How Singapore Companies in Asean Manage Political Risk

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The Asian crisis served as a reminder to businessmen how fragile the world economic and political scene can be and how dangerous it was to base foreign direct investment decisions on optimistic perceptions of unending economic boom. Perceptions, whether or not they reflect actual realities in the business environment, play a very important role in the investment decisions of many corporations. This study examines the perceptions of decision-makers of Singapore companies operating in ASEAN. What are the sorts of factors that shape their perceptions and help them form a "gut feeling" about the quality of their investments? In particular this study looks at non-quantitative, non-market aspects of investment decisions, generally defined as political risk. Political risk is measured by an assessment of how managers perceive the sociopolitical conditions in the host country and the likely effect on the business climate.

Thus, we have attempted to reveal the relative importance of various factors associated with socio-political risk assessment for sample firms operating in ASEAN and the significance of particular risk factors. Likewise, we examined the risk assessment methods and risk management strategies used by Singapore-based companies.

Keywords: Globalization, Foreign direct investment, Political risk, Risk assessment

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I. Introduction

The Asian crisis forced many businesses to rethink the risks of their international investments as many regional and global players suffered unexpected losses. It also compelled governments and academics to question the benefits of globalization. A globally integrated economy increased the risk of contagion amongst countries as one after another Asian economy collapsed from the crisis. Political chaos came hand in hand with economic chaos as several Asian leaders were toppled. In Indonesia, foreign operations suffered even more hazards as a result of the escalating violence that followed the economic crisis.

The Asian crisis highlighted how fragile the world economy is and how unpredictable the foreign investment environment can be. Businesses and governments have to deliberate carefully before jumping on the globalization bandwagon. Firms investing in foreign countries cannot just depend on quantitative analysis of the risks and returns of their investments. They have to take into account qualitative factors as well, such as political and social dynamics. It is too easy for a business to invest in a country based on herd instincts and trends.

One of the factors that led to the Asian crisis was the over-optimism of investors over regional prospects after three decades of economic growth, which led to panic as over-pessimism then became the predominant sentiment. Perceptions thus play a very important role in the investment decisions of many businesses. Capital flows surge and dip based on investor perceptions of a particular economy, rational or not. Hence perceptions of decision-makers in business and financial institutions are a major deciding factor in how a country' s economy performs. After all, the actions of the International Monetary Fund (IMF) during the crisis were often designed with a priority to help investors regain "confidence" in the economy, and confidence is in turn based on perceptions.

II. The Concept of Political Risk

A. Globalization, FDI, Governments, and Political Risk

Governments obviously influence the flow of foreign direct investment (FDI) and hence the degree of globalization through trade and investment policies, legal systems and other administrative and political roles. Uncertainties about government policies create political risk.

As globalization has extended to more and more countries that had previously not experienced much foreign participation in their economies, political risk increases because less-developed economies often have insecure governments and unstable sociopolitical environments. For these polities, the balance of economic interdependence is a delicate issue. Even as the world becomes more like a global village, different national cultures, ideologies and aspirations continue to create potential conflicts. Governments are increasingly screening foreign investments. There are attempts to increase local participation. Most host governments accept the need for foreign investment but they increasingly want foreign investments on terms that maximize the contribution to national goals and minimize the threat to national sovereignty (Dunning 1993).

Less-developed countries are special in that their macroeconomic goals are more likely to emphasize a catch-up rate of growth, industrialization, increase in employment and repayment of heavy foreign debts. A new nation's political system may also be less developed and its central government still in need of legitimizing itself in face of ethnic, religious or other competing groups. Less developed countries are typically non-western countries whose historical and cultural legacies are likely to be very diverse. These factors can affect both the quality and stability of political institutions and the attitudes of multinational firms based in the industrial and ex-colonial West.

Furthermore, recent literature and forum discussions on the merits of globalization reflect increasingly the negative implications. International conferences like those held by UNCTAD and WTO have been dominated by expressions of concern from developing nations and other critics of the negative aspects of globalization. Foreign investors in a world becoming more cautious about globalization perceive political risks of a sudden reversal in government policies from longstanding hospitality to more cautious constraint.

B. Foreign Direct Investment: Factors That Affect FDI

The foreign direct investment (FDI) environment of a host country can be defined as the aggregate of the factors that motivate FDI, that influence the interactions of FDI firms and the host government, and that determine the absolute levels and the distribution of the net gains from FDI. The dynamics of the FDI environment spring from changes in that environment, especially change that is influenced by host government policies. The FDI environment must be analyzed in terms of interrelated economic, political and social factors (Erdilek 1985). The optimal environment for FDI is often perceived as one in which the host country is efficiently integrated with the international capitalist economy on terms favourable to private enterprise – mainly by offering stable economic, social and political conditions for growth of private investment and "free" markets (Lall and Streeten 1977).

Studies that have explored the influence of political instability on the flow of FDI fall into two groups. The first group consists of those that have collected data via contacting multinational corporations (MNCs) and inquiring about their foreign investment practices. Such studies have consistently found that executives considered host country instability to be a major deterrent in FDI project location decisions (Frank 1980; Green 1972; and Root 1968). The second group of studies has applied various statistical techniques to secondary data to understand the association between the flow of FDI and the events perceived to convey political instability (Fatehi and Safizadeh 1994). These studies of the actual record of country instability and FDI flows have yielded mixed results; some have found significant effects of political instability on FDI flows while others have not.

In any case, perceptions of political instability are likely to continue to affect investors' inclinations about undertaking FDI projects in particular countries or regions (Brewer 1993). The findings of survey-based studies indicate that MNCs consider the sociopolitical stability of the host country as one of the most important considerations in allocating funds to foreign projects. Results suggest an increase in the perceived level of political risk of investing in a country when symptoms of sociopolitical instability such as riots, demonstrations, strikes, assassinations, and the like emerge (Fatehi-Sadeh and Safizadeh 1989). This makes political risk the restraining force in the foreign investment decision-making process while return on investment is the driving force.

The effects of political instability on FDI are apparent in two ways. First, in potential host countries whose histories have been marked by chronic political instability, many investors have been deterred from undertaking projects. Second, even brief periods of governmental instability can cause interruptions in FDI flows as investors wait for a return to normalcy in the political system (Brewer 1993).

C. *FDI in ASEAN*

FDI flows to ASEAN in 1997, the year in which the financial crisis started, increased by 7% compared to the level achieved a year before. The crisis did not affect FDI flows as much as short-term capital flows and bank lending. The crisis thus put to the test the stability of FDI over other types of capital flows, and FDI did not leave the ASEAN host countries in a manner that initially many thought would be the case. Even if it did, the scale was small compared to the case of portfolio investment and other types of capital flows. Only two ASEAN countries experienced net dis-investment in 1998 with net outflow of $356 million and $1,429 million, respectively (ASEAN Secretariat 2000).

Despite the series of occurrences of global financial turbulence in 1997-8, world outward FDI flows grew by 36.6% from US $475.1 billion in 1997 to US $648.9 billion in 1998, surpassing significantly the growth rate of international trade of 3.5% in the same period (ASEAN Secretariat 2000). Part of the explanation might be that during 1997, 151 changes in FDI regulatory regimes were made by 76 countries, 89 percent of them in the direction of creating a more favourable environment for FDI (United Nations 1998). The principal determinants of the location of FDI were policy framework, business facilitation measures and economic factors (United Nations 1998).

Outward FDI flows from Japan and the Asian Newly Industrializing Economies (ANIES) were affected by the Asian financial crisis, and the economic situation in the region limited the contributions of these countries to the global FDI flows in the last two years. Out of US $760 billion FDI inflows to developing countries between 1993-8, developing Asia collected 54%. The distributions of FDI flows to ASEAN were concentrated in six countries which accounted for 98% of the $132.5 billion FDI flows to the region in the same period (ASEAN Secretariat 2000).

Direct investment originating from within ASEAN constituted a very significant share of the total FDI flows to the newer member countries, especially in the second half of the 1990s. An average of 30% of FDI flows into the four ASEAN newer member countries came from within the ASEAN region between 1995 and 1999. The geo-cultural proximity and affinity and the "experience effect" of ASEAN firms operating in other ASEAN countries can be credited for pushing ASEAN firms in one country to invest further in other ASEAN countries (ASEAN Secretariat 2000).

Available data on FDI in the newer member countries of ASEAN seems to suggest a strong manufacturing investment relationship between Singapore and Vietnam, Malaysia and Cambodia, and Thailand with Myanmar and Laos. Singapore is the largest overall investor in Myanmar. Among regional sources, FDI originating from Singapore accounted for more than 50% of the total intra-ASEAN investment in all sectors between 1995 and 1999 and in terms of approved intra-ASEAN manufacturing investment projects between 1990-8. The financial crisis however limited the ability of MNEs in ASEAN to continue to expand their operations and invest in regional countries leading to a marked decline in FDI flows in the newer ASEAN member countries in 1997 and 1998 (ASEAN Secretariat 2000).

The financial crisis of 1997-8 has affected FDI flows in ASEAN, but the depth of the impact on ASEAN's ability to attract FDI has not been as profound as initially expected. Available data indicates that FDI levels in the crisis period, although down, remains at a healthy level. Inward and outward FDI flows in ASEAN declined in 1998 in both relative and absolute terms. The crisis that affected the economic situation in the region has been the main driving force for the decline. In addition, the difficult financial and economic conditions in some of the major FDI source countries or economies, such as Japan, Taiwan, Korea and Hong Kong, further contributed to this development. Overall FDI flows to ASEAN in 1998 declined by 23% from US $27.8 billion recorded a year before. However the magnitude of the decline was considerably smaller than initially expected underscoring the point that direct investments behave differently from short-term capital flows (ASEAN Secretariat 2000).

D. Political Risk Assessment

As the external political environment became more important for MNCs, political risk assessment came to be recognised as an important managerial function (Shreeve 1985). Kobrin (1980) concluded for instance that "managerial concern with politics is not a temporary aberration" but rather a permanent feature of multinational business. The trend towards greater political sensitivity has been accelerated by the development of truly global firms (Kraar 1980).

The uncertainties in a foreign environment can be interpreted as political risk. Managers operate in the realm of uncertainty where knowledge of the complete set of outcomes associated with any event or decision and the ability to assign objective probabilities are virtually nonexistent. Uncertainty is itself subjective in the sense that the decision situation, including environmental events and their impact on the organization, cannot be defined objectively; the situation is as perceived by the decision-maker (Knight 1971).

Uncertainty exists not in the outside world but in the eye and mind of the beholder. Political risk is therefore subjective and it is a behavioral variable that is a function of individual and organizational perceptions rather than the objective environment (Simon 1976). Because of the importance of information processing and its effect on political risk, analyzing political risk should also focus on identifying where managers' perceptions of politically related risks seem to be distorted or biased. It is useful to find out what kinds of risks are most commonly exaggerated (or underestimated) and what particular components of organizational information processing systems tend to malfunction and lead to such misperceptions (Brewer 1985). Political risk analysts must be sensitive not only to the role of ideology in individual countries, but also to the dominant ideologies of the era, and to the structure of the international system and each country's place in it (Tschoegl 1985).

This approach towards political risk is seldom entirely satisfied in traditional political risk studies as can be seen from the ambiguity in the conceptualization and empirical analysis of political risk (see below). Hopefully this study can help to improve the information processing aspect of political risk assessment and management.

E. Political Risk: Definition

Many academics have attempted to describe political risk as a concept. One of the earliest conceptualizations of political risk came from Aharoni (1966) who argued that political risk includes "risks that are presumed to exist and these presumptions are based on a general image of a specific country in general." Risk is described in general terms and stems from ignorance, generalizations, projections of culture and standards to other countries and an unqualified deduction from some general indicator to a specific investment.

Political risk was also defined as the possibility of unanticipated discontinuities in the business environment affecting the corporation resulting from political changes (Robock 1971; and Thunell 1977). A later definition came from Kennedy (1987) who defined a political risk event as one that threatens a firm with a financial, strategic or personnel loss due to non-market forces. He observed that a political event in itself does not necessarily constitute a risk to business. Thus definitions of political risk that focus on environmental uncertainties or changes as such are misplaced. The trend in definitions and empirical analyses in political risk studies has been toward an emphasis on the potential impact on firms' interests. Political risk can have an economic, sociocultural or purely political source.

F. Political Risk: Previous Studies

Several interview-studies of company executives by Root (1968), Aharoni (1966), and Swansbrough (1972) demonstrated that political risk has been considered as one of the most important factors in deciding whether or not to invest in a foreign country. These studies also showed that systematic analysis and evaluations of these risks were rarely done.

Thunell's study in 1977 aimed to measure political stability as part of political risk and to analyze the relationship between that and the outcome of the investment decision process. Kelly and Philippatos (1982) did an extensive survey and analysis of the foreign direct investment decisions and practices of US multinational manufacturing corporations. On risk measurement and adjustments, the company responses indicated that companies considered a broad range of political risk factors including restrictions on operating and repatriation policies, in addition to the traditional emphasis on complete loss of a subsidiary due to expropriations or nationalization. The vast majority of companies did not employ the advocated methods to measure overseas risks. Nearly 84 percent of the companies used subjective methods to evaluate foreign business risks. One of the key concepts was that firms learn and those experiencing losses related to foreign risks would have developed and used more sophisticated risk evaluation methods than those which had not. Companies that had negative effects due to political changes overseas dominated in the use of political risk definitions and measurements.

Kobrin (1982) approached political risk assessment as a problem of managerial process. His specific subject was the assessment and evaluation of political environments abroad and the use of those assessments in strategic planning and decision making. Kobrin's study of managerial perceptions of political risk in 1982 revealed that political instability was the most important aspect of the political environment. In rating the importance of various information sources about overseas political environments, subsidiary managers were rated first.

Kennedy's study in 1987 showed that the type of political risk event that managers perceived to be most important to their company was related to firm characteristics and industry conditions. For instance, the more politically sensitive, vulnerable industries were the most likely to rate variables associated with macro, extra-legal risk as being highly important. Most industries indicated that legal/governmental kinds of risks had the greatest impact on their firms. Profit/exchange controls were also found to be the most significant risk event. Joint ventures are often used to reduce the firm's exposure or visibility. On sources of political risk information, the study showed that most firms collected data and assessments on political risk from overseas subsidiaries only on an ad hoc basis through routine, operational reports.

Most previous research papers on political risk have focused on companies based in the U.S. Of the few studies focused on the ASEAN region, Howell (1981) did a survey on ASEAN that described a method of risk assessment, presented the results for the members of ASEAN and provided a critique of the approach and the outcome. Alphonsus Chia's (1983/84) analysis of the political risk environment in ASEAN sought to identify the political risk and its causes as they pertain to the ASEAN countries. His aim was to find environmental factors that would evoke "rule-change" responses from the respective ASEAN governments. Another political risk related study on ASEAN by Tan Thiam Soon (1985/86) investigated the relative importance of political risk events as they affected the desirability of investing in the five countries of the ASEAN regional groups. His focus was on forecasting ASEAN political risk. His analysis also revealed that most companies did not carry out any systemic political-risk forecasting. Finally, Ivan Lim Ai Boon (1997/98) tried to identify a comprehensive and more reliable approach to assess the political risk of Hong Kong in its transition rather than relying on impressionistic observations or intuitive analysis. He compared and contrasted judgements of political risk as embraced by media sources and political risk consultancy firms with actual fluctuations of the Hang Seng Index.

None of these studies specifically looked into political risk perceptions, assessment and management of Singapore companies investing in ASEAN.

G. Political Risk: New Directions

Actually, much of the existing literature on political risk in the developing countries is outdated (Wells 1998). It has long focussed on expropriation although expropriation seems to have virtually disappeared. In 1975 there were 83 cases of expropriation and from 1981 to 1992, by one estimate, there were no more than 11 such cases (Minor 1994). Increasingly, obsolescing bargain has taken over expropriation as a source of risk that investors have to beware of, where firms with large fixed investments find the terms of their operating agreements changed, or renegotiated, once their operations are in place and have proved successful.

Another criticism of past political risk literature is an overemphasis on the negative implications of political risk. Managers should be concerned with foreign political opportunities as well as threats and political risk need not be concerned only with negative consequences for overseas operations. Past emphasis on negative political risk may be a culture-bound approach that has followed the assumptions of American business culture regarding the adversarial relation between government and business.

Numerous experiences of foreign investors in developing countries suggest that noncommercial risk is still to be reckoned with, implying that sources of political risk have changed. Yet, managers have tended to become lackadaisical in their evaluations of risk in developing countries because of the turn-around in attitude toward foreign investors in developing countries. The newly favorable attitudes on the part of host governments are the result of a number of changes. For one thing, most other sources of foreign capital have dried up. Also, host government officials have mostly been trained abroad and no longer harbour fears of manipulations by the foreign investors. Multilateral financial institutions are also pressing countries to be more open to FDI, and international agreements have comforted the foreign investor. Investors are reassured by prospects for broader international agreement on foreign investment, leading to today's optimism towards FDI and disregard for political risk assessment (Wells 1998).

However, many of the factors that led to expropriation in the past have not changed as much as it might appear. Nationalism and concern about foreign ownership do not seem to diminish with development. In their eagerness to promote reform, multilateral institutions and national aid organizations have certainly oversold many countries on their prospects of attracting foreign investment. As the inevitable disappointment and frustration set in, nationalism is likely to re-emerge in some countries (Wells 1998). Changes that are occurring in developing countries such as pollution, as well as income inequality brought about by liberalization and globalization, increase the likelihood that the foreign investor will be made a scapegoat. Therefore, despite investors' optimism, the old political risks have not entirely disappeared and new risks may have emerged.

The end of the Cold War has given increasing prominence to ethnic and religious tensions. Investors also face threats from local governments that are less constrained than the central government since they care little about the broad impact of their actions. Foreign investors can also become embroiled in international disputes. Expanding presence of organized crime in some countries, pressure from NGOs and the growing use of sanctions as a tool of foreign policy are also some of the new sources of risk faced by foreign investors (Wells 1998).

What makes matters worse is that managers are not prepared to face these political risks, old and new. There is a failure in many companies to incorporate the results of political risk analysis into corporate decision making because many executives view it as an ivory tower exercise (Stapenhurst 1992). A proposed investment can reach a stage where no one wants to hear of risks. Myths and buzzwords justify their confidence, and faith is placed in the hopes that safety will come because of the damage that government intervention would cause to the general investment climate. Managers often succumb to the enthusiasm of "investment champions" within the enterprise who push their pet projects. In fact, managers are often rewarded for closing deals with no adjustment for the risks those deals carry (Wells 1998).

Thus there still seems to be a need for greater attention to political risk assessment and management. Events like the Asian Crisis should help to renew managerial interest in political risk, elevating it from merely a superficial exercise to a serious component of FDI decision-making.

III. Research Methodology

In order to study perceptions of political risk by business decision-makers, questionnaires were mailed to the managing directors of Singapore-based companies that had regional investments.

A. Sample Selection Process

The main criterion for the sample selection was that the company had foreign direct investments in at least one of the ten ASEAN countries.

For purposes of this study, sample selection was restricted to companies incorporated in Singapore which also included holding companies with operations mainly outside Singapore. It seemed appropriate to delimit the sample of decision-makers to a relatively uniform (*i.e.*, Singaporean) mindset.

For a primary listing, a Singapore incorporated company has to have a paid-up capital of at least 15 million Singapore dollars and market capitalisation of at least $80 million. Hence, the sample constituted reasonably large and profitable companies (another criterion). The companies listed on the Stock Exchange of Singapore also were engaged in a wide variety of activities ranging from commercial and industrial to finance and property. Thus, the sample selected was representative of Singapore industry as a whole.

A large number of listed companies satisfied the main criterion by having subsidiaries in at least one ASEAN country. Some of the companies also had joint ventures or production facilities in at least one ASEAN country. A total of two hundred companies that satisfied the above criteria were selected and had the questionnaire mailed to their managing directors. Managing directors were obviously the most appropriate respondents because they would have an overview of their company's risk management strategies, risk assessment methods and qualitative factors considered before making a foreign direct investment. More importantly, they are critical decision-makers in a firm and their perceptions of political risk are the most relevant.

B. Design of the Questionnaire

The questionnaire has 3 sections. The first section covered the business operations climate and the second section dealt with socio-political aspects of the host country. The final section asked for some basic information on the company.

In the first question of the survey, twenty risk factors related to the business operations climate in a host country were listed. Respondents were asked to rate the importance of each risk factor using a Likert scale ranging from 1 (least important) to 5 (most important). Some space was also given at the end of the list for respondents to add other business environment risk factors that they found important.

The source of the list of risk factors came mainly from a study by Demirbag, Gunes, and Mirza (1998) and from BERI's Business Risk Service (BRS) user guide (1998). In the BRS user guide, there is a section on the operations risk index (ORI) that gauges the business operations climate. A list of criteria (see Table 1a) that has been used for over twenty years is used to forecast the ORI of a country. The 13 criteria in italics were the ones included in this survey.

The other 7 risk factors were taken from Demirbag, Gunes, and Mirza (1998): Extent of corruption, legal system of host countries, relations with trade unions, relations between government and

TABLE 1A

BERI'S BRS OPERATIONS RISK INDEX

Operations Risk Index Criteria	
Policy continuity	Enforceability of contracts
Attitude: Foreign investors and profits	*Labour cost/productivity*
Degree of privatization	Professional services and contractors
Monetary inflation	*Communications and transportation*
Balance of payments	*Local management and partners*
Bureaucratic delays	*Short term credit*
Economic growth	*Long term loans and venture capital*
Currency convertibility	

armed forces, host government's agreements and alliances with other countries, host government's attitudes towards foreign capital flows and proactive government in attracting FDI study of risk factors related to social and political aspects. The reason for classifying all these risk factors under business operations climate is that these factors directly affect the environment in which the firm is operating and affect the returns on investment more directly than socio-political risk. Some factors like policy continuity and bureaucratic delays were common to both the Demirbag, Gunes, and Mirza (1998) study and BERI.

The second question provided a list of 23 risk factors related to the socio-political conditions in a host country. Once again respondents were asked to rate each factor in terms of importance using the 5-point Likert scale. For this particular list, the factors were grouped into factors related to "politics," "society," "internal conflicts," and "external conflicts." This was done to help respondents organize the factors and assist them in rating these factors.

The source of socio-political risk factors again came from both the BERI Business Risk Service (BRS) User Guide and Demirbag, Gunes, and Mirza (1998) study. In the BRS user guide, political risk causes were listed under the political risk index (PRI) that focussed on socio-political conditions in a country (see Table 1b).

Table 1b
BERI's BRS Political Risk Index

Internal causes	External causes	Symptoms of political risk
Fractionalisation of the political spectrum and the power of these factions	Dependence on and/ or importance to a major hostile power	Societal conflict involving demonstrations, strikes and street violence
Fractionalisation by language, ethnic and/or religious groups and the power of these factions	Negative influences of regional political forces	Instability as perceived by nonconstitutional changes, assassinations and guerrilla wars
Restrictive (coercive) measures required to retain power		
Mentality, including xenophobia, nationalism, corruption, nepotism, willingness to compromise		
Social conditions, including population density and wealth distribution		
Organisation and strength of forces for a radical government		

Out of these political causes, the ones deemed most applicable to Singapore-based companies and used in the survey were the ones in italics. Most of these causes were also modified to suit the purpose of the survey.

The rest of the socio-political risk factors were either taken directly or adapted from those listed in a similar section in the Demirbag, Gunes, and Mirza (1998) study.

Like the other questions, the strategies listed in question 4 were also either taken from the Demirbag, Gunes and Mirza (1998) study or were a modification of their strategies for the management of political risk. The reason for using the Demirbag, Gunes and Mirza study as the basis of much of the survey was that the factors they used were representative of political risk studies in the past. A pilot study of 5 Singapore-based companies also showed that these factors were relevant to the companies that have investments in

TABLE 2A

DISTRIBUTION OF INVESTMENTS BY SAMPLE FIRMS IN ASEAN BY COUNTRY

	Frequency	Percentage
Malaysia	37	26.1
Indonesia	30	21.1
Thailand	28	19.7
Philippines	11	7.7
Brunei	4	2.8
Myanmar	11	7.7
Cambodia	4	2.8
Laos	2	1.4
Vietnam	15	10.6
Total	142	100

ASEAN. The respondents in the pilot study were asked to complete the questionnaire and comment on the applicability and appropriateness of the business operations risk factors, socio-political risk factors, risk assessment methods and risk management strategies. All 5 companies expressed their satisfaction with the survey.

C. Response Rate and Characteristics of Final Sample

Questionnaires were mailed to two hundred companies. Forty-six companies returned the fully completed the questionnaire. In terms of percentage, the response rate was 23%. Although the number of companies that responded was relatively small, in terms of the number of operations of the sample firms in the subject countries the sample seems quite satisfactory. All the ten ASEAN countries had received some form of foreign direct investment from the respondents and many of the responding companies had investments in more than one ASEAN country (see Table 2a).

The forty-six respondents were also representative of the industries in Singapore. A majority of them were from the industrial and commercial industries followed by representatives of the finance and property sectors (see Table 2b).

Most of the companies that responded had one hundred percent Singapore share ownership or at least a fifty-percent share

TABLE 2B
DISTRIBUTION OF SAMPLE FIRMS BY INDUSTRY

	Industrial and Commercial	Finance	Property	Total
Frequency	39	4	3	46
Percent	84.78	8.70	6.52	100

TABLE 2C
DISTRIBUTION OF SINGAPORE-BASED SAMPLE FIRMS BY SHAREHOLDING

Percentage of Singapore Ownership	Frequency	Percentage
40	3	6.5
60	3	6.5
65	4	8.7
70	3	6.5
75	2	4.3
80	2	4.3
85	2	4.3
90	2	4.3
100	25	54.3
Total	46	100

ownership. Only a minority of respondent firms had majority ownership of shares by non-Singaporeans (see Table 2c). However, this minority does not affect the results of the study because all 46 companies had headquarters offices in Singapore and all of them had investments in at least one ASEAN country, satisfying the criteria required of the sample.

IV. Research Findings

A. Business Operations Climate: Descriptive Statistics

Managers who had investments in ASEAN countries perceived "local management and partners" as the most important risk factor related to a host country's business operations climate (see Table 3a). The next three factors were "legal system of host countries," "currency convertibility," and "economic growth," all of equal importance. These factors indicate a managerial focus on the

TABLE 3A

IMPORTANCE OF RISK FACTORS RELATED TO THE HOST COUNTRIES' BUSINESS OPERATIONS CLIMATE (NUMBER OF CASES)

Risk factors (business operations)	1	2	3	4	5	Mean	SD	Rank
Local management and partners	0	0	7	24	15	4.17	0.68	1
Legal system of host countries	2	0	6	22	16	4.09	0.94	2
Currency convertibility	0	2	4	28	12	4.09	0.72	3
Economic growth	0	2	8	20	16	4.09	0.84	4
Host govt.'s attitude towards foreign capital flows	0	0	15	17	14	3.98	0.80	5
Labour cost	2	2	8	20	14	3.91	1.03	6
Continuity in the host govt. policies	2	0	11	25	8	3.80	0.88	7
Proactive govt. in attracting FDI	0	2	13	24	7	3.78	0.76	8
Communications and transportation	3	0	4	37	2	3.76	0.82	9
Monetary inflation	2	0	14	22	8	3.74	0.91	10
Labour productivity	2	3	12	20	9	3.67	1.01	11
Administrative red-tape	2	0	19	18	7	3.61	0.91	12
Relations with trade unions	2	0	26	12	6	3.43	0.89	13
Balance of payments	2	10	11	17	6	3.33	1.10	14
Extent of corruption	2	6	20	14	4	3.26	0.95	15
Host govt.'s agreements and alliances with other countries	2	8	18	14	4	3.22	0.99	16
Short-term credit	2	7	23	9	5	3.17	0.97	17
Relations between govt. and armed forces	5	6	17	16	2	3.09	1.05	18
Degree of privatization	7	4	20	13	2	2.98	1.09	19
Long-term loans and venture capital	7	8	16	10	5	2.96	1.21	20

Valid cases=46. Not all reasons were relevant to each case (The instrument used a Likert scale with 5 points ranging from least important to most important where 1=least important and 5=most important).

practicality of their investment. Managers appear to place emphasis on who they will be working with, suggesting evidently that interpersonal relationships with host country partners play an important role in investment decisions. Other practical concerns such as the legal system, currency convertibility and economic growth also reveal Singapore-based managers' down-to-earth mentality and their desires for a systematic and efficient business environment.

The risk factors ranked lowest in terms of importance were "long-term loans and venture capital," "degree of privatization," "relations between government and armed forces," and "short term credit." The lack of emphasis on loans and credit indicate that Singapore-based investors do not face a lack of funds, hence availability of credit is not a major factor of consideration in their investment decision making. More general and macro-risk factors like the "degree of privatization" and "government and armed forces relations" also do not feature prominently among Singapore-based investors who appear to prefer more micro and specific risk factors.

B. Business Operations Climate: Factor Analysis Results

Five main factors were extracted accounting for 79.9% of the total variance. Factors generated by the principal component process were reasonably well grouped. There was no instability in the pattern of component loadings though the ratio of observations to variables was lower than the 4.0 figure suggested by Hair (1998). Three of the original variables, "relations between government and armed forces," "host government's alliances with other countries," and "balance of payments" were eliminated from the factor analysis because their measure of sampling adequacy (MSA) values were less than the required 0.5, indicating their inappropriateness for factor analysis. Inconsistency in the respondents' ratings could have contributed to their elimination.

The five main factors (as presented in Table 3b) were labeled based on the dominant variables supporting each factor.

Factor 1: Issues related to host government (23.9% of the total variance)

Factor 2: Economic and cost issues (19.9% of total variance)

Factor 3: Infrastructure and production issues (13.8% of total variance)

Factor 4: Financial issues (12.4% of total variance)

Factor 5: Local management issues (9.9% of total variance)

C. Political Aspects: Descriptive Statistics

The most important political risk perceived by managers was the "danger of expropriation of assets" (see Table 4a). This is an unusual perception considering that since the Iran crisis in the 1970s, there have been very few cases of assets belonging to

TABLE 3B

FACTOR ANALYSIS: UNDERLYING DIMENSIONS OF THE BUSINESS OPERATIONS CLIMATE

Risk Indicators (business operations)	Princi-pal 1	Compo-nents 2	3	4	5	Eigen-value
Issues related to host government						4.067
Host govt.'s attitude towards foreign capital flows	0.907					
Continuity in the host govt. policies	0.856					
Extent of corruption	0.746					
Proactive govt. in attracting FDI	0.640					
Relations with trade unions	0.603					
Labour cost	0.563					
Legal system of host countries	0.552					
Economic and cost issues						3.388
Monetary inflation		0.912				
Administrative red-tape		0.785				
Labour cost		0.650				
Short-term credit		0.575				
Relations with trade unions		0.524				
Legal system of host countries		0.500				
Infrastructure and production issues						2.342
Communication and transportation			0.904			
Labour productivity			0.698			
Degree of privatization			0.656			
Financial issues						2.111
Economic growth				0.785		
Long-term loans and venture capital				0.699		
Short-term credit				0.532		
Local management issues						1.681
Local management and partners					0.881	
Currency convertibility					0.592	
% of Variance (per factor)	23.92	19.93	13.78	12.42	9.89	

N=46, KMO=0.562, Total explained variance=79.94%

Bartlett's Test of Sphericity=697.328, Significance=0.000

TABLE 4A

IMPORTANCE OF RISK FACTORS RELATED TO THE HOST COUNTRIES' POLITICAL ASPECTS (NUMBER OF CASES)

Risk factors (political)	1	2	3	4	5	Mean	SD	Rank
Danger of expropriations of assets	0	0	10	16	20	4.22	0.79	1
Constraints on cross-border capital flows	0	0	9	26	11	4.04	0.67	2
Constraints on cross-border flows of merchandise	0	2	8	23	13	4.02	0.80	3
Restrictive (coercive) actions of govt.	2	2	18	12	12	3.65	1.06	4
Nationalist trends	2	4	16	22	2	3.39	0.88	5
Pressures from local govt.	2	8	11	22	3	3.35	0.99	6
Labour standards (working conditions)	2	4	19	19	2	3.33	0.87	7
Political ideology of host country	2	8	14	20	2	3.26	0.95	8
Fractionalization of political spectrum	2	6	17	21	0	3.24	0.85	9
Constraints on cross-border human resources	0	10	17	17	2	3.24	0.85	10
Pollution regulations	2	6	30	8	0	2.96	0.70	11

Valid cases = 46. Not all reasons were relevant to each case (The instrument used a Likert scale with 5 points ranging from least important to most important where 1 = least important and 5 = most important).

foreign investors being expropriated by host governments. However, this perception might have been reinforced by the 1998 Indonesian riots where protestors stormed many factories and warehouses and took over the assets of local as well as foreign investors. An incident in Bintan, Indonesia, in January 2000 coincided with the conduct of our survey, which may have increased managers' immediate concern over expropriation threats. Investors with assets in Bintan Industrial Estate owned by Singapore's Sembawang Corporation faced dissatisfied local residents who turned off the power supply to the industrial park, forcing all factory production operations to stop. These demonstrators also threatened to confiscate property belonging to foreign investors (many of whom were based in Singapore) if their demands for more compensation were not met.

Constraints on cross-border capital flows and flows of merchandise ranked second and third respectively in importance. This may reflect the problems managers faced when Malaysia initiated capital controls in late 1998. Interestingly, cross-border constraints on human resources were not viewed by managers to be as important as the other two constraints mentioned above, probably because people movement is fairly liberal in ASEAN and there have been no very sudden policy changes in that area.

The least important political risk factor turned out to be pollution regulations. Singapore-based managers apparently do not view pollution regulations as a concern.

Other more general political risk factors such as the "political ideology of the host country" and "fractionalization of political spectrum" were also not considered very important factors impinging on investment decisions. This seems to indicate that Singapore-based investors are quite pragmatic in their decision making process. They are less concerned about the political ideology of the host country because ideological division is minimal in Asia. Rather, they focus on more practical concerns that have a direct impact on their returns to investment such as expropriation of assets and constraints on cross-border capital flows and merchandise.

D. Political Aspects: Factor Analysis Results

Three underlying factors were generated from principal component analysis (see Table 4b). These factors accounted for 68.4% of total variance. Since all the variables had MSA values of 0.5 and above, no variables were taken out of the analysis.

Factor 1: Labour issues and political environment (32% of total variance)
Factor 2: Local political issues (18% of total variance)
Factor 3: Issues related to trade and property (17% of total variance)

E. Social Aspects: Descriptive Statistics

Among the social risk factors listed in Table 5a, managers indicated that they found "civil war" and "strikes" the most important risk factors, followed by "street violence," "assassinations," and "demonstrations." Again, the importance placed on these forms of social unrest in ASEAN host countries could be the result of recent social problems in ASEAN, particularly in Indonesia where civil wars broke out within islands like Ambon and East Timor. Such social risk factors not only disrupt the operations of investments in the affected host countries, investors often have to

TABLE 4B

FACTOR ANALYSIS: UNDERLYING DIMENSIONS OF POLITICAL ASPECTS

Risk Indicators (political)	Principal 1	Components 2	3	Eigenvalue
Labour issues and political environment				3.559
Labour standards (working conditions)	0.914			
Nationalist trends	0.874			
Restrictive (coercive) actions of govt.	0.831			
Political ideology of host country	0.663			
Pollution regulations	0.537			
Fractionalization of political spectrum	0.518	0.508		
Local political issues				2.006
Constraints on cross-border human resources		0.687		
Pressures from local government		0.639		
Issues related to trade and property				1.961
Constraints on cross-border flows of merchandise			0.861	
Danger of expropriation of assets			0.773	
Constraints on cross-border capital flows			0.690	
% of Variance (per factor)	32.35	18.24	17.83	

N=46, KMO=0.631, Total explained variance=68.419%,
Bartlett's Test of Sphericity=274.904, Significance=0.000

pull their staff out of hostile environments as well as incurring further financial and emotional costs. Hence, for managers investing in ASEAN, the immediate risks of civil wars and strikes is perceived as more important than risk factors like "wealth distribution," "population density," and "fractionalization by language, ethnic and/or religious groups" which have a longer-term and more indirect effect on social stability.

F. Social Aspects: Factor Analysis Results

Three main factors were extracted from the data (see Table 5b) and accounted for 76.9% of total variance. Since all the variables had MSA values above 0.5, all were retained in the analysis.

Factor 1: National and international instability (32% of total variance)

TABLE 5A
IMPORTANCE OF RISK FACTORS RELATED TO THE HOST COUNTRIES' SOCIAL ASPECTS (NUMBER OF CASES)

Risk factors (social)	1	2	3	4	5	Mean	SD	Rank
Civil war	0	2	4	12	28	4.43	0.83	1
Strikes	2	0	2	14	28	4.43	0.93	2
Street violence	2	0	2	16	26	4.39	0.93	3
Assassinations	2	6	4	10	24	4.04	1.25	4
Demonstrations	2	0	10	18	16	4.00	0.99	5
Conflicts between host and regional govt.s	0	4	11	14	17	3.96	0.99	6
Civil strife in regional countries	4	2	11	14	15	3.74	1.22	7
Conflicts between host and international govt.s	0	6	9	24	7	3.70	0.89	8
Conflicts between host govt. and international institutions	2	2	11	26	5	3.65	0.90	9
Fractionalization by language, ethnic and/or religious groups	2	12	13	19	0	3.07	0.93	10
Population density	2	10	24	10	0	2.91	0.78	11
Wealth distribution	2	24	16	4	0	2.48	0.72	12

Valid cases=46. Not all reasons were relevant to each case (The instrument used a Likert scale with 5 points ranging from least important to most important where 1=least important and 5=most important).

Factor 2: Prevailing internal social instability (23% of total variance)

The social instability featured here indicates a social situation in a host country that is definitely unstable. "Strikes" and "street violence" are instant signs that social cohesion in the host country has unraveled. They are of a greater severity than variables under the next factor "potential internal social instability" because strikes and street violence indicate social unrest that is already out of control. "Fractionalization by language, ethnic and/or religious groups" is less correlated to this factor implying that it is not as severe as the first two variables but of greater impact on social instability than the variables under factor three.

TABLE 5B

FACTOR ANALYSIS: UNDERLYING DIMENSIONS OF SOCIAL ASPECTS

Risk Indicators (social)	Principal 1	Component 2	3	Eigenvalue
National and international instability				3.943
Conflicts between host and international govt.s	0.891			
Conflicts between host and regional govt.s	0.876			
Conflicts between host govt. and international institutions	0.779			
Civil strife in regional countries	0.778			
Civil war	0.713			
Absolute internal social instability				2.767
Strikes		0.853		
Street violence		0.819		
Fractionalization by language, ethnic and/or religious groups		0.670		
Potential internal social instability				2.527
Wealth distribution			0.771	
Population density			0.731	
Assassinations			0.687	
Demonstrations		0.622	0.645	
% of Variance (per factor)	32.86	23.06	21.06	

N=46, KMO=0.775, Total explained variance=76.981%,
Bartlett's Test of Sphericity=503.278, Significance = 0.000

Factor 3: Potential internal social instability (21% of total variance)

These variables act as potential sources of internal social instability because they only indicate a potential for unrest and do not in themselves represent an unstable social environment. The variables do not directly translate into a host government loss of control over social stability nor a mass challenge of authority. Assassinations do not indicate a majority civil dissatisfaction and demonstrations are not as severe as strikes and street violence since demonstrations can be peaceful and non-violent.

G. Importance of Risk Management Strategies: Descriptive Statistics

Earlier, managers were asked to give their opinions on risk assessment methods. In this section, they were asked to rate the importance of risk management strategies. As presented in Table 6a, managers rated "joint venture with host country firm" as the most important strategy followed by "selecting host nationals as managers" and "close relations with host government." It is possible that managers feel that the host country firm, being more familiar with the local environment, would be able to help the Singapore partner predict and deal with political risk in the host country.

Good relations with the host government might also make host governments more sympathetic towards foreign investors especially in a crisis. For instance, in the standoff between Bintan residents and Singapore investors operating in Bintan Industrial Estate, investors were able to solve the problem because of support from the central government in Jakarta who sent more soldiers and policemen to deal with the protestors. Such support seems much more likely when the investor has good relations with the host government.

Managers from Singapore also appear to dislike interfering with political matters in the host country of their investment. "Contributing to host government's election campaigns," a strategy often used in USA and other countries, is perceived as the least important strategy by Singapore managers. This may be a reflection of Singapore's political environment where politicians are expected to be pro-business anyway. Managers also appear to prefer to retain equity control of their foreign investments. Little importance is placed on "transfer of majority shares to local partners." They see a difference between relinquishing equity control and employing locals as managers. Singapore managers probably feel that giving majority shareholding to local partners does not help to manage risk.

TABLE 6A
IMPORTANCE OF RISK MANAGEMENT STRATEGIES (NUMBER OF CASES)

Risk management strategies	1	2	3	4	5	Mean	SD	Rank
Joint venture with host country firm	0	5	12	25	4	3.61	0.80	1
Selecting host nationals as managers	0	6	12	23	5	3.59	0.86	2
Close relations with host government	0	6	15	25	0	3.41	0.72	3
Increasing size of operation	2	0	22	22	0	3.39	0.71	4
Transfer of management to local partner	4	11	20	7	4	2.91	1.05	5
Limiting capital repatriation	4	10	19	13	0	2.89	0.92	6
Joint venture with host govt. enterprise	7	6	18	15	0	2.89	1.04	7
Joint venture with third country firm	5	10	22	7	2	2.80	0.98	8
Joint venture with S'pore govt. enterprise	7	12	12	15	0	2.76	1.08	9
Not insisting on initial concessions	4	9	28	5	0	2.74	0.77	10
Transfer of majority shares to local partners	8	15	14	5	4	2.61	1.16	11
Contribute to host govt.'s election campaigns	15	4	20	7	0	2.41	1.11	12

Valid cases=46. Not all reasons were relevant to each case (The instrument used a Likert scale with 5 points ranging from least important to most important where 1=least important and 5=most important).

H. Importance of Risk Management Strategies: Factor Analysis Results

Four factors that accounted for about 83% of total variance were extracted from the data. No variables were taken out of the original set of variables.

Factor 1: Diversification strategies (26% of total variance)

These variables can be classified as strategies that help to spread the risks of FDI amongst different parties such as with a third country firm or a Singapore government enterprise.

TABLE 6B

FACTOR ANALYSIS: UNDERLYING DIMENSIONS OF THE IMPORTANCE OF RISK MANAGEMENT STRATEGIES

Risk management strategies	Principal Components 1	2	3	4	Eigen-value
Diversification strategies					3.146
Transfer of management to local partner	0.881				
Transfer of majority shares to local partners	0.880				
Joint venture with third country firm	0.765				
Joint venture with S'pore govt. enterprise	0.626				
Strategies related to host government politics					2.908
Not insisting on initial concessions		0.871			
Limiting capital repatriation		0.866			
Contribute to host govt.'s election campaigns		0.841			
Increasing size of operation		0.638			
Strategies to enhance relationship with host government					2.145
Close relations with host government			0.912		
Joint venture with host country firm			0.763		
Joint venture with host govt. enterprise			0.697		
Local operational strategies					1.794
Selecting host nationals as managers				0.919	
Increasing size of operation				0.556	
Joint venture with S'pore govt. enterprise				-0.508	
% of Variance (per factor)	26.21	24.24	17.88	14.95	

N=46, KMO=0.524, Total explained variance=83.27%,
Bartlett's Test of Sphericity=446.256, Significance=0.000

Factor 2: Strategies related to host government politics (24% of total variance)

The three dominant variables are related particularly to negotiations with the host government.

Factor 3: Strategies to enhance relationship with host government (18% of total variance)

These strategies help to improve the relationship between the investing firm and the host government either through developing good relations or by involving the host government through joint ventures.

Factor 4: Local operational strategies (14.9% of total variance)

"Joint venture with Singapore government enterprise" is negatively correlated to this factor probably because any associations with the Singapore government would not help integrate operations with the local environment.

I. Risk Assessment and the Asian Crisis

Having asked managers in Singapore to rate the importance of various risk assessment methods, it was appropriate to conclude this study by asking them how effective these methods were in reality, especially whether it helped them reduce the exposure of their ASEAN investments to the negative effects of the Asian crisis that began in 1997.

Table 7a reflects the level of confidence managers have in their own risk assessment methods. Nearly 80% of the respondents selected numbers 3, 4 or 5, indicating that their risk assessment methods were of average or better helpfulness. None indicated that they benefited only "very little" from their risk assessments (number 1). However, out of that 80% of managers who indicated some confidence, only 8.7% indicated that they benefited very greatly. Most respondents (52.2%) felt that the extent to which their risk assessment methods helped was average; another fifth felt that their methods helped quite a lot. It seems managers are ambivalent about the value of their risk assessment methods. All indicated

TABLE 7A

EXTENT RISK ASSESSMENT METHODS HELPED

	1-very little	2	3	4	5-very great
Frequency	0	9	24	9	4
Percent	0	19.6	52.2	19.6	8.7

TABLE 7B

EXTENT PERCEPTION OF THE IMPORTANCE OF RISK ASSESSMENT IN THE FIRST PLACE CHANGED AS A RESULT OF THE ASIAN CRISIS

	1-very little	2	3	4	5-very great
Frequency	4	12	22	6	2
Percent	8.7	26.1	47.8	13.0	4.3

that it helped, but few felt that it helped much.

Managers were also asked whether their perception of the importance of risk assessment in the first place changed as a result of the Asian crisis. One might expect managers to place greater importance than before on risk assessment after the Asian crisis because of the damage the crisis wrought on many foreign investments in ASEAN. However, as seen in Table 7b, most managers indicated that their perception of the importance of risk assessment has not changed much from their initial perceptions even after the crisis. The perception of about 35% of respondents changed little from before, while about half of the respondents felt that their perception changed only moderately as a result of the Asian crisis. Less than 20% of the respondents felt that their perception of the importance of risk assessment changed greatly as a result of the crisis.

Two possible reasons might explain this lack of change in the perception of the importance of risk assessment. Firstly, manager's initial perception of the importance of risk assessment might have been high to begin with, hence even after the Asian crisis, their perception of risk assessment's importance is still as high as before. Secondly, managers might feel that the Asian crisis has shown them how difficult it is to assess risk accurately and hence risk assessment had been only marginally useful in predicting risks in ASEAN countries. Paradoxically therefore, they do not find the

TABLE 7C
EXTENT RISK MANAGEMENT STRATEGY HELPED TO REDUCE EXPOSURE TO THE ASIAN CRISIS

	1-very little	2	3	4	5-very great
Frequency	2	6	21	15	2
Percent	4.3	13.0	45.7	32.6	4.3

importance of risk assessment any greater after the Asian crisis. However, the first reason is supported by the evidence in Table 7a which already indicated that managers in Singapore found that their risk assessment methods were effective in reducing their exposure. Hence, they feel that they have already protected themselves well from risk exposures in ASEAN countries and there is no need to increase the importance they have placed on risk assessment in the first place.

J. Risk Management and the Asian Crisis

The respondents were not only asked about the effectiveness of their risk assessment methods, they were also asked whether their risk management strategies helped to reduce their exposure to the negative effects of the Asian crisis. As seen in Table 7c, most of the managers felt that their risk management strategies did help. Only 17.3% of managers surveyed felt that their risk management strategies offered minimal help. A significant 36.9% of them felt that their risk management strategies helped greatly while another 45.7% of them felt that their risk management strategies helped them reduce their exposure to the Asian crisis to an average degree.

It appears that overall, managers in Singapore are quite pleased with their risk assessment and risk management strategies and found them reasonably effective in reducing their exposure to the negative effects of the Asian crisis. Because of the success of their risk assessment methods, managers do not see an overwhelming need to change their opinion of the importance of risk assessment, preferring to maintain it at the current level. The results also show that managers in Singapore have been able to handle the problems brought about by the Asian crisis well because of good risk management tactics.

K. Summary

This study examined the perceptions of decision-makers in Singapore companies operating in the region. In particular the study researched non-quantitative, non-market aspects of investment decisions, generally defined as political risk.

First, concerning what Singapore investors look into to indicate risk levels in the ASEAN countries, various factors shape their perceptions and help them form a "gut feeling" about the quality of their investment. Local partners and managers are especially influential.

Political risk was determined by an assessment of how the sociopolitical conditions in the ASEAN host country affected the business climate. As in most such studies worldwide, the most important risk was perceived to be expropriation of company assets, despite the fact that there were no recent instances of this risk manifesting itself in reality. A plant takeover by striking laborers in Indonesia (case cited earlier) was perhaps the closest to such confiscation of assets. Management perceptions seem to focus on the worst-possible scenario whether or not there is a realistic likelihood of expropriation actually happening.

Constraint on cross-border capital flows was also perceived to be an important risk, which was did indeed come to fruition when Malaysia imposed capital controls in September 1998. Civil war and street violence were also perceived to be important risk factors in ASEAN, and indeed many businesses did suffer heavy costs from social unrest.

The favorite strategies to counter such risks were joint ventures with local firms, employing local management and developing good relations with the host government.

Companies based in Singapore were appropriate for this study for several reasons. Firstly, Singapore was at the eye of the storm during the Asian crisis. Geographically, economically and politically, Singapore was at the centre of the Asian crisis action and reaction. Secondly, many businesses in Singapore, both local companies and foreign subsidiaries, have extensive investments in the ASEAN countries. This is because of Singapore's central location and its role as a regional hub for many multinational enterprises. Thirdly, Singapore's government has always encouraged local and foreign companies to invest globally or regionally. Thus during the Asian crisis, even though Singapore's economic fundamentals were sound, the economy still suffered from the contagious effects of the crisis due to its exposure to regional bankruptcies and debts. This study ascertained the formal risk assessment methods Singapore-based companies utilize. It also investigated the various strategies these companies have for the management of political risk.

L. Limitations

There are a few limitations to this study. Firstly, the study does not differentiate perceptions amongst different ASEAN countries. It assumes that managers take a general viewpoint of ASEAN countries as a whole and not as individual countries. This generalisation of ASEAN countries is unavoidable because the study focused primarily on the issue of political risk management by Singapore firms investing in ASEAN in general. To study the countries individually is beyond the scope of this survey, but this would be a worthwhile purpose for further exploration.

Secondly, if the investments made by the companies surveyed happened many years ago, it is possible that the respondent was not with the firm then or no longer remembers what the perceptions were at that time. The possibility that the firms made investments over several time periods and countries was also not taken into account. Perceptions of Singapore investors delineated in this study therefore do not really have a specific time frame but reflect attitudes formed over time and influenced by events. The Asian crisis of 1997/98 therefore is only the most recent significant influence and anyway does not seem to have changed management perceptions about the question of political risk.

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