

Aug 10, 2006

Big bucks in Shanghai services

But S'pore services companies heading for the 'gateway to the YRD' have plenty to consider first, says CHUANG PECK MING , THE BUSINESS TIMES

SHANGHAI'S fast transformation from a manufacturing hub into a service economy spells great business opportunities for Singapore companies, according to Ignatius Lim, International Enterprise (IE) Singapore's regional director for international operations.



In just 15 years, he points out, the share of primary, secondary and tertiary industry in Shanghai's gross domestic product has shifted from 4.3, 63.8 and 31.9 per cent respectively, to about 1.0, 48.8 and 50.2 per cent last year.

'Foreign investment in services in Shanghai, for the first time ever, exceeded manufacturing investments in 2005,' says Mr Lim, who is keen to encourage more Singapore ventures in eastern China.

Service industries such as transport and logistics, information technology, hotels and restaurants, finance, wholesale and retail, real estate, business services, education, and healthcare are becoming the pillars of Shanghai's economic development, he says. And Singapore companies, he notes, have 'developed strengths, expertise and capabilities' in some of these service sectors.

It's not just the promising services market of China's largest city that Mr Lim wants to draw attention to; there's also Zhejiang and Jiangsu next door, which are seeing more service imports and investments spilling over from their larger neighbour. Indeed, the two provinces have made the development of service industries their key priority.

Perhaps more important is Shanghai's location. While regarded as the citadel of China's modern economy and boasting the world's largest cargo port, Shanghai also sits on the banks of the booming Yangtze River Delta (YRD) in East China, where demand for services is expanding rapidly. A presence in Shanghai thus opens the door to many more opportunities in eastern China.

'Looking at the composition of our internationalising Singapore sectors and matching with the development trends and potential in YRD, we assess that the service sectors possess business opportunities for our companies to explore, as income growth and the secondary sectors in the region have matured to such an extent to demand such supporting services,' Mr Lim says. 'For the type of service sectors that can typically serve a hinterland from a key hub, such as business and professional services, and financial services, we assess that Shanghai, as the gateway to the YRD, is the obvious choice to set up shop.'

In the view of IE Singapore, which is spearheading Singapore's drive to go international, Singapore companies in the transport and logistics, vocational and technical education and healthcare management business stand a good chance of breaking into the markets in Shanghai and Jiangsu - thanks to the good track record they have built up.

Bigger Singapore companies in the transport and logistics sector, including PSA, NOL/APL, PIL/PIL Logistics, YCH and CWT, already have a presence there. Mr Lim says smaller and mid-sized players here, like 3PLs, can and should also seriously consider taking the plunge.

Rising incomes are driving Shanghainese to demand better healthcare, and Singapore companies like Parkway Holdings, International Medical and Dental Centre and VisionOne's FundaVision Clinic are already stationed in the city to tap this growing market. Demand for Singapore's healthcare services may get a boost next month, when Health Minister Khaw Boon Wan leads a mission organised by Singapore's Health Ministry and IE Singapore to Xiamen and Shanghai to showcase Singapore's expertise in this area.

Singapore's public education providers like the polytechnics and ITEs need not resort to such hard-sell tactics because, according to Mr Lim, they are already well-known in eastern China. So there should be no big hurdles to securing local partners or attracting potential students.

'Singapore companies such as PSB Academy and Raffles Education, which are currently in the Chinese market, are good examples for others to follow,' he says.

Building up a critical mass in a specific market or sector is one key element for the success of going international, according to Mr Lim. 'The Hong Kong and Taiwanese businesses know this best as concentration of resources gives them market leverage and a more knitted value chain. We have such a pre-requisite in the YRD region.'

He points out that Singapore now has about 2,000 projects each in Shanghai and Jiangsu under implementation - 'a valuable installed base or network for new market entrants venturing into the region'.

But venturing into the Yangtze River Delta will not be a piece of cake. 'The YRD is a keenly competitive market for most sectors, and this is due to its pre-eminence as an economic locomotive for China that accounts for a quarter of its GDP, despite having a much lesser proportion of the land area and population,' Mr Lim says.

Singapore companies will have to compete against both local Chinese and foreign players for a slice of the action there. And local competitors, the so-called privately-owned enterprises (POEs), are no pushovers, according to Mr Lim.

'Besides having cost advantage in most industries, they are also upgrading their technology very quickly,' he says. 'Most are very aggressive in their quest for internationalisation, moving overseas to seek their markets or resources.'

While some countries see these POEs as a threat, Mr Lim sees merit in allying with them.

Another challenge Singapore companies face in the YRD is their size and number, Mr Lim says. 'Our players are typically smaller in size and limited in number compared with their Chinese and foreign counterparts. As a result, they need to understand and overcome their limitations by working together as a value chain or banding together to secure projects.'

He says they should be thorough in their market research or ensure due diligence before making up their minds on what to do. 'The market often appears enormous on first look, but the addressable market space for your service offering may be much smaller after segmentation.'

While Shanghai is an exciting and dynamic market, Mr Lim says it is 10 times bigger than Singapore in size and its population four times larger. It is a huge cosmopolitan city that is well connected to its vast hinterland of Jiangsu and Zhejiang.

'We need a mindset change when dealing with such a market, and avoid treating it as a single market,' he says. 'Different districts in Shanghai have different development needs and focus, hence business operating requirements or conditions can be very different, given the same policy. Don't be surprised to see the same policy interpreted or implemented differently across different districts.'

So Singapore businessmen venturing into Shanghai must keep their mindset flexible. 'It is always safe to use an international business approach - that is, assume non-homogeneity of market when dealing with China,' says Mr Lim.