



# CHINESE ENTREPRENEURSHIP AND ASIAN BUSINESS NETWORKS

edited by Thomas Menkhoff and Solvay Gerke

## CHINESE ENTREPRENEURSHIP AND ASIAN BUSINESS NETWORKS

This volume examines the business behavior of ethnic Chinese entrepreneurs in the People's Republic of China, Vietnam, Malaysia, Singapore, Indonesia and Australia whose business acumen and network connections (*guanxi*) have aroused great admiration and sometimes envy and discomfort. The book tries to dispel some of the (culturally biased) misperceptions about the business conduct of the ethnic Chinese in East and Southeast Asia such as their homogeneity, tribal image and socioeconomic exclusivity, the idea of Greater China as an exclusive, transnational Chinese business circle both within and outside China etc. It also illustrates the challenges, which the rapidly progressing integration of East and Southeast Asia's market cultures into the global market system pose, for ethnic Chinese entrepreneurs, their family businesses, conglomerates and network ties.

The contributors comprise sociologists, anthropologists, political scientists, economists and geographers from Germany, Denmark, the Netherlands, the United Kingdom, Singapore, Malaysia, Australia and the USA – all leading scholars on ethnic entrepreneurship, the Chinese overseas and Chinese (business) affairs in East and Southeast Asia. Most of the case studies are based on solid, in-depth empirical research and will prove extremely useful for anyone wishing to understand what makes Chinese network capitalism tick and why it will continue to be a critical force of Asia's great transformation.

Due to its reflective agenda and multi-disciplinary approach, this book will be essential reading for those interested in East and Southeast Asia, development studies, Chinese (ethnic) entrepreneurship, business networks, management as well as socioeconomic change.

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## PREFACE

While trying to understand an object of inquiry be it a person, an ethnic group, a community or, in the case of this book, a Chinese business network, the social scientist typically begins by looking inside the object to discover its essence and then attributes its conduct, an outside manifestation visible to the observer, to such essence. We understand the externals by probing the internals – thus the strain, for example, to attribute Chinese entrepreneurship and business success (and, recently, failure) to culture, the so-called “supply side” of ethnic entrepreneurship (Chan Kwok-bun and Ong Jiu Hui 1999), be it ethnic solidarity, cultural values, ethnicity, and so on. In the field of Chinese immigrant entrepreneurship and business networks, this emphasis on culture is not without its critics. Two recent books, one in 2001 edited by Edmund Terence Gomez and Michael Hsiao Hsin-Huang (2001), and the other by myself in 2000 (2000), attempt a theoretical corrective of this emphasis on culture by advocating an added sensitivity to structure and context, the so-called “demand side” of ethnic business. Such a corrective, not surprisingly, proceeds by identifying the many myths and misconceptions of Chinese business networks in specific and Chinese immigrant entrepreneurship in general – and de-constructs them, piece by piece. The field is now in what Liu Hong (forthcoming) calls a “revisionist” mood – that of deconstruction, de-mystification, or de-glamorization of a “romance of ethnic Chinese business,” if there is such a thing. The present volume edited by Thomas Menkhoff and Solvay Gerke joins the camp of the revisionists. This itself excites the field – a true witness to science being cumulative, self-reflexive and self-corrective.

Rarely a cultural or a structural explanation of any social object suffices by itself. In fact, Waldinger way back in 1984, some eighteen years ago, put forward an *interactive* explanation based on a series of industry case studies in New York – an outgrowth of a desire to integrate or fuse culture with structure, ethnic resources with opportunity structure, “supply” with “demand.” In this approach, the demand for ethnic business and the supply of skills and resources *interact to produce* ethnic entrepreneurship, thus pointing to the artificiality of an either/or explanation of whether culture or structure shapes the trajectory of economic achievement. From the viewpoint of the process and history, culture and structure are often in a continuous dialectical interplay, thus nullifying any

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attempt to make a sharp division between the two. History articulates the dialectics of culture and structure. Without over-emphasizing it, there is a need to learn to think about the whole field dialectically. Of course, such a view is not new. It is a throwback to Yancey's (1976) idea of "emergent ethnicity." Ethnicity, if indeed useful to business, is typically "manufactured" in the host society rather than imported wholesale from the place of departure. Culture and, for that matter, identity, is rarely transplanted as is, but rather reproduced and produced, deconstructed and constructed, in exploitation of structural advantages as well as in adaptation to contextual constraints. Identity is often identity in context, *in situation*. Identity is about adaptation. Indeed, again thinking dialectically, we are better off focusing our analytical gaze at the exterior conduct of Chinese enterprises while doing their business in full view of the social milieu. In other words, their strategies as business conduct, or as what Giddens (1976) calls the "dialectic of control." This gaze at the exteriors has the promise of liberating us from the "black box of culture." At the very least, culture should be seen as a small culture, a much trimmed down fellow. Emergent immigrant culture is culture adapted. Dialectical thinking requires the researcher to be concerned with doing, not being. Ethnic entrepreneurship should always be seen as a social, collective response to structural constraints. Metaphorically, Chinese entrepreneurship is like a "toolbox," ever resourceful, always replenishing itself – one pulls out a tool depending on the requirements of the situation, but without necessarily abandoning the other tools.

Two things characterize the ethnic Chinese overseas: their subjection to discrimination and their over-representation (relative to the local people in the place of destination) in self-employment and entrepreneurship. There is in fact a good empirical literature that attempts to link the two phenomena. Among other things, in the future one may want to approach studies of Chinese business networks by *bringing back* into mainstream social science, research: on prejudice and discrimination, which has a rather long history in sociology and psychology; on economic sociology, which is relatively new; and, perhaps most significantly, on the sociology and psychology of race and ethnic relations – where there is an abundance of deep social theory as well as creative methodology. For example, the daily dilemmas of the Chinese in Southeast Asia do remind us of Georg Simmel's (1908) "stranger?" So close, yet so far away. The unity of nearness and farness, social distance and intimacy, is organized within the existential condition of Georg Simmel's stranger or Robert Park's (1928) marginal man. It is no wonder the ethnic Chinese entrepreneur is liked and disliked at the same time. This position of ambivalence is the Chinese's weakness as well as their strength, their fate as well as their choice, a deep paradox indeed. The point stressed here is to be diligent in avoiding the marginalization of research on Chinese business networks. Much is to be gained by returning to social theory and using theory actively. This book by Thomas Menkhoff and Solvay Gerke serves as a timely reminder.

The mood of a field of studies can often be detected by the language used. If we were to move away from a cultural bias that typically looks inward and backward, we must be careful in our usage of such words as bounded community



## PREFACE

solidarity, ethnic enclave or ghetto, family loyalty, or ethnicity, identity and race as understood conventionally. To put it graphically, the field perhaps requires an “opening out” and “opening up.” Our gaze should be at the external character of the Chinese business networks and their modes of transactions and interactions with the milieu. In other words, the exterior conduct of commerce. Once we start doing this, we may begin to realize that the logic of commerce, Chinese or not, dictates a sharp sensitivity to the other, the non-Chinese, the larger, much larger social world out there beyond the narrow confines of family, clan, lineage, ethnic group, community, or what the journalists call “tribes.” Reality is where attention is drawn, the social psychologist has long been told. This is particularly so in a rapidly globalized world where transnationality prevails. Chinese entrepreneurs are quickly becoming a significant force of social change, inside and outside China. The conduct of a Chinese merchant in terms of his integration into society is what really matters. As it happens, the many myths and misconceptions of Chinese businesses will begin to fall, one by one. And the field will then confidently move through the phase of deconstruction, and into that of integration.

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## Part I

### INTRODUCTION



# ASIA'S TRANSFORMATION AND THE ROLE OF THE ETHNIC CHINESE

*Thomas Menkhoff and Solvay Gerke*

## **The ethnic Chinese – key drivers of Asia's transformation**

Since the mid-1980s intra-regional trade and investment links in East and Southeast Asia have expanded rapidly with the shift of production by firms from Japan and new industrial countries to lower-cost, neighboring countries. Various new economic sub-regions such as Greater Guangdong (Guangdong, Fujian, Hong Kong, Taiwan), Greater Shanghai or the southern Growth Triangle involving the Riau Islands of Indonesia, the Malaysian state of Johor and Singapore, have emerged, capitalizing on regional economic complementarities. Another growth triangle is under construction, at least as a blueprint, the Northern Growth Triangle, linking southern Thailand with four Malaysian states (e.g. Penang, center for light industries and electronics, as the hub) and northern Sumatra in Indonesia. The ethnic Chinese from Hong Kong, Taiwan, Singapore, Malaysia or Indonesia are actively involved in these massive transformation and integration processes (Berger and Hsiao 1988; Hamilton 1991; Menkhoff 1993; Chan and Chiang 1994; Buchholt and Menkhoff 1996; Weidenbaum and Hughes 1996; Haley *et al.* 1998; Chan 2000).

## ***The Chinese overseas***

The ethnic Chinese in Southeast Asia and beyond are often described as *overseas Chinese* or Nanyang *huaqiao*. Nanyang means “Southern Ocean” and refers to the entire sub-continental and island countries of Southeast Asia and the surrounding seas where Chinese people came to live. *Hua* has been used by the Chinese to refer to China. The word *qiao* means “a short stay as a visitor” and mirrors the early, mainly nonpermanent, settlements of Chinese laborers, merchants and traders in Southeast Asia as indicated by the term “Chinese sojourners.” The word *huaqiao* implies that all Chinese living outside China on a short-term basis have to be regarded as overseas Chinese. Given the differing circumstances faced by Chinese communities in Southeast Asia in terms of naturalization policies,



citizenship, length of settlement and so forth, it is apparent that the category “overseas Chinese” with its negative connotations such as their alleged orientation towards China as ancestral country, disloyalty towards their host societies and so forth has a weak conceptual basis: “What makes the term all the more unhappy is its implication that all Chinese were part of the Chinese nation, that remaining Chinese mattered, and that a special relationship existed between China and the overseas Chinese” (Pan 1998: 16).

Even the term “Chinese overseas” (*haiwai huaren*) has been criticized by some scholars as it perpetuates a China-centric standpoint in the study of Chinese communities in different parts of the world (Kwok 1999). It also ignores the large number of people of Chinese ancestry who have melted into other communities. All nations in Southeast Asia have special terms to describe the second-, third- or fourth-generation offspring of the first generation Chinese who often married indigenous women, integrating local life-styles and cultural traits of their host society into their own everyday life. The Chinese term for the Chinese of mixed parentage is *Ming-houng*. In the Philippines, the Chinese of mixed parentage are called *mestizos*, in Thailand *Luk-Chin* (children of Chinese), and in Malaysia *Baba-Chinese*. In Indonesia, children of mixed marriages are called *peranakan*, a term which refers to the descendants of early Chinese immigrants who have settled in Indonesia for several generations, adapting themselves to Indonesian culture.

How then can we define the Chinese with whom this book is mainly concerned? Some investigators have suggested self-identification as the defining criterion for the Chinese in Southeast Asia (Somers-Heidhues 1974: 7). However, this definition does not consider those Chinese who are – as formal citizens of a Southeast Asian country – regarded by others as Chinese despite their eventual contrary self-identification as members of the respective country. Wu and Wu (1980: 122) have defined ethnic Chinese as members of the ethnic Chinese community in the region: “... if they maintain a degree of Chinese cultural identity and think of themselves as Chinese, and if both the countries of their residence and third parties, including persons of other nationalities, regard them as Chinese.” Our own conceptualization of ethnic Chinese in Southeast Asia follows that of Pan (1998: 15) who sees the Chinese overseas as “people who are Chinese by descent but whose non-Chinese citizenship and political allegiance collapse ancestral loyalties.”

### **Misperceptions about Chinese businesses**

There are several misperceptions about ethnic Chinese and their businesses, which need to be addressed. Contrary to popular stereotypes of ethnic Chinese communities in Southeast Asia as being homogenous entities, it has to be acknowledged that they are in fact very heterogeneous which complicates classifications (Wang 1978: 8; 1994). Scattered all across the globe (Table 1.1), they possess different cultural, linguistic and religious peculiarities, habits, life-styles and worldviews and are exposed to different issues.

## INTRODUCTION

*Table 1.1* The number of ethnic Chinese worldwide (in million) and as percent of total population

Singapore	2.2	77.7%
Malaysia	5.6	28.0%
Brunei	0.041	15.6%
Thailand	6.3	11.5%
Cambodia	0.350	5.5%
Indonesia	3.8	2.7%
Myanmar	0.041	0.8%
Vietnam	1.1	2.0%
Laos	0.006	0.2%
United States	1.8	—
Canada	0.6	—
Africa	0.1	—

*Various sources.*

A stiff-necked stereotype of the ethnic Chinese (businessmen) is that they are all successful economic actors. Another often heard common-sense argument is that all the Chinese in Southeast Asia are rich; a notion that is continually enhanced by media reports featuring Asia's ethnic Chinese tycoons, their achievements and the capital they have accumulated. At the beginning of the 1990s, overall estimates put the "GNP" of "Asia's 51 m overseas Chinese," Taiwan and Hong Kong included, at \$450 bn – a quarter larger than China's GNP. The liquid assets (not including securities) of "the worldwide community of overseas Chinese" were estimated to be worth \$1.5–2 trillion (*The Economist*, 7/18/1992 and 11/27/1993).

It is often ignored that the Chinese entrepreneurs in Southeast Asia were frequently forced into business as a consequence of their trading minority status (Evers and Schrader 1994), that they do fail in business ventures, that there are significant disparities within Chinese communities etc. Both historical and contemporary studies on Chinese entrepreneurship tend to focus on the bright side of business and success stories rather than on its dark side (Backman 1999) or those who did not make it.

Another popular belief is that the ethnic Chinese in Southeast Asia and beyond are excellent (interwoven) net workers who have formed an exclusive regional Chinese network of companies, clans and villages linked by ties of blood and native place, which is part of the large global network of overseas Chinese businessmen (Kotkin 1992; Chang 1995). A related myth is the notion that the reliance on *guanxi*, personal connections and networking is a uniquely Chinese phenomenon without any dysfunctions and that respective strategies are aimed at embracing mainly the fellow ethnic Chinese (Menkhoff 1998). Constructs such as "greater China" or "the global Chinese tribe" are manifestations of such troublesome beliefs. As Pan (1998: 17) has stressed, the grandiose idea of greater China as a transnational Chinese business circle embracing all the ethnic Chinese,

both within and outside China, “raises fears of Chinese expansionism and evokes suspicions about the loyalties of the overseas Chinese toward their countries of residence.”

During the past 15 years or so, journalists, academicians and others have been actively involved in constructing the Chinese success story, ethnicity and otherness for different reasons (Dirlik 1997). Asia’s rise was manifested in dozens of books aimed at understanding the role of the ethnic Chinese in Asia’s great transformation (e.g. Cragg 1996). Looking back, it seems that certain aspects of Chinese businesses were overlooked or distorted. Reasons include the pitfalls of essentialism, orientalizing, lack of comparative research on Chinese and non-Chinese entrepreneurs and their business organizations and so forth.

Some analysts are examining the subject with ideological sympathy, contributing to what anthropologist Yao (1997), one of the contributors of this volume, has called the “romance of Chinese business.” One variant of this romance is to view Chinese entrepreneurial culture as a reflex of Chinese ethics, particularly Confucianism that is often treated as a black box. The eclectic culture of the Chinese merchants, the heterogeneity of the Chinese societies and sub-cultures in Asia, folk religious influences and other alternative sources of ethics such as Mahayana Buddhism or Christianity, discrepancies between religio-cultural values and norms on the one side and actual behavior on the other or the impact of rapid environmental change are seldom systematically addressed in the literature.

Some studies on Chinese businesses can be classified as potentially harmful if they are based on doubtful premises with negative (sometimes racist) connotations. The titles of publications such as “The Chinese Connection,” “Tribes” or “The Chinese Diaspora Turns Homewards” propagate a socially and economically exclusive tribal image of the ethnic Chinese, which is not in line with Southeast Asia’s empirical reality (Suryadinata 1997).

While such etiquettes may help to further a tendency among Chinese businessmen and other “Asians” towards self-orientalization (Said 1978) and global tribalism, it must be realized that they may provide certain interest groups with opportune arguments to blame the Chinese minority for economic crises or the lack of development progress and/or to justify political, cultural, socioeconomic and physical subordination. Indonesia, where the religious, social and cultural life of the local Chinese is affected by the pressure for social assimilation, is an illustrating case in this respect (Buchholt and Menkhoff 1994).

The economic dominance of certain strata of Indonesia’s Chinese minority in trade, commerce and other sectors of the economy has often been highlighted as an important factor explaining the hostility towards them. It is widely believed that the ethnic Chinese who account for only about 3 percent of Indonesia’s population of around 185 m, controlled about 70 percent of private domestic capital and 66 percent of the country’s top 300 conglomerates (of whom 7 percent were Chinese-*pribumi* joint ventures) prior to the Asian crisis (*Straits Times*, 1/26/1994). While the accuracy of such data has been questioned (Wang 1999), it is obvious that such imbalances, whether real or imagined, can foster anti-Chinese

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sentiments and that they can easily exacerbate ethnic relations as the past has shown.

Due to their visible role in business and the failure to produce a substantial number of equally visible *pribumi* entrepreneurs, Indonesia's Chinese minority has often been a target of unrest and racial attacks. Victims of physical attacks and discriminatory actions are mostly petty traders, shop owners and small entrepreneurs, that is, those who are visible and seizable. As far as the pre-Asian crisis period is concerned, *cukongs* were safer due to their connections despite repeated critiques of the alliance by certain groups.

Indonesia's record of violent frustration riots (Medan 1994; Pekalongan 1995; Tasikmalaya 1996; Sulawesi 1997; Java and Sumatra 1998) illustrates the explosive character of global market expansion, material deprivation, ethnic prejudices, particularistic interests of strategic groups and the diminishing power and legitimacy of the nation state *vis-à-vis* economic globalization (Evers 1980). The almost unchecked rioting and looting in Jakarta in May 1998 in conjunction with Soeharto's decline constitutes the climax of these tensions. They left more than 1,000 dead, billions of dollars in damage and triggered an exodus of tens of thousands of ethnic Chinese and foreigners (*Straits Times*, 11/27/1998, 1/11/1999).

The events in Indonesia have spillover effects on intra-regional relations and indicate some of the challenges faced by the Association of Southeast Asian Nations (ASEAN) to develop a large and more coherent regional market. The Chinese from Taiwan, Hong Kong and Singapore constitute the largest investor group in the ASEAN countries (except for Singapore) whose economies are largely dominated by the ethnic Chinese. The centuries old fear of China, the awakening giant (Overholt 1993), also influences Chinese-indigenous relations and social attitudes towards the ethnic Chinese in Indonesia and other Southeast Asian nations (Wang 1999).

The increasing investments of the ethnic Chinese from Southeast Asia in their "ancestral country" China represents a potential source of envy and mistrust as well as the perpetuation of ethnic stereotypes. In the past, Indonesian media commentators have expressed concern about the investments of the Chinese Indonesians in Mainland China. Indonesian Chinese businessmen putting money into China have been accused of disloyalty, double loyalty or of promoting capital flight, although they were simply pursuing strategies most businessmen would pursue in order to create new value and to cope with risks arising from an uncertain social and political environment. The capital that the Indonesian Chinese are investing in China and elsewhere, critics argued, is urgently needed for domestic development.

In Indonesia, reservations against the ethnic Chinese ties with China and anti-Chinese sentiments are interwoven with the decades-old fear of China as an external (Communist) threat, China's former political activism in the region, prejudiced attitudes, discriminatory behavior and other factors. In future the situation might become even more complicated due to increasing Mainland Chinese competition in Asian and Third World markets and the forces of globalization.

### **The objectives of this monograph**

In view of the many misperceptions about ethnic Chinese businesses in Asia and its potentially harmful effects, we believe that it is necessary to provide a balanced picture of ethnic Chinese entrepreneurship and business networks based on sober empirical facts rather than on imagination. Besides addressing a couple of theoretical and empirical gaps in the literature on the subject matter, the book is aimed at challenging the invulnerability myth of ethnic Chinese businesses by exploring the impact of the Asian crisis on Chinese firms in the region (Menkhoff and Sikorski) and the Chinese minority in one of Asia's foremost crisis economies, namely Indonesia (Low). Another goal is to counteract concerns about the "mysterious" collaboration between the ethnic Chinese in Southeast and Mainland China by providing empirical data on the actual investment patterns of the Chinese diaspora in the People's Republic of China and its rationale (Tracy and Lever-Tracy), as well as the interconnections and synergies created between the Chinese overseas and Mainland China's private entrepreneurs as well as state-owned firms (Schlevogt). In both China and Vietnam, private (Chinese) entrepreneurship has become a key driving force of socioeconomic and political change as demonstrated by Heberer, Lindahl and Thomsen. The critical examination of the popular "Chinese commonwealth and global tribe hypotheses" is another central concern of the monograph. Based on detailed case studies of large Chinese-owned companies in Malaysia, the chapter by Gomez challenges commonsense assumptions that culture and ethnicity are the main driving forces of successful Chinese entrepreneurship and network expansion in Asia. Yeung provides new insights into the corporate activities of transnational Chinese entrepreneurs from Singapore and their globalization efforts. Tong and Yong reveal the internal management and organizational patterns of Chinese enterprises *vis-à-vis* the institutional framework in which they are embedded, based on the case of a well-known Singaporean trading firm. Yao presents an alternative interpretation of the famous Chinese *guanxi* tactics, which are often essentialized in the mainstream literature on Chinese businesses. Wazir deconstructs the often-voiced socioeconomic exclusivity of Chinese businessmen and their networking strategies, by highlighting the significance of inter-ethnic entrepreneurial collaborations between Chinese and Malay business partners. Lever-Tracy, Ip and Tracy describe and assess the dynamic and integrated Chinese business community in Brisbane, Australia. Like many of the other authors of this monograph, they question the adequacy of conceptualizing these developments, exclusively, in terms of the emergence of an ethnic business enclave, advantaged by the social capital of bounded solidarity and enforceable trust. Rutten's chapter underlines the importance of comparative research on ethnic (Chinese) entrepreneurship by elaborating the many similarities of ethnic entrepreneurs in India, Malaysia and Indonesia. To sum up, the monograph can be understood as a timely attempt to re-examine many of the taken-for-granted assumptions about the strength and uniqueness of what has been termed Chinese capitalism, networks and business culture in the age of global market expansion.

## INTRODUCTION

The contributors comprise sociologists, anthropologists, political scientists, economists and geographers from Germany, the Netherlands, the United Kingdom, Singapore, Malaysia, Australia and the USA – all leading scholars on ethnic entrepreneurship, the Chinese overseas and Chinese (business) affairs in Asia Pacific.

More than two-third of the contributions are based on contemporary empirical research. Most authors do address – implicit or explicit – the challenges, threats and changes that globalization, global market forces and the Asian economic crisis imply for ethnic Chinese entrepreneurs, their family businesses, conglomerates and networks who have played a significant role in the regional economic integration of East and Southeast Asia (and, as some authors argue, increasingly in the context of global market expansion).

Several of the chapters included in this monograph were presented at an international conference sponsored by the Deutsche Forschungsgemeinschaft (DFG) entitled “Crisis Management – Chinese Entrepreneurs and Business Networks in Southeast Asia,” held at the University of Bonn, Department of Southeast Asian Studies, in May 1999. It was chaired by Solvay Gerke (University of Bonn), Hans-Dieter Evers (University of Bielefeld) and Thomas Menkhoff (National University of Singapore).

### Themes and contributions

#### *Theme 1: coping with change and crises – Chinese businesses under siege?*

The Asian crisis triggered by the devaluation of the Thai baht in 1997 justifies a discussion of its impact on the ethnic Chinese in Southeast Asia and their socioeconomic role. While empirical data on the consequences of Asia's new realism (a term which refers to the disruptions, hardships and changing mindsets produced by the Asian financial and economic crisis) on Chinese business are scarce, there is evidence that the economic downturn has changed the perceptions of business people, academicians and the general populace with regard to Asia's growth prospects, corporate sustainability, societal progress and the benefits of global capitalism. The financial troubles of Chinese-owned banks in Malaysia, ethnic violence in Indonesia, the relatively large numbers of bankruptcies in Chinese-dominated Singapore or the downsize of economic globalization in the form of currency devaluations, retrenchments, loss of income, increased poverty etc. at the height of the crisis were manifestations of these changing sentiments. During the past few years, concerns that the Asian crisis has exposed certain foundational defects of Asian economies such as poor regulation of the economy, insufficient financial transparency or stockholder accountability, nepotism, influence peddling etc. have globalized. This has serious implications for Chinese capital in the region as elaborated in the chapter by Thomas Menkhoff and Douglas Sikorski. Some Western management gurus and social scientists have argued that external environmental forces in combination with the Asian crisis make it necessary to



revamp the traditional type of management and corporate governance of Chinese firms to ensure corporate sustainability in the age of globalization and that the institutional characteristics of Chinese businesses and how it is organized socially are contra productive in the age of global market expansion. Menkhoff and Sikorski examine some of these propositions in their chapter. They also point to the ongoing corporate restructuring activities of Chinese firms in Asia and discuss the future of Chinese capital in the region.

The Asian crisis has intensified prejudices and discriminations towards the ethnic Chinese, particularly in Indonesia as indicated by the violent anti-Chinese riots in May 1998 in Jakarta. Against this background, Linda Low suggests that there is an unfinished agenda of integration as far as Indonesia's ethnic Chinese minority is concerned. She feels that there is a certain amount of myth that the recent racial and religious riots in Indonesia are all communal and ethnic based. In a deep recession with growing poverty and income decline, race riots are often disguised forms of societal struggles that reflect the great divide between the poor and rich, and it is unfortunate that the groups are, respectively, the indigenous Indonesians and the ethnic Chinese. While socialization and politicization can engender racial integration, she argues that economics can be as powerful an instrument because it offers a practical policy tool to stabilize the environment to make racial integration and finishing the agenda more conducive. In turn, a virtuous circle is generated as racial, social and political stability propels the economy further. Putting the topic into a regional context, it is stressed that the enlarged ASEAN as a group cannot afford to muddle through any more, and that ethnic Chinese as a potent economic force should be appreciated and induced to play its rightful roles. Two open issues are raised and discussed: (1) whether overseas Chinese, with their capital, entrepreneurship, networks and proven track record can induce the recovery process in ASEAN economies and (2) whether race would be cast aside to allow competitive forces to reinstate themselves to make the ASEAN and Asia Pacific region dynamic and sustaining again? As the author concludes, racial issues will not go away so easily unless economic survival threatens, above all, sociopolitical differences.

***Theme 2: synergies between the Chinese diaspora and  
Chinese business organizations in the People's  
Republic of China and Vietnam***

The multiple interconnections between the Chinese diaspora, Mainland China and its neighbors in Southeast Asia, respective reservations, tensions and development potentials justify and necessitate a closer examination of this theme. There is a certain amount of mistrust and fear in some ASEAN countries towards booming China (which has extended its hegemony to Southeast Asia several times during the last centuries) although its economic take-off has boosted regional transactions and growth. China is perceived as a potential threat by some countries in the region and abroad due to its growing economic and military power.

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With its vast domestic market and huge army of cheap labor, the “awakening giant” is getting more and more attractive for foreign investors. Partly due to increased FDI competition, foreign investments in Malaysia decreased significantly in the first part of the 1990s. Changes introduced in Indonesia’s investment regime before the Asian crisis were partly made in response to China’s increasing investment attractions and those of other emerging markets.

There are conflicting interpretations with regard to the increasing economic ties between the ethnic Chinese entrepreneurs in Southeast Asia (investments by the ethnic Chinese in Mainland China are believed to make up 80 percent of total foreign investment) and China. One group of observers puts emphasis on the negative consequences of associated developments such as a newly assertive Chinese regional identity, increasing ethnic tensions, network power etc. Another group stresses the expected positive consequences of this process such as economic gains from bilateral trade ties, joint projects and so forth. Indonesia, Malaysia and Singapore have taken different trajectories with regard to these issues as argued elsewhere (Menkhoff 1997). To exemplify the multiple interconnections between the Chinese diaspora and Mainland China and to understand the impact of change, we have included three chapters, which deal with associated issues based on contemporary empirical research.

The chapter by Noel Tracy and Constance Lever-Tracy presents findings of a survey sponsored by the Asia Research Center of Murdoch University and the East Asian Analytic Unit, Department of Foreign Affairs and Trade aimed at collecting empirical data on the development, amount and geographical distribution etc. of FDIs by the ethnic Chinese from other Asian countries in China. As the authors argue, the growing trading power of the Chinese economies coupled with the capital resources, industrial capacity and regional business networks of the Chinese diaspora means that any prospects for Japanese economic hegemony in the region are ruled out. If this was ever a realistic prospect, its time has long since passed. They see the strength of the Chinese diaspora in their ability to operate within and without China equally effectively. China’s industrial renaissance has depended substantially on Chinese diaspora investment and entrepreneurship and will continue to do so for the foreseeable future. Equally, China’s international trading position has relied heavily on the performance of the southeastern provinces, Guangdong and Fujian, and Chinese diaspora marketing channels in Hong Kong. As Tracy and Lever-Tracy argue, this is not going to change quickly. The idea that Shanghai can replace Hong Kong as the major financial and international trading center for China’s ongoing economic revolution is essentially political wishful thinking. What makes Hong Kong so important for China is its critical mass of accumulated expertise and credibility. At the same time, China remains a principal outlet for investment capital for the Chinese diaspora and the principal means of increasing their industrial and trading capacities profitably. Provided the business environment, therefore, remains reasonably attractive, at least in some regions in China, and there is little reason to think it will not, then Chinese diaspora investment is likely to continue to flow in that direction.

Since the synergy created between China's economic reforms and Chinese diaspora entrepreneurship and capital has reshaped regional political economy in less than a decade, there is no reason to think it will not continue to do so, which will benefit the whole region.

According to Kai Alexander Schlevogt, there are particular synergies between the Chinese diaspora and Mainland China in the area of management, which can propel China's transition towards a socialist market economy and private sector development. Based on extensive empirical research in the People's Republic of China, he argues that the new stratum of private entrepreneurs has successfully readopted the traditional management model of the Chinese overseas characterized by flexible structural and managerial choices, emphasis on family-based traditional values and small company size. This "web-based management system" provides China's policy-makers, with a useful blueprint to reform and revitalize the ailing state-owned sector which could result in resilient economic growth within the framework of a new capitalist network economy. Besides exemplifying the exchange of ideas and other resources between Mainland Chinese economic actors and the Chinese diaspora, Schlevogt also speculates about the potential long-term consequences of this process, which may create a transnational platform for increasing China's political influence and projecting "oriental values" far beyond its national borders.

Thomas Heberer also deals with the important role of private entrepreneurs in the People's Republic of China as well as Vietnam who are seen as significant agents of political and social change. He interprets the ongoing privatization process in these countries as "bottom-up processes." In both economies the private sector is currently the most dynamic economic sector that has significant economic, social and political implications. Based on both primary and secondary data, he demonstrates the rapid emergence and features of this new societal stratum of entrepreneurs who are striving not only for social and political acceptance but also for larger social and political participation. One of Heberer's key arguments is that private entrepreneurship in both the transition economies is context bound and that it accelerates the process of social and political change by economizing politics, developing social stratification, social mobility and a change of values and attitudes. Heberer's chapter is based on several months of intensive fieldwork in both countries.

The chapter by Jakob Lindahl and Lotte Thomsen supplements Schlevogt's and Heberer's studies by focusing on the socioeconomic dynamics of the Chinese community in Vietnam's Ho Chi Minh City and its multiple connections to the outside world. The chapter reconstructs how the Viet *Hoa* community regained its economic position after the implementation of the so-called *doi moi* economic reform measures. The authors also explore how the different kinds of relations within and among Chinese-owned business firms and their external business partners in Taiwan and elsewhere are managed by the Viet *Hoa*. A key argument is that these relations have to be interpreted as adaptive and strategic responses to Vietnam's distinct historical development and present political and institutional

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framework. A particular challenge for Vietnam's private sector in general and the Chinese minority in particular are the changing and ambivalent signals sent out by policymakers and the ongoing market reforms. But as their analysis suggests, Vietnam's Chinese minority is increasingly being recognized as an important contributor to the country's economic development.

### ***Theme 3: Chinese network capitalism and guanxi transactions reconsidered***

Books such as "The Bamboo Network" (Weidenbaum and Hughes 1996) underline the strong interest of journalists, writers and academicians in ethnic Chinese network capitalism. The local, regional and transnational *guanxi* (connections) of the Chinese overseas and their talent to spin local, regional and global business webs, preferably based on long-term, non-contractual trust relationships with kinsmen are almost legendary (Menkhoff and Labig 1996; Tong and Yong 1998). Their *guanxi* capital, cultural ethos, language proficiency as well as their local and regional knowledge are believed to be of crucial importance in penetrating and integrating Asia's markets.

There is evidence that the economic transactions and social relationships between the peoples of China, Hong Kong and Taiwan have facilitated the regional integration of Greater China, lubricated by Chinese capital inflows from Southeast Asia (Herrmann-Pillath 1994; Tracy and Lever-Tracy in this volume). Four-fifths of Hong Kong's investments have been invested in China's Guangdong province where many Cantonese have relations. Many Taiwanese investors have interests in Fujian despite the political conflicts between both sides of the Taiwan Straits. A growing number of the ethnic Chinese from Southeast Asia are doing business with people, villages and provinces in China with whom and where they have personal connections (*guanxi*) due to locality (native place), kinship or classmate ties as well as linguistic and cultural commonalities. But to interpret such developments as evidence that all these net-workers are interwoven to form a regional Chinese network of companies, clans and villages linked by ties of blood and native place, which is part of the large global network of overseas Chinese businessmen (e.g. Chang 1995), is misleading.

Other erroneous notions about the traditional relational capitalism of ethnic Chinese can be summarized as follows: "kinship *guanxi* is an effective lubricant of Chinese business networks," "all Chinese tycoons are well connected which explains their business success" or "*guanxi* capital will catapult the overseas Chinese to world economic dominance." The chapters by Gomez, Yeung, Tong and Yong, Yao, Jahan Wazir Karim and Lever-Tracy, Ip and Tracy may help to correct such images by providing alternative and, as we believe, more accurate accounts of Chinese network capitalism and *guanxi* transactions.

Based on extensive secondary research, Edmund Terence Gomez examines how some of Malaysia's largest Chinese-owned enterprises have been developed despite working in an environment that has provided little support for their interests.

One of his main intentions is to challenge the hypothesis that common ethnic identity, often referred to as a form of the Chinese commonwealth involving a network of many individual enterprises that share a similar culture, is the main independent variable of Chinese business success and that it will facilitate the emergence of a dynamic and globally connected entrepreneurial community. In order to test these popular assumptions, three case studies are provided of the largest Chinese-owned companies operating in three different sectors of Malaysia's economy: the manufacturing-based Oriental Group, owned by the family of the late Loh Boon Siew; the Public Bank Group, owned by Teh Hong Piow, and its role in the financial sector; and the YTL Corporation Group, owned by the Yeoh family, and its involvement in construction and power generation. Gomez's conclusion is that entrepreneurial ability, competency, occupational experience and the use of class resources are more significant in explaining the success of Chinese entrepreneurship and the expansion of networks rather than ethnicity and culture *per se*.

Henry Yeung's chapter provides interesting empirical insights into the internationalization strategies of Chinese business firms from Singapore, in particular those well embedded in regional, social and business networks, and the important role of entrepreneurship in this process. Transnational entrepreneurship continues to play a crucial role in the regionalization of Chinese family firms from Singapore and other Southeast Asian nations, driven by two types of entrepreneurs: owner entrepreneurs and manager intrapreneurs. While owner entrepreneurs tend to exploit their social and business networks to take their businesses across national boundaries, manager intrapreneurs require substantial management control and autonomy bestowed on them by their headquarters in Singapore in order to put their entrepreneurial skills into practice in the host countries. Yeung's extensive data originate from a research project that covered 200 parent companies in Singapore and over fifty Singaporean entrepreneurs in Hong Kong, China and Malaysia.

The study by Tong Chee Kiong and Yong Pit Kee focuses on the organizational principles of Chinese firms. It seeks to understand the social foundations from which these principles were derived and argues that economic actions are embedded in social relations that both constrain as well as emancipate institutional behaviors. The chapter provides a detailed case study of the Lee Rubber Group of Companies, one of the largest and most influential rubber companies in Singapore, which later diversified into banking, manufacturing and trading. The chapter highlights the relevance and rationality of *xinyong* (trustworthiness) and *guanxi* (personal relationships) in the development of Chinese-owned family firms. Patterns of ownership, development and authority structures prevalent in these firms are also discussed. The authors argue that the tendency to emphasize *guanxi* and trust has to do with the centrality of personal control. The concern for personal control is most clearly demonstrated in intra-firm dynamics, where control is largely affected through restricting ownership to trusted, close *guanxi* relations. Kinship is the most prominent base for ownership control, with all strategic positions in the firm reserved for family members. As their data clearly

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show, the importance of *guanxi* in the development of a business goes beyond the family unit. Friends and ex-colleagues, for instance, are just as vital.

Yao Souchou presents a new and unique interpretation of the *guanxi* concept based on his research among Chinese traders in a small township in Sarawak, East Malaysia. Unsatisfied with conventional approaches to *guanxi*, which emphasize the practice of building economically and politically useful relationships upon existing social ties (thus signaling a perfect marriage of sociality and individual gain), he argues that *guanxi* as culturally inscribed in Chinese society represents a special case among a range of possible transactional outcomes. Working from the ideas of British philosopher Austen and anthropologist Appadurai, it is hypothesized that the cultural model of *guanxi* is always “diseased” when the mode of transaction is subject to the danger of rupture inherent in the very ideal of doing business the Chinese way. Instead of the harmonious blending of social pleasure and mutual benefits, what characterizes *guanxi* exchange among Chinese traders in the East Malaysian township is the “tension” in reconciling these twin objectives. *Guanxi* in Sarawak as in other Chinese communities is neither about social relationship nor about individual gain, but a dialectic relationship of the two. As the former does not give profit and while the latter offers only personal gain marked by competitive violence, it is the strategy aimed at harvesting the twin objects that typifies the cultural model of *guanxi*.

Jahan Wazir Karim challenges a particular myth about ethnic Chinese entrepreneurs, namely their socioeconomic exclusivity by stressing the significance of inter-ethnic business cooperation between Chinese entrepreneurs and Malay businessmen in Malaysia. Contrary to notions of Chinese and Bumiputera business cooperation as being characterized by low trust relations, her data underline the prevalence of trust and cooperation in these inter-ethnic business endeavors. She argues that the old Sino-*Nusantara* symbiosis prevalent in early forms of rooted capitalism is gradually giving way to one which is more typical of globalistic empires prevalent in late capitalism in the more developed West. The extensive network of small and medium sized enterprises and industries in Malaysia and elsewhere, which forms the backbone to trade and commerce in Southeast Asia, is seen to function as an important buffer in regional and global recessions.

One of the concerns of Constance Lever-Tracy, David Ip and Noel Tracy is that studies of overseas Chinese businesses have long been bedeviled by area and other boundaries as indicated by the large number of studies on the ethnic Chinese in Southeast Asia or, in particular, in the Western countries. In reality, the research subjects, small owners as well as billionaire tycoons, readily move their investments, their family members and themselves back and forth across the boundaries, facilitated by complex transnational networks. Against this background, the authors provide interesting insights into the emerging dynamic and integrated Chinese business community in Brisbane, Australia. The economic activity of the Brisbane Chinese is concentrated within Chinese-owned enterprises. A connecting core of the ethnic economy has continued to be provided by restaurants, the original niche, despite diversification. They have functioned as



the major conduit into employment and into independence. They are internally articulated, with their own training mechanisms, ladders and hierarchies, their own norms and channels of information, and they are a focus for new forms of vertical integration capable of generating new supplier activities. There is also a rapid growth of firms mainly devoted to supplying ethnic business. The incipient enclave is, however, not exclusive. While there are very few for whom ethnicity is irrelevant to their business, there are scarcely any who do not also have external business dealings. Personalized trust matters, but can be extended beyond a narrow ascriptive group. More significant is the strength and growth of a group of international traders, who may have few links with other Chinese businesses in Brisbane but for whom their transnational networks, and their social capital in the Chinese diaspora, are the very foundation of their business. For all kinds of Chinese business in Brisbane, resources originating overseas, capital, experience, authentic products, networks are often crucially important and for some there were continuing inflows of capital, upgraded skills and newly migrating family and network members. The picture of a locally bounded and enclosed phenomenon conveyed in terms such as enclave and bounded solidarity do not allow for the growing importance of diasporas in a globalizing world. As well as being a group of enterprises tending to become an ethnic enclave, one might also think of Brisbane Chinese businesses, in some of its aspects, as a local fragment of a global whole.

***Theme 4: toward a comparative perspective of ethnic (Chinese) entrepreneurship***

For a long time, it has been argued that capitalism breeds best in a ground of individualism. Contrary to entrepreneurs in Europe, Asian entrepreneurs were generally thought to be culturally more inclined to operate along collective forms of business organization such as joint-family enterprises or ethnic (kinship) networks, a trait which was seen as one of the reasons for the lack of economic development in Asia and the insufficient competitiveness of Asian entrepreneurs *vis-à-vis* their Western counterparts. The growth of East Asia over the past few decades has challenged these notions. Numerous researchers started to put forward the antithesis by emphasizing organizational skills, co-operation, transaction cost advantages etc. as key explanatory factors of the economic success of Asian businessmen. Studies that are based on the network concept or the so-called flexible specialization approach state that collective forms of business organization are the key variable to development. To a large extent this approach follows the study of present-day small entrepreneurship in Europe, more in particular in Italy, whose success has been explained in terms of specific forms of economic co-operation at the firm and sector level (Grabher 1993; Perry 1999). What then are the real differences between Asian and European entrepreneurship?

One of the few scholars who has done extensive research on this issue is Mario Rutten (Rutten and Upadhy 1997) who contributed an interesting comparative study of rural entrepreneurs in South and Southeast Asia to this volume.

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Rutten feels that both earlier and recent approaches to the study of ethnic and small business entrepreneurship are one-sided since they often discuss entrepreneurial behavior in terms of individualism versus co-operation, assuming that some groups are culturally more inclined towards co-operation than others. His research on rural entrepreneurship indicates that both types of entrepreneurial behavior are present within one group. It is not so much co-operation or individualism, which explains successful or unsuccessful entrepreneurial behavior, but the flexibility to adjust social and economic forms of organization to changing circumstances in terms of space and time. Rutten supports these hypothesis with three case studies of rural entrepreneurs in India, Malaysia and Indonesia who belong to three different communities: (1) large farmers-traders and owners of small-scale rural industries in central Gujarat, west India, almost all of whom belong to the middle and upper castes within the Hindu community; (2) Muslim owners of small and medium-scale iron-foundries in rural central Java, Indonesia; and (3) Chinese and Malay owners of combine-harvesters and workshops for agricultural machinery in the Muda region of north Malaysia. His Asian case studies are in line with the results of studies of entrepreneurs in Europe, which have shown that both individualism and co-operation have been important in the rise of industrial entrepreneurship. As a result, Rutten argues, notions of differences in entrepreneurial behavior between Asia and Europe have to be “reconsidered.”

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