10% tax on qualifying management income.	Income derived w.e.f. 1 April 2008, with window approval period from 1 April 2008 to 28 February 2011.
		iv) ACIE that is a company incorporated and tax resident in Singapore or a registered business trust engaged in operating or finance leasing of sea containers to offshore and onshore lessees. Partnerships are eligible for the above w.e.f. 1 April 2008.	5% or 10% tax, depending on local business spending and headcount commitment levels, on income from qualifying leases and foreign exchange and risk management activities carried out in connection with and incidental to the qualifying leases.	Up to 15 years with window approval period from 1 April 2008 to 28 February 2011.

PRICEWATERHOUSECOOPERS 29

Source: PWC, 2009:29

Appendix 9-7 Tax Incentives for Investments in Singapore 5

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
• Foreign Investors of Trust Funds	#	The fund must be: i) a trust administered by a trustee who is resident in Singapore; ii) substantially owned by foreign investors, i.e. not more than 20% of the value of the fund should be beneficially owned, directly or indirectly, by persons who are citizens of Singapore or resident in Singapore; iii) managed by a fund manager in Singapore that is a company holding, or exempted from holding, a capital markets services licence under the Securities and Futures Act for fund management; and iv) invested in designated assets. Investors must be the beneficial owners of the funds managed.	Tax exemption for qualifying income. Partial GST remission for prescribed expenses at prescribed rates.	Indefinite. Applications must be made on or before 31 March 2014. Expenses incurred from 22 January 2009 to 31 March 2014.
• Foreign Investors	#	The fund must be: i) an account of an individual who is not a citizen or resident of Singapore, or a company/trust not wholly owned by investors in Singapore. The company or trustee must be a non-resident without any permanent establishment in Singapore and must not carry on business in Singapore; ii) managed by a fund manager in Singapore that is a company holding, or exempted from holding, a capital markets services licence under the Securities and Futures Act for fund management; and iii) invested in designated assets. Investors must be the beneficial owners of the funds managed.	Tax exemption on qualifying income derived by qualifying investors which include: i) individuals; ii) non-resident non-individual investors with no permanent establishment in Singapore; and iii) any investor that beneficially owns not more than 30% or 50% of the value of the fund, if the fund has less than, or 10 or more investors respectively.	Indefinite. Applications must be made on or before 31 March 2014.

30 PRICEWATERHOUSECOOPERS

Source: PWC, 2009:30

Appendix 9-8 Tax Incentives for Investments in Singapore 6

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
• Resident Funds	MAS	The fund must: i) be a company incorporated and tax resident in Singapore; ii) use a Singapore-based fund administrator and be managed directly by a fund management company in Singapore holding, or exempted from holding, a capital markets services licence under the Securities and Futures Act for fund management; and iii) incur expenses of at least $200,000 in each financial year.	Tax exemption for specified income from designated investments. W.e.f. 1 September 2007, tax exemption for qualifying income derived by qualifying investors which include: i) individuals; ii) non-resident non-individual investors with no permanent establishment in Singapore; and iii) any investor that beneficially owns not more than 30% or 50% of the value of the fund, if the fund has less than, or 10 or more investors respectively.	Indefinite, with window approval period from 17 February 2006 to 31 March 2014.
			Partial GST remission for prescribed expenses at prescribed rates.	Expenses incurred from 22 January 2009 to 31 March 2014.
• Enhanced-Tier Fund	MAS	The fund must: i) be a company, trust (other than an approved pension, approved provident fund, approved CPF unit trust, designated unit trust or real estate investment trust) or limited partnership; ii) have a minimum fund size of $50 million at the time of application;	Tax exemption for specified income from designated investments.	Indefinite, with window approval period from 1 April 2009 to 31 March 2014.
			Partial GST remission for prescribed expenses at prescribed rates.	Expenses incurred from 22 January 2009 to 31 March 2014.

PRICEWATERHOUSECOOPERS 31

Source: PWC, 2009:31

Appendix 9-9 Tax Incentives for Investments in Singapore 7

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
		iii) be managed or advised directly by a fund manager in Singapore that is a company holding, or exempted from holding, a capital markets services licence under the Securities and Futures Act for fund management; iv) employ at least 3 investment professionals earning more than $3,500 per month and engaged substantially in the qualifying activity; v) incur at least $200,000 in business spending in Singapore in each financial year; vi) use a Singapore-based fund administrator if it is a company incorporated and tax resident in Singapore; vii) not subsequently change its investment objective or strategy; and viii) not concurrently enjoy other tax incentives.		
• Approved CPF Unit Trust	MAS/ CPF	Any unit trust scheme approved for the purpose of any investment scheme under the Central Provident Fund Act.	Tax exemption for the unit trust for income and gains from designated investments. Tax exemption for Singapore-resident unit holders who invest using cash.	Indefinite.
• Designated Unit Trust (DUT)	IRAS	A unit trust: i) that is a collective investment scheme (CIS) that is authorised under section 286 of the Securities and Futures Act and is open to the public for subscription, authorised as a Restricted Authorised Scheme (RAS) or exempt from authorisation;	Tax exemption for DUT for income and gains from designated investments. Tax exemption for individual unit holders and foreign investors for DUT distributions.	Indefinite.

32 PRICEWATERHOUSECOOPERS

Source: PWC, 2009:32

Appendix 9-10 Tax Incentives for Investments in Singapore 8

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
		ii) whose trustee is tax resident in Singapore; iii) not a REIT/property trust that invests directly in Singapore real estate; iv) whose investment/fund manager is incorporated in Singapore and holds a valid licence to carry out fund management activity or is exempt from holding such a licence; v) with not more than 50% of its investments beneficially held by related parties of the investment/fund manager; vi) whose investors do not have day-to-day control over the management of the investments, the right to be consulted or to give directions in respect of such management, or any control or influence over the distribution policy of the unit trust; and vii) whose assets were not transferred from any company in Singapore whose income from such assets would not have been tax-exempt.	Partial GST remission for prescribed expenses at prescribed rates.	Expenses incurred from 22 January 2009 to 31 March 2014.
• Locally Administered Trust	MAS	A trust: i) created in writing; ii) where all settlors are individuals; iii) where all beneficiaries are either individuals or charities; iv) that is not a trust whereby the beneficiaries are settlors of the trust;	Tax exemption for the trust and its qualifying underlying holding companies for specified Singapore-sourced and foreign-sourced investment income derived/received on or after 17 February 2006.	Indefinite.

PRICEWATERHOUSECOOPERS 33

Source: PWC, 2009:33

Appendix 9-11 Tax Incentives for Investments in Singapore 9

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
		v) where the assets held under the trust were not transferred from any business carried on in Singapore in relation to investments by any person, and income derived by that person from that business in Singapore was not or would not be, exempt from tax; and vi) that is administered by a trustee company in Singapore.	Tax exemption for beneficiaries on distributions out of qualifying trust income.	
• Approved Family-owned Investment Holding Company (FIHC)	MAS	A company incorporated before 1 April 2013 that: i) is principally engaged in investment holding/making; ii) is wholly-owned, directly or beneficially through a trust, nominee company or another FIHC, by an individual or individuals who are "connected persons" under the Trust Companies Act; iii) engages a financial institution in Singapore to administer the company, manage its financial assets or provide advice on the management of its financial assets; iv) transacts with related parties on an arm's length basis; v) unless at arm's length, did not have its assets transferred to it from any business carried on in Singapore whose income from those assets was not or would not be, exempted from tax; and vi) unless at arm's length, did not have its shares transferred to satisfy the shareholding requirement set out in (ii) above if it was carrying on a business in Singapore that was or would not be exempted from tax prior to the transfer.	Tax exemption for Singapore-sourced investment income and foreign-sourced income mirroring the tax exemption for individuals (see page 3).	Indefinite with window qualifying period from 1 April 2008 to 31 March 2013.

34 PRICEWATERHOUSECOOPERS

Source: PWC, 2009:34

Appendix 9-12 Tax Incentives for Investments in Singapore 10

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
• Foreign Trust	MAS	A trust created in writing or a unit trust whose settlors and beneficiaries are: i) individuals who are neither citizens of Singapore nor resident in Singapore; ii) foreign companies; iii) trustees of other foreign trusts; iv) foreign accounts of philanthropic purpose trusts; or v) persons neither resident in Singapore nor constituted or registered under any written laws in Singapore.	Tax exemption for the trust on qualifying income. Tax exemption for beneficiaries on distributions out of qualifying trust income. Partial GST remission for prescribed expenses at prescribed rates.	Indefinite. Expenses incurred from 22 January 2009 to 31 March 2014.
• Foreign Charitable Purpose Trusts	#	Foreign accounts of a charitable purpose trust created for public benefit and eligible holding companies. Foreign accounts are sections of the trust whose assets/funds are injected by a settlor who is: i) an individual and is neither a citizen of Singapore nor resident in Singapore; ii) a foreign company or trust; iii) another foreign account of a charitable purpose trust; or iv) any other person neither resident in Singapore nor constituted or registered under any written laws in Singapore. Eligible holding companies: i) are companies incorporated outside Singapore and wholly-owned by the trustees of the trust or by their nominee; ii) are set up to hold assets of a philanthropic purpose trust;	Tax exemption on: a) specified income derived from designated investments by eligible holding companies; and b) the following income derived by a foreign account of a charitable purpose trust administered by a trustee company: i) dividends paid or payable by eligible holding companies from the income in paragraph (a); and ii) specified income derived from designated investments.	Indefinite.

PRICEWATERHOUSECOOPERS 35

Source: PWC, 2009:35

Appendix 9-13 Tax Incentives for Investments in Singapore 11

Tax Incentives – Investments (continued)

Type	++	Requirements	Incentives	Relief Period
		iii) are engaged solely in trading or making investments for the purpose of the trust; and iv) do not claim any foreign tax credit in Singapore.		
• Approved Venture Company	EDB	Venture capital funds or venture capital fund management companies must: i) be incorporated and based in Singapore; ii) have obtained the necessary approvals and licences from the MAS for their proposed activities; iii) commit to invest a certain percentage of their subscribed funds in Singapore and seed stage and/or restart projects in Singapore; and iv) commit to employ a certain number of local venture capital professionals to manage the approved venture capital funds. Partnerships are eligible for this incentive w.e.f. 1 April 2008.	Tax exemption on: a) gains from disposal of approved local and overseas investments; b) dividends from approved overseas investments; and c) interest income from convertible loan stocks. Tax rate of not more than 10% during extension period.	Up to 10 years with provision for extension up to a maximum total relief period of 15 years.
• Overseas Enterprise Incentive (OEI)	IES	i) Companies must be incorporated and tax resident in Singapore with substantial operations in Singapore, and be at least 50% owned by Singapore citizens or permanent residents. ii) Qualifying projects must generate economic spin-offs (expand Singapore operations, provide technology or market access, technology transfer, support for flagship projects, etc.) for Singapore.	Tax exemption on: a) dividends from qualifying overseas investments; and b) royalties, interest on shareholder loans, incremental income from the provision of support services (project management, technical support, etc.) performed within or outside Singapore and overseas project income relating to approved qualifying projects.	Up to 10 years.

36 PRICEWATERHOUSECOOPERS

Source: PWC, 2009:36

Appendix 9-14 Tax Incentives for Investments in Singapore 1

Double Taxation Agreements

Singapore has concluded double taxation agreements with the following countries and the main reliefs are summarised below. The rates listed are those negotiated under the treaties. Actual domestic rates will apply if those rates are lower.

Country	Air Transport	Shipping	Dividends (2a)	Interest	Royalties
Australia	Exempt	Exempt	15%	10%	10% (4a)
Austria	Exempt	Exempt	0% or 10% (2b)	5% (3b, d)	5%
Bahrain	Exempt	Exempt	Exempt	5% (3b)	5%
Bangladesh	Exempt	50% of normal rate	15%	10%	10% (4a)
Belgium (1c)	Exempt	Exempt	Exempt, 5% or 15% (2b, c)	5% (3b, d)	3% or 5% (4b)
Brunei	Exempt	Exempt	10%	5% or 10% (3a, b)	10%
Bulgaria	Exempt	Exempt	5% (2b)	5% (3b)	5%
Canada	Exempt	Exempt	15%	15%	15% (4g)
China	Exempt	Exempt	5% or 10% (2c)	7% or 10% (3a, b)	10%
Cyprus	Exempt	Exempt	Exempt	7% or 10% (3a, b)	10%
Czech Republic	Exempt	50% of normal rate	5%	Exempt	10%
Denmark	Exempt	Exempt	0%, 5% or 10% (2b)	10% (3b)	10%
Egypt	Exempt	Exempt	15%	15% (3b)	15% (4g)
Estonia	Exempt	Exempt	5% or 10% (2b, c)	10% (3b)	7.5%
Fiji	Exempt	Exempt	5% or 15% (2b, c)	10% (3b)	10%
Finland	Exempt	Exempt	0%, 5% or 10% (2b)	5% (3b)	5%
France	Exempt	Exempt	10% or 15% (2c)	10% (3b, c)	Exempt (4a)
Georgia	(1a)	(1a)	(1a)	(1a)	(1a)
Germany	Exempt	Exempt	5% or 15% (2c)	8% (3b)	8%
Hungary	Exempt	50% of normal rate	5% or 10% (2b)	5% (3b, d)	5%
India	Exempt	Exempt	10% or 15% (2c)	10% or 15% (3a)	10%

54 PRICEWATERHOUSECOOPERS

Source: PWC, 2009:54

Appendix 9-15 Double Taxation Agreements in Singapore 2

Double Taxation Agreements (continued)

Country	Air Transport	Shipping	Dividends (2a)	Interest	Royalties
Indonesia	Exempt	50% of normal rate	10% or 15% (2c)	10% (3b, e)	15% (4g)
Israel	Exempt	Exempt	Exempt	7% (3b)	5%
Italy	Exempt	Exempt	Exempt	12.5% (3b)	15% or 20% (4g)
Japan	Exempt	Exempt	5% or 15% (2c)	10% (3b)	10%
Kazakhstan	Exempt	Exempt	5% or 10% (2b, c)	10% (3b)	10%
Kuwait	Exempt	Exempt	Exempt	7% (3b)	10%
Latvia	Exempt	Exempt	5% or 10% (2b)	10% (3b)	7.5%
Libya	(1a)	(1a)	(1a)	(1a)	(1a)
Lithuania	Exempt	Exempt	5% or 10% (2b)	10% (3b)	7.5%
Luxembourg	50% of normal rate	50% of normal rate	5% or 10% (2b)	10% (3b)	10%
Malaysia	Exempt	Exempt	5% or 10% (2c)	10% (3b, f)	8%
Malta (1c)	Exempt	Exempt	At domestic rates (2b)	7% or 10% (3a, b)	10%
Mauritius	Exempt	50% of normal rate	Exempt	Exempt	Exempt
Mexico	Exempt	50% of normal rate	Exempt	5% or 15% (3a, b)	10%
Mongolia	Exempt	Exempt	5% or 10% (2b)	5% or 10% (3a, b)	5%
Morocco	(1a)	(1a)	(1a)	(1a)	(1a)
Myanmar	Exempt	50% of normal rate	Exempt	8% or 10% (3a, b)	10% or 15% (4c, g)
Netherlands	Exempt	Exempt	Exempt or 15%	10% (3b)	Exempt (4a)
New Zealand (1b)	Exempt	Exempt	15%	15%	15% (4a, g)
Norway	Exempt	Exempt	5% or 15% (2b)	7% (3b)	7%
Oman	Exempt	Exempt	5% (2b)	7% (3b)	8%
Pakistan	Exempt	50% of normal rate	10%	12.5% (3b)	10% (4a)
Papua New Guinea	Exempt	Exempt	15%	10%	10%

PRICEWATERHOUSECOOPERS 55

Source: PWC, 2009:56

Appendix 9-16 Double Taxation Agreements in Singapore 3

Double Taxation Agreements (continued)

Country	Air Transport	Shipping	Dividends (2a)	Interest	Royalties
Philippines	Up to 1.5% of gross revenue generally	Up to 1.5% of gross revenue generally	15% or 25% (2c)	15% (3e)	15% or 25% (4e, g)
Poland	Exempt	50% of normal rate	10% (2b)	10% (3b)	10%
Portugal	Exempt	Exempt	10% (2b)	10% (3b, e)	10%
Qatar	Exempt	Exempt	Exempt	5% (3b)	10%
Romania	Exempt	Exempt	5% (2b)	5% (3b)	5%
Russian Federation (1d)	Exempt	Exempt	5% or 10% (2c, d)	7.5% (3b)	7.5%
Slovak Republic	Exempt	Exempt	5% or 10% (2b, c)	Exempt	10%
South Africa	Exempt	Exempt	5% or 15% (2b)	Exempt	5%
South Korea	Exempt	Exempt	10% or 15% (2c)	10% (3b)	15% (4g)
Sri Lanka	Exempt	50% of normal rate	15%	10% (3a, b)	15% (4g)
Sweden	Exempt	50% of normal rate	10% or 15% (2b)	10% or 15% (3b, c)	Exempt (4a)
Switzerland	Exempt	50% of normal rate	10% or 15%	10% (3f)	5% (4a, e)
Taiwan	Exempt	Up to 2% of gross revenue	40% (including corporate tax)	At domestic rates	15% (4a, g)
Thailand	Exempt	50% of normal rate	20% generally	10% or 25% (3a, b)	15% (4g)
Turkey	Exempt	50% of normal rate	10% or 15% (2b)	7.5% or 10% (3a, b)	10%
Ukraine	(1a)	(1a)	(1a)	(1a)	(1a)
United Arab Emirates	-	Exempt	5%	7% (3b)	5% (4f)
United Kingdom	Exempt	Exempt	5% or 15% (2c)	10% (3b)	10%
Uzbekistan (1c)	Exempt	Exempt	5%	5%	8%
Vietnam	Exempt	Exempt	5%, 7% or 12.5% (2b)	10% (3b)	5% or 15% (4c, g)

56 PRICEWATERHOUSECOOPERS

Source: PWC, 2009:56

Appendix 9-17 Double Taxation Agreements in Singapore 4

Double Taxation Agreements (continued)

Notes:

1) a. Treaties signed but not yet ratified.
   b. New treaty/protocol signed but not yet ratified. Singapore has also signed protocols with Australia, Austria, Bahrain, Belgium, Brunei, Denmark, Finland, France, Malta, Mexico, the Netherlands, Norway, Qatar and the United Kingdom. These only have the effect of incorporating the internationally agreed Standard on Exchange of Information in the respective treaties and are not yet ratified
   c. Treaty applies with effect from 1 January 2009.
   d. Treaty applies with effect from 1 January 2010.

2) Dividends:
   a. Singapore does not impose tax on dividends in addition to the tax chargeable on the profits or income of a company; hence the rates shown reflect the position of the other treaty country.
   b. Exempt if paid to the government.
   c. Lower rate if the recipient is the beneficial owner of a minimum shareholding percentage, specified in the respective treaties.
   d. Lower rate if paid to the government.

3) Interest:
   a. Lower rate or exemption if received by a financial institution.
   b. Exempt if paid to the government.
   c. Exempt if paid by an approved industrial undertaking.
   d. Exempt if paid by a bank and received by a bank.
   e. Exempt if paid to bank but linked to government loan agreement or paid to specific financial institutions/banks.
   f. Exempt if paid in respect of an approved loan or indebtedness.

4) Royalties:
   a. Royalties on literary or artistic copyrights, including film royalties, are taxed at non-treaty rates.
   b. Lower rate for payments in respect of industrial, commercial or scientific equipment.
   c. Lower rate for payments in connection with patents, designs, secret formulas/processes, or industrial, commercial or scientific equipment/experience.
   d. Exempt if paid to the government.
   e. Exempt for approved royalties.
   f. Lower rate or exempt for industrial royalties in accordance with domestic laws.
   g. Royalties derived from Singapore are subject to a final tax of 10%.

Air Transport/Shipping Agreements

Country / Region	Air Transport	Shipping
Bahrain (note 1)	Exempt	-
Chile	-	Exempt
Hong Kong SAR	Exempt	Exempt
Oman (note 2)	Exempt	-
Saudi Arabia	Exempt	-
United Arab Emirates	Exempt	-
United States of America	Exempt	Exempt

Note: 1) This treaty continues to apply to income not covered under the comprehensive treaty (see page 49).
2) Only the Protocol to this treaty continues to apply after the comprehensive treaty came into force (see page 50).

Source: PWC, 2009:57

Appendix 9-18 Natural Resources: Overall Rankings

Page 214+ From Adam Smith to Michael Porter

Main Factor Rankings

Country	Score	Rank	Country	Score	Rank
Russia	74.1	1	Czech Republic	44	27
Australia	69.1	2	Luxembourg	44	28
Canada	62.8	3	Thailand	43.2	29
Iceland	60.3	4	Brazil	42.9	30
Austria	53.7	5	Hong Kong	42.7	31
Norway	53.1	6	Portugal	42.1	32
France	48.6	7	Germany	41.8	33
United States	48.5	8	Netherlands	41	34
Spain	47.5	9	Sri Lanka	40.5	35
Italy	47.5	10	Singapore	40	36
United Kingdom	47.2	11	Poland	39.4	37
Mexico	46.5	12	Hungary	39.4	38
New Zealand	46.3	13	Philippines	39.1	39
Switzerland	46	14	Greece	39	40
Indonesia	45.7	15	Taiwan	38.6	41
Malaysia	45.3	16	Turkey	38.3	42
Egypt	44.9	17	Pakistan	37.7	43
Colombia	44.8	18	Guatemala	37.7	44
Kenia	44.8	19	Bangladesh	37.1	45
South Africa	44.7	20	Korea	36.7	46
Sweden	44.6	21	Jordan	35.4	47
Peru	44.5	22	Romania	35.2	48
Finland	44.5	23	India	33.8	49
Denmark	44.3	24	Panama	32.2	50
Ireland	44.2	25	Japan	30.3	51
Belgium	44.1	26			

Source: Cho, 2000:214

Appendix 9-19 Natural Resources Intra-Group Rankings

Page 215 From Adam Smith to Michael Porter

Main Factor Rankings

Country	Score	Rank	Country	Score	Rank
OECD (Organization for Economic Cooperation and Development)			Turkey	38.3	1
Australia	69.1	1	Korea	36.7	2
Canada	62.8	2	Japan	30.3	3
Iceland	60.3	3	**1st NICs (Newly Industrialized Countries)**		
Austria	53.7	4	Hong Kong	42.7	1

Norway	53.1	5	Singapore	40	2
France	48.6	6	Taiwan	38.6	3
United States	48.5	7	**2nd NICs**		
Spain	47.5	8	Indonesia	45.7	1
Italy	47.5	9	Malaysia	45.3	2
United Kingdom	47.2	10	Thailand	43.2	3
Mexico	46.5	11	Philippines	39.1	4
New Zealand	46.3	12	**LDCs (Less Developed Countries)**		
Switzerland	46	13	Russia	74.1	1
Sweden	44.6	14	Egypt	44.9	2
Finland	44.5	15	Colombia	44.8	3
Denmark	44.3	16	Kenia	44.8	4
Ireland	44.2	17	South Africa	44.7	5
Belgium	44.1	18	Peru	44.5	6
Czech Republic	44	19	Brazil	42.9	7
Luxembourg	44	20	Sri Lanka	40.5	8
Portugal	42.1	21	Pakistan	37.7	9
Germany	41.8	22	Guatemala	37.7	10
Netherlands	41	23	Bangladesh	37.1	11
Poland	39.4	24	Jordan	35.4	12
Hungary	39.4	25	Romania	35.2	13
Greece	39	26	India	33.8	14
			Panama	32.2	15

Source: Cho, 2000:215

Appendix 9-20 Human Resources: Overall Rankings

Page 212 From Adam Smith to Michael Porter

Main Factor Rankings					
Country	**Score**	**Rank**	**Country**	**Score**	**Rank**
Japan	73.2	1	Ireland	61.4	27
United States	73	2	Jordan	61.2	28
Indonesia	72.1	3	Belgium	60	29
Thailand	70.9	4	United Kingdom	59.7	30
Singapore	70.7	5	Czech Republic	59.4	31
Taiwan	69	6	Switzerland	58.8	32
Korea	67.9	7	Peru	58.4	33
Hong Kong	67.7	8	Hungary	58.2	34
Malaysia	66.5	9	Brazil	57.8	35
Austria	65.7	10	Finland	57	36
Mexico	65.7	11	Greece	56.5	37
Iceland	65.6	12	Denmark	56.1	38
New Zealand	65.6	13	Portugal	56.1	39
Sri Lanka	65.1	14	Kenia	55.6	40
Columbia	65	15	Germany	53.8	41
Netherlands	64.9	16	Romania	52.5	42
France	64.5	17	Pakistan	52.2	43
Philippines	64.1	18	Bangladesh	49.4	44
Luxembourg	64	19	India	46.2	45
Norway	63.8	20	Australia	45.9	46
Russia	63.7	21	Italy	45.8	47

Egypt	63	22	South Africa	42.9	48
Turkey	63	23	Poland	42.9	49
Panama	62.8	24	Spain	40.2	50
Sweden	61.9	25	Guatemala	30.3	51
Canada	61.7	26			

Source: Cho, 2000:212

Appendix 9-21 Human Resources Intra-Group Rankings

Table 9-7 Human Resources Intra-Group Rankings

Page 213 From Adam Smith to Michael Porter

Main Factor Rankings

Country	Score	Rank	Country	Score	Rank
OECD (Organization for Economic Cooperation and Development)			Italy	45.8	1
Japan	73.2	1	Poland	42.9	2
United States	73	2	Spain	40.2	3
Korea	67.9	3	**1st NICs (Newly Industrialized Countries)**		
Austria	65.7	4	Singapore	70.7	1
Mexico	65.7	5	Taiwan	69	2
Iceland	65.6	6	Hong Kong	67.7	3
New Zealand	65.6	7	**2nd NICs**		
Netherlands	64.9	8	Indonesia	72.1	1
France	64.5	9	Thailand	70.9	2
Luxembourg	64	10	Malaysia	66.5	3
Norway	63.8	11	Philippines	64.1	4
Turkey	63	12	**LDCs (Less Developed Countries)**		
Sweden	61.9	13	Sri Lanka	65.1	1
Canada	61.7	14	Colombia	65	2
Ireland	61.4	15	Russia	63.7	3
Belgium	60	16	Egypt	63	4
United Kingdom	59.7	17	Panama	62.8	5
Czech Republic	59.4	18	Jordan	61.2	6
Switzerland	58.8	19	Peru	58.4	7
Hungary	58.2	20	Brazil	57.8	8
Finland	57	21	Kenia	55.6	9
Greece	56.5	22	Romania	52.5	10
Denmark	56.1	23	Pakistan	52.2	11
Portugal	56.1	24	Bangladesh	49.4	12
Germany	53.8	25	India	46.2	13
Australia	45.9	26	South Africa	42.9	14
			Guatemala	30.3	15

Source: Cho, 2000:213

Appendix 9-22 Capital Resources Overall Rankings

Page 216+ From Adam Smith to Michael Porter

Main Factor Rankings

Country	Score	Rank	Country	Score	Rank
France	97.3	1	Iceland	93.4	27
Japan	96.9	2	Bangladesh	92.4	28
Luxembourg	96.4	3	Thailand	92.3	29
Singapore	96.3	4	Italy	92.2	30
United Kingdom	96.2	5	Portugal	90.8	31
Norway	96	6	Philippines	89.3	32
Denmark	95.8	7	Sri Lanka	88	33
Netherlands	95.6	8	Egypt	87.8	34
United States	95.6	9	Indonesia	87.6	35
Hong Kong	95.4	10	Pakistan	87.4	36
Belgium	95.3	11	South Africa	87.2	37
Australia	95.3	12	India	85	38
Malaysia	95.3	13	Czech Republic	84.1	39
Switzerland	95.2	14	Greece	82.8	40
Taiwan	95.2	15	Guatemala	74.4	41
Panama	95.2	16	Colombia	70.6	42
Finland	95.2	17	Hungary	70	43
Canada	95	18	Mexico	66.7	44
Korea	94.9	19	Kenia	66	45
Austria	94.9	20	Poland	50.3	46
Sweden	94.4	21	Peru	39.9	47
Germany	94.4	22	Romania	15.3	48
Spain	94.2	23	Turkey	7.9	49
Ireland	94.1	24	Brazil	0	50
Jordan	94.1	25	Russia	0	51
New Zealand	93.9	26			

Source: Cho, 2000:216

Appendix 9-23 Capital Resource Intra-Group Rankings

Page 217 From Adam Smith to Michael Porter

Main Factor Rankings

Country	Score	Rank	Country	Score	Rank
OECD (Organization for Economic Cooperation and Development)			Mexico	66.7	1
France	97.3	1	Poland	50.3	2
Japan	96.9	2	Turkey	7.9	3
Luxembourg	96.4	3	**1st NICs (Newly Industrialized Countries)**		
United Kingdom	96.2	4	Singapore	96.3	1
Norway	96	5	Hong Kong	95.4	2

Denmark	95.8	6	Taiwan	95.2	3
Netherlands	95.6	7	**2nd NICs**		
United States	95.6	8	Malaysia	95.3	1
Belgium	95.3	9	Thailand	92.3	2
Australia	95.3	10	Philippines	89.3	3
Switzerland	95.2	11	Indonesia	87.6	4
Finland	95.2	12	**LDCs (Less Developed Countries)**		
Canada	95	13	Panama	95.2	1
Korea	94.9	14	Jordan	94.1	2
Austria	94.9	15	Bangladesh	92.4	3
Sweden	94.4	16	Sri Lanka	88	4
Germany	94.4	17	Egypt	87.8	5
Spain	94.2	18	Pakistan	87.4	6
Ireland	94.1	19	South Africa	87.2	7
New Zealand	93.9	20	India	85	8
Iceland	93.4	21	Guatemala	74.4	9
Italy	92.2	22	Colombia	70.6	10
Portugal	90.8	23	Kenia	66	11
Czech Republic	84.1	24	Peru	39.9	12
Greece	82.8	25	Romania	15.3	13
Hungary	70	26	Brazil	0	14
			Russia	0	15

Source: Cho, 2000:217

Appendix 9-24 Development of corporate tax rate in Singapore

A company is taxed at a flat rate on its chargeable income. The tax rate for the respective year of assessment is as follows:

Year of Assessment (YA)	Tax rate	Tax exemption / rebate
2010 onwards	17%	**Partial tax exemption and tax exemption scheme for new start-up companies** Companies will continue to enjoy the partial tax exemption scheme and tax exemption scheme for new start-up companies as provided in YA 2008 and YA 2009. In addition, with effect from YA 2010, the tax exemption scheme for new start-up companies will be extended to include companies limited by

<table>
<tr><td></td><td></td><td>guarantee, subject to the same conditions.

Corporate Income Tax (CIT) Rebate and SME Cash Grant

For YA 2011, companies will be granted a 20% CIT rebate or a 5% SME cash grant, whichever is the higher amount. Click here for more information.</td></tr>
<tr><td>2008 and 2009</td><td>18%</td><td>Partial tax exemption for companies
Effective from YA 2008, a partial tax exemption is given to companies on normal chargeable income* (excluding Singapore franked dividends) of up to $300,000 as follows:

Exempt amount
<table>
<tr><td>First $ 10,000</td><td>@ 75%</td><td>= $ 7,500</td></tr>
<tr><td>Next $290,000</td><td>@ 50%</td><td>= $145,000</td></tr>
<tr><td>Total $300,000</td><td></td><td>$152,500</td></tr>
</table>

Tax exemption scheme for new start-up companies

Since YA 2005, a qualifying company can claim for full tax exemption on the first $100,000 of normal chargeable income* (excluding Singapore franked dividends) for its first three consecutive YA.

Effective from YA 2008, a further 50% exemption is given on the next $200,000 on a qualifying company's normal chargeable income* (excluding Singapore franked dividends).

The tax exemption for new start-up companies on chargeable income of up to $300,000 is as follows:

Exempt amount
<table>
<tr><td>First $100,000</td><td>@ 100%</td><td>= $100,000</td></tr>
<tr><td>Next $200,000</td><td>@ 50%</td><td>= $100,000</td></tr>
<tr><td>Total $300,000</td><td></td><td>$200,000</td></tr>
</table>

A company that does not qualify for a tax exemption for new start-up companies will be given partial tax exemption.</td></tr>
</table>

<table>
<tr><td>2005 to 2007</td><td>20%</td><td>Partial tax exemption for companies

For YA 2005 to YA 2007, a partial tax exemption is given to companies on normal chargeable income* (excluding Singapore franked dividends) of up to $100,000 as follows:

Exempt amount<table><tr><td>First $ 10,000</td><td>@ 75%</td><td>= $ 7,500</td></tr><tr><td>Next $ 90,000</td><td>@ 50%</td><td>= $45,000</td></tr><tr><td>Total $100,000</td><td></td><td>$52,500</td></tr></table>
Tax exemption scheme for new start-up companies

Effective from YA 2005, a qualifying company can claim for a full tax exemption on the first $100,000 of normal chargeable income* (excluding Singapore franked dividends) for its first three consecutive YA.

The tax exemption on the $100,000 chargeable income is as follows:

Exempt amount

First $100,000 @ 100% = $100,000

A company that does not qualify for tax exemption for new start-up companies will be given partial tax exemption.</td></tr>
<tr><td>2003 and 2004</td><td>22%</td><td>Partial tax exemption for companies

For YA 2003 and YA 2004, the tax exempt amount is the same as that for YA 2005 to YA 2007.</td></tr>
<tr><td>2002</td><td>24.5%</td><td>Partial tax exemption for companies

Effective from YA 2002, a partial tax exemption is given to companies on normal chargeable income* (excluding Singapore franked dividends) of up to $100,000. The partial tax-exempt amount is the same as that for YA 2005 to YA 2007.

Tax rebate

For YA 2002, a tax rebate of 5% on the gross tax payable (excluding tax on Singapore dividends and tax on income subject to final withholding tax)</td></tr>
</table>

		is given.
2001	25.5%	**Tax rebate** For YA 2001, a tax rebate on the gross tax payable (excluding tax on Singapore dividends and tax on income subject to final withholding tax) is given. The tax rebate is computed as follows: 50% on first tax payable of $25,500 5% on balance of tax payable in excess of $25,500 (i.e. gross tax payable less $25,500)

Source: IRAS, 2011

10 Curriculum Vitae

Persönliche Informationen	Geburtsort Geburtsdatum Staatsangehörigkeit	Saigon/Vietnam 15.7.1980 Deutsch
Internationale Ausbildung	10/2006-12/2006	Seminar über Private Vermögensverwaltung im Gutmann Zentrum für Portfolio Management in Kooperation mit Bank Gutmann
	8/2005 - 12/2005	Betriebswirtschaft an der SMU(Singapore Management University), Singapur
	Seit 10/2001	Internationale Betriebswirtschaft am BWZ (BetriebsWirtschaftsZentrum der Universität Wien) Hauptkurse: Finanzdienstleistungen, International Management, Chinesisch
	2000 - 2001	Zivildienst beim Malteser-Hilfsdienst e.V. Mönchengladbach/ Deutschland
	7/1999 – 8/1999	Chien-Tan Sprachinstitut für Überseechinesen in Taipei, Taiwan

	1991 - 2000	Math. Nat. Gymnasium, Abitur:2,3 (Mathematisch Naturwissenschaftliches Gymnasium) Mönchengladbach/ Deutschland
Internationale Praxiserfahrungen/ Praktika	Seit 9/2009	Produkt Manager im A1 Residential Small Business Marketing; hauptverantwortlich für A1 MEMBER, A1 COMPANY NETWORK, Auslandstelefonie
	1/2008 - 8/2009	Junior Produkt Manager im Business Marketing Voice bei Mobilkom Austria; Produkte: A1 MEMBER, XTRACARD PRO
	7/2007- 12/2007	Top Talent im Business Marketing Data bei Mobilkom Austria, Projekte: BlackBerry, Windows Mobile, Mobiles Internet
	30/4/2007- 3/5/2007	Teilnahme an der A1 Top Talent Competition (Assessment Center) in Portoroz/Slowenien organisiert durch die Mobilkom Austria
	8/2003 – 2/2007	Promotor für Mobilkom Austria in Wien
	8/2003 – 2/2007	Freier Dienstnehmer für Sellinnx GmbH in Wien, (Projekte: Esprit, Nikon)
	11/2005	AdAsia2005, Ehrenamtlicher Mitarbeiter für den 24. Asian Advertising Kongress in Singapur
	17/6/1996- 28/6/1996 und 10/1996	Betriebspraktikum in der Firma C.D. (Claude Dufour) Design GmbH in Mönchengladbach Kreativabteilung: Mustervorlagenentwicklung für Promotionartikel für Firmen wie Mannesmann, Maisel's Weisse Hemdenabteilung: Hemdenmuster für die Firma Van Laack
Soziales Engagement	1/2008	Moderater für das vietnamesische Neujahrsfest in Wien

	2/2004 – 10/2004	Moderation des Neujahrsfest 2004, 2008 in Wien und des Buddhistischen Oktoberfestivals in Wien
	3/2003-6/2003	Ehrenamtlicher Mitarbeiter für Care for Vietnam und Moderator für den Vietball 2003 in Wien, Wohltätigkeitsveranstaltung zu Gunsten behinderter Kinder in Vietnam

11 Abstract Deutsch:

Durch die Globalisierung wachsen die Regionalen Märkte zu einem Weltmarkt und internationale Unternehmen wagen Schritte in neue Gebiete, um ihre Produkte weltweit abzusetzen. Die Frage, mit welcher Strategie man dieses Neuland betritt und welche Vor- und Nachteile die jeweilige Strategie mit sich bringt, soll in dieser Arbeit erörtert werden. Das Zielland ist Singapur, ein kleiner Stadtstaat im Südost asiatischem Raum, welches trotz weltweiter Wirtschaftskrise viele Möglichkeiten verspricht. Für westliche Unternehmungen ist Asien nicht vergleichbar mit Europa. Es existieren andere Arbeitsweisen und große kulturelle Unterschiede. Vor allem gibt es den Guanxi Faktor in Ländern, wo Chinesen eine Mehrheit in der Bevölkerung darstellen, wie es in Singapur der Fall ist. Guanxi stellt eine Lebensphilosophie des „Netzwerkens“ dar, mit der man vieles leichter in Asien erreichen kann, um Ziele zu verwirklichen, wenn man die richtige Ansprechperson kennt. Diese Arbeit hilft, das Guanxi Konzept zu verstehen und zeigt an dem Praxisbeispiel der Firma TRUMPF (einem deutschen Maschinenhersteller), wie diese sich in einer Guanxi Umwelt zurechtfindet und mit welcher Eintrittsstrategie sie nach Markt in Singapur erobert haben.

12 Abstract English:

Due to globalization multinational corporations do not only intend to conduct business in their domestic markets but also in the world market. In order to do so, the company has to choose the right entry strategy for moving to new markets. The thesis is comparing the different entry modes and analyzing the pro and cons in the Singaporean context. Singapore as a small city state located in South-east Asia, offers an open free market for foreign investors and therefore a lot of business opportunities even during the global economical crisis. Western companies have to consider cultural differences and the existence of the Guanxi factor in Singapore, since Chinese people represent the majority of Singapore. With the help of Guanxi, it is possible to overcome obstacles by knowing the right person. This thesis elaborates the concept of Guanxi and shows how the Germany machine tool company Trumpf makes use of Guanxi and explains entry strategy for Singapore chosen by the German management.

Schlüsselwörter / Key words:

Singapore, Guanxi, Entry Strategy, Trumpf, Wholly Owned Subsidiary