CHINESE ENTERPRISE, TRANSNATIONALISM, AND IDENTITY

edited by Edmund Terence Gomez
and Hsin-Huang Michael Hsiao

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CHINESE ENTERPRISE, TRANSNATIONALISM, AND IDENTITY

Chinese Enterprise, Transnationalism, and Identity focuses on one ethnic community – the Chinese – and examines the variety of issues surrounding enterprise development from national and transnational perspectives, starting with the role played by Chinese entrepreneurs in the 1997 Asian financial crisis.

Using empirical evidence and theoretical debate, the contributors argue that Chinese enterprise is accelerated by intra-ethnic competition, rather than intra-ethnic cooperation, and that businessmen work in their own interest, not that of the Chinese community, as other literature dealing with the subject suggests. Themes which this book radically reviews include:

- Culture and networks.
- Family business.
- Ownership and control.
- Transnationalism and identity.

By carefully tracing the emergence of new generations, the contributors suggest that new forms of ethnic identification and of national identity and affiliation have emerged. With its combined analysis of ethnic minorities in Asia and of Chinese business, this book will appeal to scholars of Asian and business studies alike.

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PREFACE AND ACKNOWLEDGMENTS

In this volume, our primary objective is to challenge the theory that ethnic Chinese of the diaspora share an essentially identical set of cultural traits and that their businesses display an essentially uniform "ethnic style." This theory has come to be associated with the so-called "culturalist perspective," which appears to have secured the support of a growing number of researchers in the field of "Chinese enterprise." We, however, contest this perspective, and contend that in business, entrepreneurs work in their own interests.

In this culturalist perspective, culture is fettered by the notion that it has a static predilection, when it is, in fact, characterized by mobility and constant change. In other words, the assertion we make in this volume is precisely opposite to the argument adopted in the "culturalist perspective," i.e. that culture is a determining factor in how ethnic Chinese undertake business ventures and develop their firms. To defend this contention, we provide in this volume empirical work on Chinese enterprise in various parts of Asia as well as in Britain and the United States.

In 2001, Michael Hsiao and I published an edited volume entitled *Chinese Business in Southeast Asia: Contesting Cultural Explanations, Researching Entrepreneurship* where we first proposed the argument that the existing literature on Chinese enterprise was very "essentialist" in nature. We recognized, however, that one drawback with this volume was that it lacked sufficient empirical evidence to substantiate our case. Our present volume is based on commissioned research to provide the evidence that culture and common ethnic identity do not determine decision-making in business – hence the title "De-essentializing capitalism" in the Introduction to this study.

There are four main themes in this volume – culture and enterprise development, family business, ownership and control, and transnationalism and identity. These are four key themes in the literature on Chinese enterprise, and in this volume we attempt to provide new

theoretical insights based on the research undertaken for this study. We believe that this combination of new empirical evidence and different theoretical perspectives on these key themes will enliven the argument about the influence of culture in business.

There is a strong political perspective running through the chapters in this volume. We contend here that essentialist arguments in the literature on Chinese enterprise diminish the claim on national identity by ethnic minorities. We argue that studies adopting a culturalist perspective dangerously distort the process of identity formation, particularly the emergence of national identity in immigrants and their descendants. Through our research on the evolution of ethnic Chinese enterprise, we show that with the emergence of new generations, new ethnic identities form and distinct national identities emerge.

I wish to acknowledge the contribution of a number of individuals and institutions who helped me organize this research project and prepare this volume for publication. I am extremely indebted to Michael Hsiao, Director of the Center for Asia-Pacific Area Studies (CAPAS) at the Academia Sinica in Taipei. Michael secured the funding to organize this research project and convene the conference where most of the studies in this volume were presented. This conference was convened in Taipei in February 2001. Michael was also responsible for identifying and funding academics in Taiwan to undertake research on Taiwanese investments in Southeast Asia. After the conference, when we found that we needed more research on cross-border investments by Taiwanese in mainland China, Michael was responsible for commissioning the study on this topic.

The British-based Economic and Social Research Council (ESRC) provided additional funding for the convening of this conference in Taipei. In 1999, the ESRC awarded me and Gregor Benton of Cardiff University a three-year research grant to undertake a project entitled "The State, Class and Ethnicity: The Chinese in Britain, Southeast Asia and Australia." I thank Steve Vertovec, who was primarily responsible for overseeing this ESRC research project, for his support. Steve and Jeffrey Henderson were involved in the planning of this conference and helped secure the additional funds required for this conference.

I wish to acknowledge my debt to Gregor Benton. The arguments that Greg and I make in the Introduction to this volume are based also on our research on ethnic Chinese identity and enterprise in Britain and Australia. My chapter in this volume on investments by ethnic Chinese from Asia in Britain is based on research I undertook as part of the ESRC project that we were awarded.

I thank all the contributors to this volume for graciously accepting the invitation to undertake research for this project and attending the conference in Taipei, where we discussed in depth their research

findings. I appreciate their unstinting and prompt response to my numerous requests to revise their articles. I wish to acknowledge my debt to a number of other people who also contributed papers at the conference, including Heng Pek Koon, Linda Low, Lee Poh Ping, Lee Kam Hing, Low Wei Leng, Leo Paul Dana, and Theresa Dana. I also wish to acknowledge the contribution by Yuri Sato, who submitted a paper on Indonesia. These studies were of a high quality, but we were unable, for a variety of reasons, to incorporate their articles in this volume.

Finally, I wish to acknowledge the support of my wife, Sharmani Gabriel, and children, Evie, Eric, and Eshward, who were most supportive when I was preoccupied with the preparation of this volume.

Terence Gomez

INTRODUCTION

De-essentializing capitalism: Chinese enterprise, transnationalism, and identity

Edmund Terence Gomez and Gregor Benton

The currency crisis that hit East Asia in 1997 had profound implications for ethnic Chinese communities in the region. One factor in the crisis, according to some analysts, was the indiscriminate channeling by intra-Chinese business networks of large volumes of funds across borders for speculative purposes, specifically in the property sector. Some also argued that these cooperative networks, forged on the basis of group solidarity and determined predominantly by economic considerations, would enable members of the Chinese diaspora to secure control of a large segment of the Asian economy in the post-crisis period.

Today, this argument – that ethnic Chinese in Asia would consolidate their collaborative networks and emerge as a global economic force – has not been borne out. Predictions about the way in which ethnic Chinese enterprises would consolidate and about the form that their business networking would take are shown to have been based on a flawed understanding of the way in which such companies function and develop within an economy. The most dangerous implication of these arguments about the mode of operation of ethnic Chinese enterprise concerns ethnic Chinese perceptions of their own identity, and in particular their national identity.

The chief concern of the contributors to this volume is to challenge this theory about the economic might of ethnic Chinese groups in Asia, on the grounds that it perpetuates the impression that ethnic Chinese can think and act only as a group rather than as individuals. Such ideas create feelings of insecurity in the indigenous peoples of multi-ethnic Asia and can lead to inter-ethnic strife. In Southeast Asia, for example, which is home to a large Chinese population, the ethnic politics fostered by some government leaders has reinforced the indigenous view that ethnic Chinese have little sense of loyalty to the "host country" and

identify exclusively with the "home country," i.e., their forefathers' motherland. This idea is not only wrong but also dangerous, for those new generations of ethnic Chinese whose national identity is with their place of birth rather than their place of ancestry. In most of Southeast Asia, questioning ethnic Chinese loyalty takes on an added importance in view of the community's influential economic role. The identity issue has meant that many of the social problems that have emerged since the currency crisis have taken the form of ethnic clashes. In other words, it has strongly influenced the modes not only of social reform but also of social and political protest in the region.

In reality, however, the mode of operation and development of Chinese enterprise bears little resemblance to popular rhetoric. While it is true that ethnic Chinese are a major presence in Asian economies, their ownership of corporate equity masks a number of facts. First, ethnic Chinese have little control over their corporate stock. In Malaysia, Singapore, Indonesia, and China, all of which have – or have had – strong states, Chinese and ethnic Chinese capitalists are largely subservient to government leaders. Second, Chinese capitalists in Southeast Asia rarely cooperate by merging their enterprises, even though they have been subject to much discrimination and marginalization by Southeast Asian states.

The idea that ethnic Chinese of the diaspora share a strong collective identity that influences their business style and the development of their enterprises has spawned a prodigious literature written from what has come to be seen as a "culturalist perspective" (see, for example, Redding 1993; Fukuyama 1995; Lever-Tracy, Ip, and Tracy 1996; Backman 1999; Yeung and Olds 2000). According to such writing, the cultural traits of ethnic Chinese of the diaspora are, in essence, everywhere more or less identical and their businesses display an "ethnic style" characterized by family firms and intra-ethnic business networks. The "family firm" and intra-ethnic national and transnational connections (or *guanxi*) and networks are said by such studies to play a crucial role in capital formation and accumulation. These two modes of business and social organization, family firms and intra-ethnic networks, are said to underlie the so-called "Confucian ethic," a perennial theme of culturalist studies, which use it as a key explanatory tool in analyzing Chinese enterprise.

A study of the economic history of East and Southeast Asian countries indicates that migrants eventually tend to go it alone in the economic sphere, although many do organize collectively for cultural and educational purposes. Ethnic Chinese enterprises are normally scattered across a number of different spheres that do not strongly correlate. Deep intra-ethnic cleavages prevent Chinese from acting as a cohesive force. Profiles of Chinese firms contextualized within the economic development of individual countries reveal a heterogeneity of business

styles and corporate holding patterns, yet more evidence of the variety of routes along which ethnic Chinese entrepreneurs venture (see, for example, Carino 1998; Twang 1998; Gomez 1999).

Much of the literature on Chinese enterprise in East Asia pays little attention to the processes of identity change and identity formation among owners and their descendants. Such processes have shaped the relations of ethnic Chinese both with one another and with members of other ethnic groups and the ways in which their enterprises develop, especially among descendant generations. Again, such developments raise further doubts about hostile theories of ethnic Chinese national identity.

However, identity is a difficult issue to analyze quantitatively. To challenge the argument that Chinese of the diaspora are united by their common ethnic identity and will eventually emerge as a major economic force, this volume examines the ways in which Chinese-owned enterprises operate and develop. By means of an in-depth study of the workings of Chinese-owned firms in East and Southeast Asia and their investments in the United States and Britain, we hope to provide a more accurate picture of how such enterprises evolve and, in the process, shed light on diasporan Chinese identity.

We deal with three key themes: enterprise development, networks, and identity. By looking at the development of capital in different Asian countries where Chinese have a large economic presence, we hope to show that common ethnic identity and intra-ethnic business networks are of marginal importance to the ways in which such enterprises develop. Such networks played no part in the currency crisis and did not facilitate the creation of tightly organized transnational economic linkages.

Ethnicity and identity are relevant at two levels to the discussion of enterprise development: in the global context, where transnational business networks are said to develop along ethnic lines as a crucial component of enterprise development; and in the national context, where identity affects rights and interests and is inextricably linked to issues of equality. Within nation states, important and potentially divisive issues have arisen in the field of equal rights, citizenship, and identity. These issues are to some extent reinforced and aggravated by academic studies on business networks run by minority communities like the Chinese. Relevant questions include the following. Why, in spite of citizenship, are all communities not accorded equal rights? How do people view their identity within a nation? How do indigenous communities view ethnic minorities, especially descendants of migrants, within a nation? How does the idea of "national identity" evolve among migrants?

Although it is beyond the scope of this volume to deal with these questions, we wish by means of a study of the growth of Chinese-owned

enterprises in global and local perspective to challenge the argument that ethnic Chinese enterprises share common characteristics that constitute a form of "Chinese capitalism." We believe that this argument sows further seeds of ethnic conflict. The evidence we provide shows that Chinese enterprise in Asia evolves in more or less the same way as capital in the developed economies. Essentializing arguments about Chinese enterprise exaggerate the extent of ethnic cohesiveness and collective action among Chinese both within the separate nations and across the diaspora. Essentialism has been defined by Howard Winant as "a belief in unchanging human characteristics, impervious to social and historical contexts" (quoted in Wong 1999: 5).

This book has two parts. Part I, "Reviewing Theoretical Debates, Defining Themes," discusses four major themes: culture and networks, family business, ownership and control, and transnationalism and identity. Each of its four chapters engages theoretical debates on key issues concerning Chinese enterprise and presents empirical evidence to confront essentializing arguments. Part II, "Chinese Enterprise in Transnational and National Perspectives," reports on research into the operation of ethnic Chinese enterprises in foreign and domestic settings. Two chapters look at investments by Taiwanese firms in China and Southeast Asia in the 1990s, to establish whether common ethnic identity facilitated cross-country business ties. A study of the development of the banking sector by ethnic Chinese in California reinforces the point that common ethnic identity is not a major factor in enterprise development among diasporan Chinese. Another chapter looks at the evolution of Chinese firms in Thailand, with a special focus on changing patterns of ownership and control. The argument concentrates on the role of the state in determining patterns of development of Chinese enterprise in the region.

Key themes

Business networks

In Chapter 1, Chang Ly-yun and Tony Tam examine two competing interpretations of Chinese business culture as a form of *guanxi*-based networking: the cultural imperative hypothesis and the organizational imperative hypothesis. By identifying and analyzing the theoretical and empirical shortcomings of the culturalist hypothesis, they show that the argument about a distinct and persistent Chinese business culture is spurious. Their own thesis, based on the idea of an organizational imperative, not only emphasizes the diversity and contingency of networking behavior among Chinese firms but highlights the survival problem that all firms face.

Chang and Tam contend that the generic structuring principles of organizational survival show that their own theory is compatible with the fact that intra-cultural business behavior is broadly similar across different institutional contexts. They therefore argue on both theoretical and empirical grounds that Chinese business culture is driven not by *guanxi* but by organizational imperatives, and that these imperatives explain a variety of divergent business practices and forms of behavior among Chinese firms.

The studies by Chen Tain-Jy and Ku Ying-Hua and by Hsin-Huang Michael Hsiao, Chen Dung-Sheng, and Jou Sue-Ching on business networks created by Taiwanese investors in China and Southeast Asia in Chapters 5 and 6 provide further evidence in support of the thesis by Chang and Tam. While not denying that Chinese-owned enterprises establish "networks," they contend that the "Chineseness" of traders or businesspeople plays only a small role in determining the way they make decisions and develop their enterprises. They argue that the basis for and extent of business ties among Chinese firms have been misrepresented, and try to provide a more nuanced and informed understanding of the development of international trade networks and of the factors that influence collaborative ties among Chinese entrepreneurs in different countries.

Networks are not formed in a single dimension. The studies in Chapters 5 and 6 show how these networks change, the multiple levels at which they operate, and the basis on which they form. Co-ethnic cooperation for the benefit of the community, their ostensible *raison d'être*, does not explain why such ties are forged. These networks depend on organizational imperatives and function as supply chains and subcontracting ties, of mutual benefit to all parties involved in the production line of a particular merchandise. Members of such networks may belong to more than one production network, and membership within each network is constantly subject to change and may eventually incorporate firms owned by non-ethnic Chinese. Whether firms remain within a production network depends ultimately on their ability to produce quality components at the cheapest possible price in order to maximize profits and economies of scale for everyone concerned.

The setting up of mutually cooperative networks is not new, nor is it unique to Chinese. Similar subcontracting ties and production networks are also found among enterprises operating in Europe, most commonly in France.

A primary concern of the volume is to understand how ethnic Chinese businesspeople manage and develop their enterprises after crossing borders. This subject is also dealt with in the studies on business networks created by Taiwanese investors in China and Southeast Asia in Chapters 5 and 6. These chapters provide evidence of intra-ethnic company ties,

but not in the conventional sense. They show that production networks of Taiwanese firms and companies owned by ethnic Chinese in mainland China and in Malaysia and Indonesia are created when the Taiwanese move their operations into these regions. However, a common Chinese identity does not account for their creation. The networks consisted of loose groupings of small and medium-scale enterprises (SMEs) brought together by large firms in Taiwan to produce manufactured goods. The production networks had originally been established in Taiwan, usually under the auspices of a single large enterprise. The Taiwanese SMEs usually belonged to more than one such production network, each led by a different large enterprise. At the request of the large enterprises, most of the SMEs eventually moved their operations overseas. The production networks seldom lasted long and their members apparently felt no obligation to maintain their business ties.

These two studies suggest that structural factors within the Taiwanese economy contributed to the development of commodity and subcontracting chains. The firms moved abroad to escape rising production and labor costs in Taiwan and to enlarge their market base. While political and economic factors influenced the way in which these subcontracting networks formed, similar factors encouraged the firms that formed them to transplant their production lines to Southeast Asia and China. Both the large-scale enterprises and the SMEs tended to diversify their suppliers and customers once they became more established overseas. They eventually began to deal with a range of companies, whereupon their choice of supplier depended primarily on price and quality of product.

When Taiwanese firms first moved to China and Southeast Asia in the form of production networks tying together large firms and SMEs, domestic producers in the two regions played only a peripheral role in production. When there was a need to source products from local businesses in a foreign country, the Taiwanese preferred to deal with ethnic Chinese firms, partly for language reasons. The Taiwanese eventually incorporated more local firms – usually, though not necessarily always, companies owned by ethnic Chinese – into their production network. These two studies suggest that the need to exploit ethnic identity for investment purposes varies, depending on country of origin and field of business. Ethnic identity is important, if at all, primarily in the early stages of penetrating a country or a line of business, and the resulting networks do not remain in place for long. Once the contractors find cheaper subcontractors in the host country, they start to change partners or suppliers. The Taiwanese subcontractors of larger-scale enterprises also seek out new business in the host country.

The key argument of Chapters 5 and 6 is that commodity chains are transplanted abroad because it is mutually beneficial to do so, but once

both the big Taiwanese firms and the SMEs settle into their new environments, they seek ways of making their businesses more profitable, usually by disbanding old networks and creating new ones. Many such firms evolve through a process of vertical integration, from being mere subcontractors to becoming producers, because it is more cost efficient to do so. The creation of vertically integrated firms speaks volumes about the attitude of these firms to the production networks. These networks evolve or vanish because of competition and technological change, or because new patterns of production and exchange had emerged.

These networks also evolve over time, in response to factors such as the amount of time that it takes for foreign investors to acclimatize and to identify more efficient and cheaper forms of production. Chapters 5 and 6 show that when ethnic Chinese cross borders in pursuit of business opportunities, they adopt a range of strategies to help develop their enterprises in a foreign environment. The tactics used include encouraging suppliers in the homeland to set up base in the host country and establishing enterprises by wielding ethnic ties. With the passage of time, however, economic factors such as the need to maximize profits and minimize costs encourage them to seek out better options, regardless of ethnicity. Eventually, the SMEs that large-scale enterprises bring along as their suppliers may turn into their competitors. Even partners within a single enterprise tend to break away to form their own businesses and emerge as competitors, proving once again that intra-ethnic competition rather than cooperation is the main trend. This competition best explains the dynamism of Chinese enterprise in Asia.

The studies on Malaysia (Chapter 4), the United States (Chapter 7), and Thailand (Chapter 8) provide important insights into networking among ethnic Chinese within a single country. Kevin Hewison's examination of the banking sector in Thailand shows that there is little intra-ethnic networking, in terms of common directorships, common stock ownership, or interlocking stock ownership, among members of the Sino-Thai banking community (see Chapter 8 and the tables in its annex). There is also no evidence that intra-ethnic networking was a factor when ethnic Chinese-owned Singapore banks began acquiring ailing financial institutions owned by Sino-Thais in Thailand (see Table 8.3).

There was little or no intra-ethnic cooperation among Sino-Thais, even when bank owners had to consider merging their enterprises in the face of take-overs by foreign firms following the currency crisis. Hewison argues that the Sino-Thai owners of large companies (most of them family-owned) have been loath to merge with other firms, in order to avoid having to share control of the enlarged enterprise. The issue of retaining family control is important here. Merging these large Sino-Thai companies would create formidable new businesses, but who will control

the new enterprise? Maintaining management control does not seem to be an issue for owners of big finance companies in their dealings with foreign firms that invest in their enterprise. That intra-ethnic cooperation among Sino-Thais is limited even in times of severe crisis says much about the sustainability of family firms and about issues of ethnic identity and nationalism.

Family firms

In Chapter 2, Raymond Wong introduces a comparative perspective by means of a study of family firms in the United States and Hong Kong. He suggests that Chinese companies, in particular family-owned enterprises, operate along universal principles. Chinese companies in Hong Kong evolve in more or less the same way as Chinese family firms in America. Wong shows that Chinese family firms, especially SMEs, in the United States change their style of operation over time and as they grow. How they evolve depends on a number of factors, economic, social, and political.

Wong argues that the organization of family-owned firms in Hong Kong has grown considerably more complex. In tracing their development, he notes that kinship ties were crucial in raising funds to get such firms incorporated. When companies were first established, kinship ties largely determined who was hired and who provided the funding to get the enterprise going. However, control remained in the hands of the founder and of key family members. In terms of managerial style, family members played a crucial role. Wong's findings would seem at first to support stereotypical arguments about the importance of kinship ties in Chinese family firms, but he goes on to show that these links were important only at the time of incorporation. Once up and running and firmly established in the corporate sector, the owners of such companies relied less and less on kinship ties.

Wong also questions the sustainability of family firms and connects the issue of keeping a family enterprise going in the long term to that of generational change. He shows that the descendants of the founders of family SMEs, even members of the second generation, often steer clear of the enterprise, thus leading to its closure. The children of a firm's founder may seek to professionalize the company's management, mainly because professional managers are better educated or equipped to develop the enterprise or better able to work with non-ethnic Chinese. The development of inter-ethnic ownership and trading ties eventually leads to big changes in the ownership and control of the firm and in its management style, a reflection of the companies' growing organizational complexity.

Wong's conclusions about the development of family firms in Hong Kong are probably applicable to Chinese firms elsewhere in Asia and the world. Wong's account of the evolving nature of the family firm is highly relevant to the country study on Thailand (Chapter 8). Hewison's analysis of enterprise development in Thailand shows that the way domestic companies owned by Sino-Thais developed had little or nothing to do with their "culture" or "Chineseness." Most of Thailand's leading firms are owned by Sino-Thais. While many are family-owned, patterns of management control are changing, a common evolutionary pattern among most large enterprises. In his study of Sino-Thai banks, Hewison argues that these financial enterprises are still under the control of the founder or the second generation and are therefore still relatively young.

Ownership and control, the state, and enterprise development

In Chapter 3, Andrew Wedeman engages in a theoretical discussion of the concept of ownership and control, which he links closely with the role of the state in enterprise development. The issue of enterprise ownership and control is central to a discussion of corporate growth, for the development of a corporation leads to an increase in the number of its investors (this point is borne out by studies on advanced economies). As the number of investors grows, so the need for a divorce between ownership and control becomes imperative, particularly after a firm is quoted on the stock exchange (Berle and Means 1967; Scott 1997). Management control, with the board of directors vested with power to run a company on the shareholders' behalf, then becomes the norm.

Wedeman, who focuses on "Corporate China," argues that much of the "essentializing" of capitalism in the literature on Chinese (and Asian) enterprise is derived from an ahistorical analysis of the evolution of capitalism in the West. In this literature, there is a disinclination to recognize that capitalism in the West rests less on true private ownership than on public (i.e., stock) ownership. This is also true of Asia's most advanced economy, Japan, where control of public-listed corporations rests not with owners but with managers. Wedeman demonstrates clear parallels between the evolution from private to public ownership in the West and from state to "public" ownership in China. The movement may be from opposite starting points, but it would seem to converge on the same sort of managerial control model.

Wedeman's study raises the question of whether a particular form of "Chinese capital" exists in China. His historical study of the forms, characteristics, and features of private enterprise in China shows that patterns of ownership and control in China's corporate sector are evolving along more or less the same lines as capital in the West. Managers now control most quoted corporations, and state ownership of

these firms is now quite different from what it was before Deng Xiaoping's reforms. Capital is evolving from private (state) ownership to public ownership by institutional and private investors. The distinction between owner and manager is becoming more pronounced. Decisions are normally taken on economic grounds, though decision-making is sometimes subject to outside interference by politicians who control the state. The results of this study of corporate China and of the role of the state in enterprise development can also serve as a basis for a comparison with the form taken by enterprise development by ethnic Chinese in Taiwan, Hong Kong, and other parts of the world.

As in the case of mainland China, the state in Taiwan, led by the anti-communist Kuomintang (KMT), has heavily influenced the way in which capital has developed (see Chapter 2). However, the pattern of growth of private capital in Taiwan is very different from that of enterprises in mainland China and Hong Kong. State policies and the vested interests of the KMT ensured that Taiwanese firms, especially the SMEs, tended to grow more organically, were highly focused in terms of type of business activity, and did not depend much on bank loans to develop. These differences in the patterns of corporate growth in China, Taiwan, and Hong Kong again suggest that the business styles of different groups of ethnic Chinese in Asia are highly heterogeneous.

The research on Chinese enterprise described in this volume points to another aspect of patterns of corporate development. The studies, notably those on large-scale enterprises, indicate that while some firms are highly diversified, others focus on just one or two business areas (see Chapters 4 and 8). The extent to which the 1997 currency crisis affected these large companies depended primarily on their level of diversification. The argument can be further refined to take in differences in patterns of diversification. For example, the highly diversified Malaysian-based Hong Leong group operated its diversified units as separate entities, each of which was strongly focused in terms of management and business. This would probably help explain why Hong Leong negotiated the crisis much more successfully than other highly diversified firms in Malaysia such as the Lion Group and Multi-Purpose Holdings, whose owners retained managerial control and were actively involved in all the firms' business operations (see Gomez 1999).

This nexus between state and capital and its influence on the form of corporate development in China and Taiwan is obvious too in the rest of Asia (see Gomez 2002). The close link between state and capital has, in turn, affected the performance of corporations and their ability to generate wealth. For example, politicians who control the state can determine which companies secure government-generated economic rents such as licences, contracts, and privatized concessions. They can also decide whether the activities of select companies are funded by the

financial sector and through stock market activities. Government leaders can also determine who gains by the way in which they implement their policies and through their control of key economic sectors such as banking. The manner in which policies are implemented has had a major impact on property rights, a crucial element in the development of the corporate sector. The country studies on China (Chapter 3) and Thailand (Chapter 8) eloquently reinforce this point.

In Malaysia, where power is concentrated in the executive arm of government, the state has the capacity to wrest ownership and control of corporations from their owners, even those that own a majority stake in their companies. In other words, the state can change the owners and management of an enterprise if it wants to or feels that it is necessary to do so. As in China and Taiwan, government enterprises and political parties in Malaysia own and control vast sectors of major quoted firms (see Gomez 2002). Numerous links between state and capital in Malaysia and China serve as avenues along which government leaders can influence the ways in which enterprises develop.

There are three additional reasons why we focus on the role of the state in capital development in Asia. First, Chinese entrepreneurs in each Southeast Asian country responded quite differently to state policies. Some refused to list their firms publicly on the stock exchange, while others refrained from increasing the capitalization of their enterprises or resorted to incorporating a range of companies when expanding their enterprises for fear of otherwise attracting the predatory attention of indigenous politicians. Other Chinese businesspeople forged ties with important government leaders, though even here the nature of the ties differed (Robison 1986; Jesudason 1989; Suehiro 1989; Carino 1998; Sidel 1999; Gomez 1999). The way in which Chinese businesspeople responded to state policies had a bearing on the way in which their enterprises developed. A number of the top firms are owned or controlled by businesspeople with close links to government leaders. This nexus has greatly influenced the pattern and rate of development of the enterprises of such people.

Transnationalism, enterprise development, and identity

A common theme in many of the studies written within a culturalist perspective is that common ethnic identity facilitates the emergence of dynamic and globally connected entrepreneurial communities, evidenced for example in the emergence of major ethnic enterprises owned by Jews, Koreans, Chinese, and Japanese of the diaspora (see Kotkin 1993). Studies on the Chinese argue that a form of "Chinese commonwealth" has emerged, based on a "bamboo network" of large numbers of individual enterprises that share a similar culture (Kao 1993;

Weidenbaum and Hughes 1996). In his account of the development of ethnic Chinese investments in Europe in Chapter 4, Terence Gomez challenges conventional assumptions about enterprise in transnational perspective. To mount his case, he analyses patterns of investment in Europe by ethnic Chinese from East and Southeast Asia. He asks two questions. Are these investments promoted through ethnically based networks? And does intra-ethnic business collaboration between ethnic Chinese from Asia and Europe account for the growth in ethnic Chinese involvement in various European economic sectors? By means of a case study of investment in Britain by transnational companies (TNCs) owned by ethnic Chinese from Asia, Gomez reviews the theoretical tenets of the transnational concept. He uses his analysis of the transnational operations of ethnic Chinese firms to look at the evolution of ethnic and national identity.

Gomez suggests that a review of the literature on transnationalism would reveal an interesting paradox. While transnational studies make an important contribution to the literature on identity by focusing on the themes of hybridity and pluralism, such work nevertheless falls into the trap of essentializing ethnicity when it shifts its attention to the domain of transnational capitalism. The fundamental problem of transnational studies is their liberal and unquestioning use of the term "networks." In effect, they suggest that institutionalized ethnically based "networks" play a significant role in helping diasporan co-ethnics mobilize and move capital across national boundaries. As soon as transnational studies shift from the domain of politics, human rights, and the creation of an inclusive nation state into the domain of capitalism, they enter dangerous territory. Minority ethnic groups, particularly those born in their country of domicile, naturally stress the issue of multiplicity of identities and object to the questioning of their loyalty to the nation state by the dominant majority population. However, to argue that the dynamism and development of Chinese enterprises in Asia is due primarily to intra-ethnic business networks forged to counteract the workings of an oppressive nation state serves only to reinforce the myth of ethnic cohesiveness in the economic domain. Does Chinese capitalism thrive because intra-ethnic networks allow Chinese to move funds across borders for the benefit of the ethnic community?

Gomez shows that although there has been much overlap in the areas in which leading Chinese capitalists from East Asia invest in Britain, there is little evidence that they are linked by interlocking stock ownership and directorate ties. While investment in Britain by ethnic Chinese from East Asia has been growing, there is no evidence that they seek to establish business ties with British Chinese, that Chinese from different Asian countries have forged joint-ventures in Britain, or that British Chinese have been awarded subcontracts or serve as suppliers to Chinese

investors from Asia. In short, there is little evidence that when ethnic Chinese groups cross borders for investment purposes, common ethnic identity serves as an important mechanism for promoting business cooperation. Even ethnic Chinese capitalists from the same country have shown no inclination to conduct joint business ventures in a foreign setting. The only evidence of co-ethnic cooperation is when Chinese businesspeople from abroad use the professional services of other ethnic or British Chinese working as lawyers, auditors, accountants, or business consultants. These professionals working or domiciled in Britain give advice on business opportunities and relevant government policies and help customers bypass red tape in order to expedite their investments. Like their Taiwanese counterparts in China and Southeast Asia (see Chapters 5 and 6), investors start out by seeking the assistance of co-ethnics, but such ties are seldom sustained in the long run.

Gomez argues that transnational studies have little to say about the diversity of forms of corporate development of Chinese business groups that cross borders. His research reveals conspicuous differences in the way ethnic Chinese from China, Hong Kong, Taiwan, Malaysia, and Singapore develop their enterprises in Britain. These differences in business style would seem to reflect different attitudes on the part of such investors to the issue of corporate growth, a factor that hinders co-ethnic collaborative business ventures; in any case, there is no obvious reason why entrepreneurs in different business fields should cooperate in corporate deals. The way in which they identify business partners depends on the contribution the latter might be expected to make to the development of the new enterprise; inevitably, the best partner is seldom a co-ethnic, especially when the new venture is undertaken in a foreign country. If the British experience is extrapolated to a wider scale, there is no prospect of Chinese capital coalescing and emerging as a major force in the global economy due to networks rooted in common ethnicity. Given the diversity of ethnic Chinese business styles, Gomez questions the relevance of the notion of a special type of "Chinese capitalism."

Maria Chee, Gary Dymski, and Wei Li make a similar argument in Chapter 7, in their study of the ethnic Chinese banking sector in California. They argue that the term "ethnic enterprise" is set to disappear, given the way in which the United States economy is developing and its impact on ethnic Chinese-owned firms. They conclude that the main competition that ethnic Chinese-owned businesses face is from new ethnic Chinese immigrants, most evidently in banking and property. The threat that "old" ethnic Chinese migrants face from "new" ones highlights the issue of sub-ethnic and national cleavages. Chinese immigrants in the United States come not just from China but from all over Asia and throughout the world. Most ethnic Chinese in the United States born in Asia come from China, Taiwan, and

Hong Kong, as well as from Chinese communities in Vietnam, Thailand, Cambodia, Burma, Malaysia, and Indonesia. Ethnic Chinese from mainland China in the United States faced competition from migrants from Taiwan when the Taiwanese began to move into the property sector. When ethnic Chinese investors from Indonesia and Taiwan started to make their presence felt in the Californian banking sector, long-resident ethnic Chinese bank owners felt most threatened. However, Chee *et al.* point out that by subjecting the established generation of ethnic Chinese to competition, the new wave of immigration led to an improvement in efficiency and services in Chinese-run enterprises.

Chee *et al.* also draw attention to the intra-ethnic diversity of the foreign-born ethnic Chinese. Chinese migrants arrived in the United States at different times for different reasons, and from a wide range of socioeconomic and cultural backgrounds. Monterey Park, the area in which Chee *et al.* carried out their study, developed into a microcosm of ethnic macro-dynamics. Quoting Appadurai (1991: 191), Chee *et al.* argue that Monterey Park's "ethnoscape" comprised groups that were "no longer tightly territorialized, spatially bounded, historically unselfconscious, or culturally homogeneous."

By analyzing the operations of ethnic Chinese enterprise in transnational perspective, Gomez and Chee *et al.* provide insights into the issues of identity and economic influence – and the related issues of citizenship and rights – that are echoed in the case studies on multi-ethnic Malaysia and Thailand. These two Southeast Asian countries differ significantly in terms of the extent to which ethnic Chinese have been able to integrate or assimilate. These differences have, in turn, affected the capacity of ethnic Chinese to capture political power and increase their economic influence. In Thailand, Sino-Thais play a key role in politics and the economy, but ethnic difference is no longer a major divisive issue and few question the loyalty of Sino-Thais to their country. In Malaysia, on the other hand, ethnic Chinese have been far less able than the Sino-Thais to integrate or assimilate, primarily as a result of the way in which state institutions (including political parties) are structured and the way in which public policies have been planned and implemented (see Gomez 1999).

In an attempt to elucidate the issue of co-ethnic cooperation, identity, and rights, Hewison (in Chapter 8) discusses the merger of financial institutions owned by ethnic Chinese in Thailand in the post-crisis period. Most major banks in Thailand are owned and have been developed by ethnic Chinese with a common sub-ethnic identity (most are Teochews; see Table 8.1). Even so, they rarely cooperated at the ethnic or sub-ethnic level, even at times of economic and political crises, and were far more likely to compete to capture market share in the

domestic economy. While Teochew migrants had cooperated to secure control over the rice trade in Southeast Asia, suggesting that they originally cooperated to serve the needs of sub-ethnic groups, in time their Chineseness became irrelevant. It is common throughout the world for migrants to exploit their ethnic or sub-ethnic identity when they first start to develop their enterprises in foreign settings (see Chapters 5 and 6).

In Malaysia, sub-ethnic Chinese communities were similarly responsible for developing some major banks. The Oversea-Chinese Banking Corporation (OCBC), currently a key Asian financial institution, was a product of the merger during the Great Depression of the 1930s of three Hokkien-owned banks, as a way of coping with the economic crisis. However, Chinese banks that merged in the past have tended to founder on management problems, leading to changes in ownership. Former shareholders of OCBC pulled out to form their own banks, which emerged as major competitors of the OCBC in Malaysia and Singapore. After the 1997 currency crisis, when the Malaysian government instructed banks to carry out mergers as a way of reducing the number of financial institutions operating in the country, the Chinese-owned banks were unable to consolidate their enterprises, even though it was clearly in their interests to do so. The government therefore decided to force through a merger of Malaysia's 58 financial institutions into just six anchor banks, of which only two were Chinese-owned. After the terms of the proposed merger had been announced, the banks protested vociferously. The Chinese business community was upset that some of the most enterprising Chinese-owned banks would undergo a marked decline under the terms of the proposed merger. A general election was in the offing and the ruling coalition, the *Barisan Nasional* (National Front), needed non-Malay and especially Chinese support if it was to win a large number of seats in the new parliament, so the government increased the number of anchor banks from six to ten. Even so, only three of the ten were Chinese-owned. The bank merger drew attention to the issue of the ownership and control of domestic firms. In Malaysia, even majority ownership of a company means little in the face of a strong state determined to push through government policies or corporate restructurings.

An analysis of Chinese-owned enterprises in Malaysia indicates that such firms are highly unlikely to close ranks even when their interests are threatened by state measures. They show that ethnic Chinese companies in Malaysia exist in a wide variety of forms, including large-scale, medium, small, and micro-scale. The rich assortment of Chinese business, in terms of size, type of ownership and management, and areas of operation, explains why they seldom network by means of mergers, interlocking stock ownership, and interlocking directorships. Most of the

networks that do emerge involve commodity supply chains or subcontracting relationships. Even they are subject to constant change, occasioned by a variety of economic and business factors. This analysis reinforces the point that common ethnic identity has little to do with the way in which Chinese businesses develop. In Malaysia as in Thailand, businesses established by Chinese migrants once tended to be based on common ethnic identity, but though ethnic networks may linger on in the older population, they no longer drive those sectors of the domestic economy in which Chinese enterprises continue to thrive. We are once again back with the issue of identity change, especially in the context of rapid economic growth and modernization.

From the perspective of the individual, there is much concern in Southeast Asia about the issue of national identity among ethnic minorities, about "migrant" history, and about the civic rights of members of ethnic minorities. While the United States, Australia, Canada, and some European countries continue to accept migrants, in some cases even in large numbers, Southeast Asian countries stopped doing so in the 1930s. In Southeast Asia, migrants' descendants see themselves as belonging to the country of their birth, not to their ancestors' country of origin. In most cases, however, the indigenous community refuses to see migrants' descendants as rightful members of the nation and grudges according them equal rights.

Here, the issue of generational change and the national identity of descendants of migrant groups becomes important. While the sense of national identity of migrants' descendants is strong, they feel they do not enjoy the same rights as the indigenous or dominant community and that they are treated as "second-class." Historical migration patterns have created complex inter-ethnic problems within these societies. These problems are of a quite different order from those associated with contemporary migration.

The studies in this volume show that identity formation is subject to constant change, particularly as a result of state policies. The form that a nation's governance takes bears strongly on the issue of rights and on the extent to which ethnic minorities are integrated. Within ethnic groups, sub-ethnic differences arise as a result of several factors, including class difference, which prevents communities cohering. These issues further complicate the question of rights, from the point of view not only of citizenship but of access to economic and political power, and emphasize the different forms that identity configuration can take within a nation state.

Conclusion

This volume focuses attention on a wide range of issues that affect enterprise development in national and transnational perspective. Concepts such as networks, *guanxi*, and transnationalism fail to capture important nuances and distinctions within communities and shed scant light on the ways in which enterprises develop. By means of an in-depth study of enterprise development in one ethnic community, the Chinese, we have sketched its extensive array of forms. The development of Chinese enterprise cannot be understood as a function of Chinese culture, for cultural practices and identity are not the foundations on which enterprises are built or the reason they thrive. The most important conclusion of these studies is that Chinese enterprise owes its dynamism not to intra-ethnic cooperation but to intra-ethnic competition. Even Chinese entrepreneurs who start out by forging intra-ethnically based partnerships tend in the long run to break away and set up their own companies, and thus come to perceive even their former partners as competitors for scarce resources. Most Chinese enterprises try to organize themselves in such a way as to enhance their competitive efficiency, thereby promoting growth.

Two other themes in the literature on Chinese enterprise crop up frequently in the course of these chapters and require a brief final mention. The first point concerns family companies, which remain a key form of business, though they are unlikely to endure. The second point concerns transnationalism. Intra-ethnic networks are a key issue in transnational studies, but their relevance is confined mainly to the immigrant generation. Even among immigrants they tend to become progressively irrelevant to the further development of business ventures, once the immigrants start to settle down. In the case of both family business and transnationalism, generational change is a key concept. Migrants' descendants tend to view their identity, and especially their ethnic identity, differently from their migrant forebears. They also relate differently to people of other ethnic backgrounds. The impact of generational and identity change is evident in the evolution of the management style of migrants' descendants and in the ways in which they run the businesses their forebears founded. Their sense of rootedness in local and national communities leads them to participate in national political movements and in the mainstream economy, and to ignore ethnically based business associations of the sort formed by migrants. In this sense, the theoretical focus of studies on Chinese enterprise should not be on intra-ethnic commonalities but on new identities, rights, and justice.

If such themes are to inform our analysis of the evolution of Chinese enterprise and identity, we must focus on the role of the state, and in

particular on the way in which it formulates and implements investment incentives and policies affecting migration and rights. It is essential to analyze the role played by the state in economic development in Asia, since government policies have profoundly shaped the form that economic development takes, including in the case of Chinese-owned enterprises. Government policies on investment have had an important impact on how and whether ethnic Chinese invest domestically and in other countries. Government policies on migration and rights have influenced identity formation. The extent to which rights are accorded to ethnic, cultural, and religious minorities and issues of political and economic equality have a strong bearing on community formation and ethnic co-existence at the national level.

Our empirical findings refute the culturalist, essentializing approach to the study of Chinese enterprise. Entrepreneurs work in their own interests rather than in those of the community, although much of the literature on Chinese enterprise assumes the contrary. In other words, the concept of culture is in urgent need of reconceptualizing. Shared culture does not determine the way in which ethnic Chinese-owned firms develop. Culture is protean and mobile rather than fixed and static. An analytical reconfiguration of ethnic Chinese-owned enterprise along the lines suggested in this introduction would challenge the assumption that Chinese entrepreneurs are mutually dependent and intent on consolidating their businesses, and would throw a more searching light on the ways in which their firms develop in domestic and global markets.

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Part I

REVIEWING THEORETICAL DEBATES, DEFINING THEMES

1

THE MAKING OF CHINESE BUSINESS CULTURE

Culture versus organizational imperatives*

Chang Ly-yun and Tony Tam

Introduction

Chinese culture has always been a fascinating subject for social science research. At least two recent success stories, we believe, have contributed to a strengthening interest in Chinese business culture. First, the Taiwanese economy has undergone spectacular growth for three decades. This success is all the more striking given that Taiwan started off as a typical Third World poor country.[1] To make sense of the Taiwanese success, a great deal of scholarly research calls attention to Chinese business culture. Second, with the remarkable and resilient boom of the mainland Chinese economy since the 1980s, the rapid expansion of international trade and foreign investment connected with this emerging giant economy has heightened the demand for an understanding of Chinese business culture. If there is a distinct Chinese business culture, any multinational corporation (MNC) doing business with China will have to know it and master it.

Despite minor variations across societies, most ethnic Chinese do appear to share a common business culture. The conventional view of Chinese business culture underscores the fact that Chinese business ties are often coupled with and structured by pre-existing social ties in the form of *guanxi* networking – one of the most enduring and definitive features of Chinese business culture. Two theoretical aspects of this conventional view should be emphasized. First, the coupling of economic and pre-existing social relationships is what Granovetter (1985) called the social embeddedness of economic transactions.[2] Contrary to textbook models of economic markets, Granovetter emphasizes the fact that economic exchanges do not, and cannot, just happen in a spot market or in a sociological vacuum. Instead, there is a powerful tendency for

economic transactions to be socially embedded.[3] Second, *guanxi* networking is a form of social embeddedness that is far from typical among Western business firms or persons. The essence of *guanxi* networking is that a person can capitalize on reciprocal obligation and trust implicit in strong social ties to facilitate the exchange of favors and informal influences outside the domain of the original social ties. The mobilization of a kinship tie to bring about a desired outcome, such as a job offer, private financing, or political support, is a prototypical form of *guanxi* networking.[4] Indeed, *guanxi* networking in Chinese business entails strong social embeddedness. Business relations are often built upon a pre-existing social structure of dense and durable social relations, with a clear sense of group identity and relatedness. Relatedness has significant consequences. For instance, strong ties give rise to a sense of relatedness or group membership. Even when an outsider may find it too risky to trust a person, trustworthiness of an in-group member is almost taken for granted unless proven otherwise. Trusting is largely a matter of obligation. In a sense, every member has a large credit allowance from other members.[5]

Despite a strong consensus over the characterization of networking behavior in Chinese business, a consensus has yet to be reached when it comes to explaining the networking behavior. The origin and character of *guanxi* networking among Chinese remains an open question. Addressing this question is the primary objective of this chapter. The starting point of our investigation is a prominent interpretation of the *guanxi* phenomenon in Chinese society: *guanxi* is an integral part of Chinese culture, pervasive in daily life and resilient over a very long history (Hu 1944; Fried 1953; Chiao 1992; Gold 1985; Hwang 1987; King 1991; Yang 1994). By extension, *guanxi* networking in Chinese business is a result of cultural imperatives central to Chinese culture in general (Hu 1984; Chen 1986; Hwang 1990; Hamilton and Kao 1990; Redding 1993; Fukuyama 1995; Chen 1995). This interpretation traces the origin of *guanxi* networking in Chinese business to a longstanding cultural tradition. Cultural tradition is by nature convergent and enduring, supported by a web of values, norms, institutions, and a wide range of cultural imperatives. The interpretation represents a distinctive hypothesis of Chinese business culture.

The purpose of this chapter is to offer a critique of this hypothesis of *guanxi* networking in Chinese business. First, we review the empirical basis of the cultural imperative hypothesis that attributes a central role to the cultural affinity or receptiveness of Chinese for *guanxi* networking. Second, we call attention to a literature that begins to offer theoretical and empirical critiques of the cultural hypothesis. Recognizing the weaknesses in the cultural hypothesis, we propose an organizational

imperative hypothesis that takes seriously the significant presence of contingent patterns in Chinese and non-Chinese business networks. The hypothesis suggests that contingent patterns of Chinese and non-Chinese business networks reflect divergent organizational imperatives rather than convergent cultural imperatives.

To evaluate the two hypotheses of Chinese business culture, we follow an inductive approach.[6] Specifically, we present three critical tests. Each test represents a dimension of contingency. Along each dimension of variation, networking behavior among Chinese firms is expected to stay the same under the culturalist hypothesis but systematically to change under the organizational hypothesis. Taken together, the three tests undermine the culturalist interpretation by showing that the oft-cited evidence for it is in theory just what we would expect under a specific set of circumstances that is far from universal or permanent. The evidence is consistently against the cultural imperative interpretation but supportive of the organizational imperative interpretation. On both theoretical and empirical grounds, then, Chinese business culture is not *guanxi*-driven but indicative of organizational imperatives that undergird a variety of seemingly divergent business practices and behavior among Chinese firms.

Sources of *guanxi* networking: Preliminary evidence

Literature on Chinese business

What may be regarded as smoking guns of *guanxi* networking as an outcome of Chinese cultural imperatives? The literature has focused on two kinds of evidence: first, the salient presence of social embeddedness via two types of social networks in business relations, and second, their seemingly universal presence among Chinese across different social contexts.

By many accounts, the foremost characteristic of Chinese business is the centrality of family/kin ties and obligations (see, for example, Wong 1985; Chen 1986; Hamilton and Biggart 1988). Many studies have demonstrated the salience of nepotism in Chinese business firms – the design of organizational management (for instance, Hwang 1990). However, the prevalence of family enterprises alone is not necessarily due to the strength of Chinese familism or the necessary reach of family control over the asset of a member. In fact, many scholars would argue that nepotism is generated by the same cultural logic that governs the selection of business partners (see, for example, Wong 1985; Fukuyama 1995; Whyte 1996). It is, therefore, instructive to review what we know about the formation of Chinese business networks and its prevailing interpretation.

A broad and diverse literature on Chinese business testifies to the fact that primary (kin) and secondary (friends and classmates) personal networks are often the basis of building a new venture (Cheng 1997; Luo 1997; Tsai 1999; Wu 1999). The production of small commodities was piggybacked on the local and kinship networks of an agrarian economy (Hu 1984; Ka 1994). The pattern is also observed among small and medium enterprises in Taiwan (Chen 1986; Hsia and Chen 1990; Chen 1994; Yeh 1994; Chao 1995; Luo 1998; Lee 1999). Social embeddedness facilitated the initiation of a business organization, labor relations, reliability, cost control, mutual accommodation and division of labor. The phenomenon apparently is not limited to small or medium firms. In fact, most of the 100 largest business groups in Taiwan started off as a closely knit family business (China Credit Information Services 1978; Numazaki 1986). Thus, the evidence on Taiwanese business appears to support the culturalist interpretation of Chinese business culture.

In fact, the evidence goes beyond Taiwanese firms. Recent work has documented social embeddedness in the transitional economy in mainland China. It is often reported that personal connections are crucial for a manufacturer to set up production in China (see, for example, Appelbaum and Smith 1996). Even among local Chinese, the cultivation of *guanxi* is pervasive because it is essential for running a business smoothly (Yang 1989). Family and kinship ties continue to show powerful influences on local governance and the economy (Chen 1999). Others have found similar patterns among Chinese business in Southeast Asia (Landa 1994) and Hong Kong (Appelbaum and Smith 1996; Weidenbaum and Hughes 1996). Chinese immigrants to North America and elsewhere have often relied on their families and ethnic communities as a social capital for entrepreneurial pursuits (Wong 1987; Sanders and Nee 1996; Tseng 1997).

Social embeddedness is also apparent in cross-national and cross-regional transfer of entrepreneurial resources and opportunities (Saxenian 1998; Wu 1999). Silicon Valley immigrants are increasingly exploiting their cultural links with their home countries to create wealth both in their home countries and in Silicon Valley – by bridging the knowledge gaps between regions, serving as conduits for venture capital, or setting up joint ventures and low-cost production lines in their old home countries. Pre-existing social connections play a conspicuous role in the international and inter-regional business networks of trade – flows of ideas, human resources, financial capital, services, and products.

The culturalist hypothesis: The prevailing view

Given the prevalence of *guanxi*-driven Chinese business networks across diverse contexts, most scholars have postulated that *guanxi* networking is

simply an extension of traditional Chinese familism to business relations (for example, Redding 1993). After all, nepotism has been part of Chinese society and culture for centuries and many scholars have attributed it to traditional Chinese familism that stresses obligation, loyalty, reciprocity, and collectivism. In other words, it is the strength of Chinese familism that accounts for the spillover of nepotism into the business domain. The cultural affinity may even be traced to the direct and indirect influences of Confucianism – the dominant cultural paradigm for 25 centuries of Chinese civilization – on family, kin, and interpersonal relationships.[7]

Another interpretation points to the weakness of social trust among Chinese. Chinese culture does not place much generalized trust in unrelated others (Fukuyama 1995). This derives at least in part from the teaching of Confucius on how interpersonal relatedness should be ordered. A stranger is the least related kind of person for any individual and so the least trusted. The mistrust in non-kin alters or impedes cooperation in general. As a result, Chinese firms heavily utilize *guanxi* in the formation of business relations and ventures. In short, the salience of *guanxi* networking in Chinese business may be largely due to a lack of social trust required of all business transactions. Nonetheless, it is the longstanding lack of cultural support for social trust that engenders the prevalence of *guanxi* networking in Chinese business.[8]

Above all, the culturalist interpretation suggests that there is a formidable market barrier for outsiders, especially foreign business seeking to deal with Chinese business. Doing business with Chinese demands not cultural assimilation but network assimilation – plugging into an existing social network before mobilizing the network in support of a business venture. Just learning the language, manners, and customs of Chinese culture would not do it. Even Chinese firms do not easily deal with other Chinese firms. Two Chinese business persons are more amenable to business cooperation if they have social ties or the more their social networks overlap. Otherwise, an outsider would likely have to co-opt (or buy) an insider into a partnership and let the insider be the broker of network access to other Chinese business intended for deals.

The organizational hypothesis: An alternative view

We have taken the culturalist hypothesis seriously because a multidisciplinary group of scholars regard the hypothesis as highly plausible and compatible with much of the state-of-the-art knowledge of Chinese culture. We are aware that economists may question the wisdom of making any culturalist assumption that grants traditional culture a critical role in determining how modern business transactions are conducted. Some of those expert in Chinese intellectual and cultural

history may decry the idea that *guanxi*-driven business networking is a derivative of Chinese culture.[9] While we are willing to consider the culturalist interpretation as a real possibility, we do not take for granted the generalizability and the prevailing interpretation of the prior evidence. In fact, we would argue that the interpretation is problematic upon close examination.

The motivation for our critique is a dual observation. First, social embeddedness is far from a unique Chinese phenomenon. In fact, Granovetter's (1985) seminal essay is not at all motivated by any Chinese business behavior. Social embeddedness and *guanxi*-like business networking are found among non-Chinese in eastern Europe (Whitley, Henderson, Czaban, and Lengeyl 1996), Cuba (Portes 1987, 1995), European countries (Lane and Bachmann 1996), and the United States (Uzzi 1997). Although this cross-cultural evidence of social embeddedness is not contradictory to the culturalist perspective on Chinese business networks, it is at least suggestive of a non-cultural generating mechanism.

Second, the culturalist interpretation fails to recognize that Chinese business behavior is diverse and contingent. Recent research has uncovered significant and systematic variation in business networks even within the same period and institutional context in Taiwan (Chang and Tam 1999). The culturalist interpretation appears to have inappropriately emphasized the intra-cultural similarity of Chinese business behavior to the expense of intra-cultural variation. If Chinese business networks do vary in the extent of social embeddedness, it is critical to know whether the variation is predictable or interpretable from a non-culturalist perspective.

Our organizational imperative perspective is a non-cultural alternative view. The central idea is that business firms are constantly confronted with the fundamental problem of survival. To do so, each firm must meet its own set of imperatives to keep costs down, deal with the threat of new market entrants, and so on. Even for nonprofit organizations, survival hinges on sustaining the legitimate claim to nonprofit status. Textbook economic models of the firm postulate the equivalence of survival and profit maximization in the long run. To economists, then, the problem of survival is mainly the problem of profit maximization. But in the long run most firms would be dead and profit maximizing is not sufficient in the short run. The problem of survival is the problem of life and death in the short run. Without sufficient capital investment at the start of a firm, for instance, the calculus of profit maximization will not even have a chance to contribute to the bottom line. The grip of the survival problem on organizational behavior should be profound.

Even if all firms emerge from the same cultural tradition, the challenges of survival facing different firms can be really diverse.

Specifically, the structural position of a firm in an organizational field, the market and technological characteristics of a firm, and the broad institutional environment often contribute to defining the survival problem and requirements that the firm must strive to meet.[10] The problem of survival therefore translates into potentially divergent organizational imperatives for different firms in different cultural and institutional contexts. The organizational imperative perspective here is fully cognizant of the diversity and contingency of business behavior among Chinese firms. Most significant, the perspective is compatible with substantial and systematic diversity within a specific culture and institutional context, not just with substantial similarity of business behavior within culture (but across institutional contexts) and similarity within institutional context (but across cultures).

Three critical tests

For the purposes of this chapter, it suffices to show that Chinese business networks are indeed contingent and the contingency is readily interpretable from the organizational imperative perspective. We have chosen three dimensions of contingency that have been documented in the literature and can offer illustrations of the different payoffs of social embeddedness. The point of contention is whether Chinese firms behave differently at different ends of the dimensions. If they do this even within the same institutional setting, the evidence is incompatible with the culturalist perspective that the *guanxi* phenomenon is deeply rooted in Chinese culture and so should be relatively constant among Chinese sharing the same cultural tradition, not to mention those facing the same institutional setting. The more contingencies are observed across the three dimensions, the more unfavorable is the evidence for the culturalist perspective. The more predictable are the contingencies as the outcomes of organizational imperatives, the more supportive is the evidence for the organizational perspective.

Entry barrier: Network exclusion

The paradigmatic examples of social embeddedness among Chinese firms are from the likes of apparel and footwear industries (Hu 1984; Wong 1987; Hsia and Chen 1990; Ka 1994; Chen 1994; Chao 1995; Appelbaum and Smith 1996; Tseng 1997). One of the obvious characteristics of these industries is low entry barrier. The barrier may be low for a variety of reasons: low start-up cost, low initial learning cost (hence relatively low skilled), and low capital intensity (hence low sunk cost). The paradigmatic examples of the absence of social embeddedness are from the likes of semiconductor (Cheng 1997; Wu 1999), steel (Tsai

1999), fine machine (Lee 1999), and hospital industries (Chang 1999, 2001) where entry barrier is high. Is the contingency interpretable?

In light of the endless competitive threat from potential new entrants to the market, the fundamental survival problem for a player is to sustain its market position. But this positional defense imperative is hard to meet in a low entry barrier market, as it is in a textbook perfect market. However, in reality, barriers can be socially constructed even in a market with inherently low entry barrier. Social embeddedness is a means to raise entry barrier by facilitating network exclusion.

The mechanism has four components. First, by piggybacking on pre-existing social ties, a business cooperative relation can be differentiated from an anonymous relation. The distinction facilitates the social construction of identity of the business ties versus any potential competitors. Second, coupling business ties with social ties means that good business relations can help maintain and nurture the existing social relation. Good economic behavior enhances social solidarity (Numazaki 1986). Third, social embeddedness therefore raises the cost of replacing any member of the network by an unrelated new entrant. For a given replacement cost, the impact is, of course, stronger in a low entry barrier market than in a high entry barrier market. Fourth, it is to the benefit of everyone to be obligated to each other in giving priority to deal with existing members rather than with a low-cost competitor.

How does it all work? New entrants cannot easily invoke price competition when existing business networks are socially embedded. Getting a short-term cost saving does not meet the central organizational imperative of the existing players, and so is a weak reason for replacing a member. On the other hand, an anonymous new entrant will face the difficult problem of lacking any identity benefits. To compensate, the new entrants have to offer some other competitive advantage, effectively a higher entry barrier for new entrants than it was for the existing players. Social embeddedness is therefore a simple means to practice network exclusion and defend existing market positions. Its interpretation does not involve any culturalist mechanism.

Speed of change in core skills: Economizing transaction costs

The second obvious characteristic of the paradigmatic examples of social embeddedness is low speed of evolution in the core skills for an industry. By contrast, when it comes to the CD drive industry or the personal computer industry where product lifecycle has proved to be extremely brief, there is very little social embeddedness to be found (Hsieh 1998; Lee 1999). How do we make sense of this divergent pattern?

When the clockspeed is low, competitive edge cannot come from perpetual innovation – beating others to come up with a new innovation,

an improved design, a better standard, and so on. Except for the cases where innovations are protected by patents, the competitive edge may well come from cost reduction. Cost reduction, of course, can occur through perpetual proprietary skill upgrading (protected by secrecy or patent). But can one get a cost advantage without perpetually upgrading ahead of competitors? Yes, especially in the many contexts where supplier networks are extensively involved. A firm can get a cost advantage by maintaining lower transaction costs than a new entrant can do with the same technology.

Social embeddedness is a means to reduce transaction cost. Social embeddedness can lower transaction cost by promoting cooperation and trusting behavior, facilitating give-and-take over time that simplifies transactional codes, enabling price competition against competitors with the same technological level, and so forth. Transaction cost is a function of business organization and interfirm relations, both of which are not bought and sold in an open market. The supply is limited and highly contingent – a firm may wish for it and be willing to pay for it but never succeed in getting the right ingredients to set up a durable low transaction-cost network of desirable suppliers. The supply of efficient supplier networks is anything but perfect. For those who already have it, therefore, it is a pretty defensible competitive advantage. In short, social embeddedness is cost-effective in a low clockspeed environment.

In a high clockspeed environment, the survival implication is different. It is critically important that business partners – for example, component suppliers – must be able to keep up with the pace of technological progress. Obsolescence is fatal in a high clockspeed industry. Social embeddedness is by design a mechanism to promote stability or long-term relations. If the organizational imperative is to keep pace, the strength of social embeddedness becomes a liability. Embeddedness entails locking-in and therefore risks death by obsolescence. As a consequence, for whatever it is worth, social embeddedness cannot prevail in a high clockspeed environment.

The speed of change, or the clockspeed of an industry, is a result of the technology and the competitive dynamic of an industry. In general, clockspeed may be related to but not a direct result of capital intensity, skill level, and so on. Clockspeed is an independent and critical influence on organizational networking behavior through its impact on survival. There is no need to resort to any culturalist explanation.

Demand and supply of credit: Economizing credit costs

The other notable characteristic of supportive cases for the culturalist interpretation is that the firms have a need for financial credit but the terms of loan in the formal capital market are unfavorable for them. A

large class of these firms that fits this profile is the class of newly started firms, especially small family firms (Hsu *et al.* 1985; Semkow 1992). New firms are universally risky bets from the perspective of the formal capital market because of their high failure rates as a group, the lack of track record to differentiate among members of the class or to make reliable predictions about the prospect of success for individual firms. In other words, the borrowing costs for new firms or firms in formation are substantially higher than those for existing firms. The survival problem for a new firm is inevitably tied to the firm's ability to procure financial capital at reasonably low rates.

For a small start-up, the size of capital investment is relatively modest and there are plenty of individuals in the entrepreneur's social network who may have the resources to provide the initial financial capital. These individuals have a special cost advantage over creditors in the formal capital market. First, they have an enduring social relationship with the entrepreneur that provides prior and potentially unbiased information on his background and his venture. Second, they are likely to know the other friends of the entrepreneur, from whom they can cross-validate important information. The information amounts to lowering the risk of default and thus the expected lending cost is lower than that of a formal creditor. In addition to the informal contracting arrangement, the entrepreneur can expect to get a cheaper rate by lending from friends than from the open capital market. Thus, the initiation stage of a small business is conducive to network financing, or socially embedded financing relationships.

For a large established firm, however, the demand for credit may be too high to be met by the limited number of friends, or too inefficient to manage a large number of individual creditors. The expected interest rate from the formal credit market is likely competitive and more favorable than the firm can get from the informal market. There is not even a cost advantage to a personal friend who has the money to lend, as the track record of the firm is as transparent to the formal market creditors as it is to the friend. All things considered, social embeddedness is unlikely among large established firms, any existing firms with a high demand for capital, or any firms with good access to the formal credit market.

Conclusion: Chinese business culture in the twenty-first century

Chinese are all over the world and amount to a quarter of the world population. China is an awakening giant that has caught the attention of every player aspiring to get a piece of the largest emerging market in the history of civilization. Chinese business culture is in the limelight. Are

Chinese firms particularly connection-driven or socially embedded in strong ties? The culturalist interpretation implies an affirmative answer but the organizational imperative interpretation suggests a negative one. The results of our three critical tests are unambiguous. The weight of the evidence is in favor of the alternative view. Taken together, the diverse patterns of Chinese business networks are products of organizational imperatives that are restricted neither to Chinese societies nor to Chinese business firms in a non-Chinese society. Chinese business networks do not reflect distinct cultural imperatives.

In addition, we argue that there is not a distinct Chinese business culture. The *guanxi* conception of Chinese business culture is not particularly Chinese, and business practices are not strongly driven or constrained by a distinct Chinese cognitive frame. Chinese business culture is interpretable by the same principles that have been applied to Western business behavior. The supposedly distinctive elements of Chinese business culture are readily observable in other cultures and societies. Thus, Chinese business practices are similar to those of Western business under comparable conditions.

What will become of the Chinese business culture in the new age of globalization? The failure of the culturalist interpretation and the success of the organizational imperative interpretation imply that the answer is, strictly speaking, contingent – it largely depends on the social, economic, and institutional settings that will likely confront Chinese firms around the world. However, even in the past, Chinese business practices have been similar to those of Western business under comparable conditions. Chinese business culture will be more like Western business culture to the extent that Chinese firms will increase their representation among service and capital-intensive industries, large firms that necessitate the extensive use of managerial human resources, and production markets that require interfacing with large and heterogeneous upstream and downstream players. We predict that Chinese business networks will behave like comparable Western business networks if Chinese firms operate in a market well supported by institutionalized (legal and otherwise) enforcement of contracts and if the industry mix continues to approach those typical of Western economies to date.

Notes

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1 The economy took off despite the political isolation confronting the country and the global economic recession due to the oil crisis. The Taiwanese economy had depended on resource-oriented export for half a century during Japanese colonial rule and had been under martial law for four

decades since the late 1940s. It appeared to share all the positional disadvantages of a peripheral economy in the world system.

2 As a matter of definition, social embeddedness of an action simply means the piggybacking of the action on pre-existing social ties or networks.

3 According to Granovetter (1985), the endemic problem of malfeasance in economic action is usually solved by coupling economic exchanges in pre-existing social networks. Social embeddedness is a simple but pervasive social solution to the demand for trust and control in face of possible malfeasance. This view offers a possible explanation of why social embeddedness is so conspicuous in Chinese business. In fact, it has been incorporated into the development of the organizational imperative hypothesis.

4 Our definition regards *guanxi* networking as a morally and ethically neutral phenomenon. However, it is also not difficult to imagine that *guanxi* networking may easily turn into corruption or the subversion of fair rules and open competition.

5 Reciprocal obligation and trust reinforce each other. Trust tends to increase indebtedness, and mutual indebtedness strongly induces reciprocal obligation (Tam 1997). Indeed, obligation without trust is coercion, trust without obligation is socially unstable.

6 As mainland China had been closed to the outside world for much of the last half century, most research on Chinese business culture was based on Chinese migrants and the two societies that are as close to purely Chinese as one can imagine: Hong Kong and Taiwan. Because of the significance of the Taiwanese case and the size of the scholarly community, research on Chinese business in Taiwan is by far the richest and forms the basis of many of the studies we will cite.

7 The Confucius culture is very much founded on interpersonal relatedness, harmony, and obligations rather than individualism, contest, and self-interest. Notwithstanding revolutionary changes in socioeconomic structure, for instance, people in communist China maintain a culture of economic life that strikingly mirrors the *guanxi*-driven business culture among ethnic Chinese all over the world (Walder 1986; Yang 1989; Bian 1997, 1999). If *guanxi* is central to how Chinese address problems of everyday life at the individual level and across diverse institutional settings, it seems only natural that it is also central to business transactions.

8 Some scholars have downplayed the cultural source of the lack of social trust (Wade 1990; Winn 1994; Green, Kwong, and Tigges 1995; Fellmeth 1996; Vardi and Wiener 1996; Banerjee 1997; Appelbaum 1998).

9 Some may even suggest that Confucian virtues (such as loyalty, harmony, and diligence) can have their optimal contributions in a modern corporation rather than a small family firm (for example, Hwang 1990).

10 In a somewhat different context, we have discussed in detail the kinds of organizational imperatives that would dynamically shape the patterns of corporate networks (Chang and Tam 1999).

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2

CHINESE BUSINESS FIRMS AND ENTREPRENEURS IN HONG KONG

Raymond Sin-Kwok Wong

Introduction[1]

The success of the East Asian economies, particularly Hong Kong, Singapore, South Korea, and Taiwan, since the second half of the twentieth century has been little short of astounding, with few countries matching the pace and intensity of their development. In the past two decades, sociologists and economists have grappled with the need to identify factors contributing to this success. A challenging task has been the search for appropriate theoretical handles on the economic institutions commonly found in these societies, particularly their organizational structures and the relation of these structures to economic rationality and performances. Unlike their Western counterparts, business organizations in East Asia seem to be dominated by horizontally controlled networks of family firms in Chinese settings, clusters of interconnected large firms such as the intermarket groups (*keiretsu* and *kaisha)* in Japan, and the vertically integrated network of firms (*chaebol)* in South Korea (Orrù, Biggart, and Hamilton 1991). Their obvious differences notwithstanding, most East Asian business organizations tend to share a characteristic of significant reliance on business networks in coordinating production, distribution, and consumption of products and services. This has prompted some scholars to proclaim *network organization* to be a unique institutional feature of Asian capitalism, a system that is distinctive from the Western notion of bureaucratization and efficiency (Biggart and Hamilton 1997: 51; Whitley 1992).

Whether East Asian business organizations have distinctive institutional structures has thus become an important question in the ongoing research for factors contributing to the phenomenal success of the East Asian economies. This chapter seeks to address the question by a case study of Chinese business firms and entrepreneurship in Hong

Kong in the late 1990s. Given the significant variations among East Asian countries as well as between the Eastern and Western systems (Redding 1990; Redding and Whitley 1990), findings from a single case study may have limited generalizability. Rather than offering definite conclusions about East Asian business organizational structures and practices, the objective here is to raise a number of concerns so as to trigger more systematic investigation of the validity of previous claims in contemporary settings.

Chinese business firms and entrepreneurship

The conventional image of Chinese business firms is that they are usually small *family* firms, as the Chinese people seem particularly drawn to entrepreneurship, which often relies on family support.[2] This is clearly reflected in the literature on business culture and entrepreneurship in Hong Kong in the past few decades (to cite a few, Espy 1970; King and Man 1974; King and Leung 1975; Lau 1982; Redding 1980, 1990; Redding and Wong 1986; Sit, Wong, and Kiang 1979; Redding and Tam 1990; Whitley 1991; Wong 1979, 1985, 1989). The proliferation and continuous formation of Chinese family businesses in Hong Kong led some scholars to argue that "there exists in Hong Kong an economically dynamic ethos of 'entrepreneurial familism,' under which the family engages in economic competition and risk-taking as a unit" (Wong 1988a: 142). In a similar vein, Lau (1982) develops the concept of utilitarianistic familism to characterize the propensity for entrepreneurship in Hong Kong. According to Lau (1982: 72), "utilitarianistic familism can be defined as the normative and behavioral tendency of an individual to place his familial interests above the interests of society and of other individuals and groups, and to structure his relationships with other individuals and groups in such a manner that the furtherance of his familial interests is the overriding concern. Moreover, among the familial interests, material interests take priority over non-material interests."

That there are cultural underpinnings to the dynamism of entrepreneurship among "overseas" Chinese and the characteristics of Chinese business organizations is further argued by scholars who trace these economic behaviors to salutary Chinese cultural traditions, particularly (post-)Confucian ethics (Berger and Hsiao 1988; Bond and Hofstede 1990; Hofstede 1980; Kahn 1979; Rozman 1991; Vogel 1991).[3] An alternative and more sociological account of the significance of family relations in Chinese business firms, on the other hand, draws on Fei's (1992) insightful analysis about the Chinese relational logic that produces a society based largely on social networks. It contends that since lineage (family and kinship) is important in the structuring of horizontal

networks, small family-run firms in Chinese societies generate a complex web of personalistic networks linking the firms backward to sources of supply and forward to consumers (Chan 1982; Omohundro 1981; Wong 1985). Thus, business organizations in Chinese societies feature a strong institution of networks based on familial and lineal ties.

In line with this emphasis on Chinese business firms as family-based operations, the organizational structure of Chinese companies is often taken to follow the Chinese family structure, with the head of the household heading the firm, family members serving as core employees, and sons poised to inherit the firm. Furthermore, the organization is assumed to be usually flat and have little internal differentiation. In terms of management, the head maintains vertical control and makes all major business decisions, consulting minimally with other family members and co-workers. Since Chinese family firms are the property of the household rather than of individuals and function as a general pool of resources that lineage members can utilize if the need arises, their management system has also been likened to a "nesting box" (Omohundro 1981; Redding 1980). The small innermost box is occupied by core members who own or will inherit the business, the next box by more distant relatives and friends who owe their positions to their connection with the owners and who are in a position to influence and be influenced by them, and the outer box by ranks of unrelated people employed in the firm. Depending on the size of the firm, the outer box may contain professional managers, supervisors, technicians, and other craftsmen. The outermost box consists largely of unskilled wage laborers. Tong (1991) describes the authority relationship between owner and managers in such a setting as the centripetal authority structure. In contrast to their tightly knit internal structures, the business networks maintained by Chinese firms are believed to be loosely organized and loosely connected.

On business strategies, Chinese firms seem to defy the predictions of conventional economic theories about market dominance and efficiency. Although some businesses may exhibit a high degree of vertical specialization, their dominant growth strategy is often diversification into unrelated and opportunistic business. Sometimes, "[t]he strategy of expansion is to start new firms, even if it is in the same product line, rather than greatly enlarging the size of the original firm" (Hamilton and Kao 1990). As a result, nominee and trustee companies are set up to hold the family's interests in the various sectors of the business. The family business usually takes on an increasingly complicated ownership structure, with cross-holdings and "double-back" holdings between subsidiaries and associated companies (Tong 1991). Despite the apparent clumsiness of the complexly connected horizontal networks, many of these firms remain profitable and make efficient allocation of scarce resources. Besides a network of direct family business firms, many firms

also maintain an intricate web of business networks or *guanxiqiye* (Hamilton, Zeile, and Kim 1990; Lim 1986; Redding 1990; Redding and Whitley 1990; Tong 1991; G. Wong 1991), which are often, though not necessarily, controlled by ties based on ethnicity and place of origin, like the *Tainangbang* or *Tainang Clique* in Taiwan (Numazaki 1991) or the *Shanghaibang* and *Qiaochiubang* in Hong Kong (S.L. Wong 1988b).[4]

A network of relationships and organizations such as that which recent research has shown to characterize Chinese business firms challenges us to reconsider the prevalent understanding of economic organizations based on Western experiences, which hampers our appreciation of alternative ways of organizing economic activities that are no less rational, effective, and efficient. Indeed, the dominance of family firms among overseas Chinese businesses, together with the patterns of integrated networks of firms in Japan and South Korea, have led some to argue against the hegemonic Western notion of bureaucracy and efficiency and to adopt a multiple contingency approach to economic resource coordination and control within the broader institutional context in the study of organization (Redding 1990; Redding and Whitley 1990). However, it is important not to essentialize the differences or to assume that the pattern would persist over time. As Chinese business firms are active agents participating in the global business system and in constant contact with the Western world, it is unlikely that their business and management practices and organizational arrangements would not adapt and modify in the rapidly changing economic environment.

In fact, if scholars generally acknowledge the significance of family relations and networks in accounting for the economic success of business firms in Chinese societies, [5] some argue that Chinese family principles are conducive to economic success only when the firms are small, and that the efficiency and practicality of family-run medium- and large-scale businesses are questionable. As Greenhalgh (1984: 529) puts it, "[f]amilies may be the greatest obstacle to further capital-intensive development, for they are insular and atomistic, and their resources are limited and subject to periodic break-up" (see also Amyot 1973; Greenhalgh 1988; and Willmott 1960). Following the logic of this argument, it remains to be seen whether the family structure may become an impediment to further economic growth in Chinese business firms, and whether these firms would transform themselves and rely less on family members and more on professional managers and experts in running their business.

To summarize, according to current understanding of Chinese business firms, firms in Hong Kong are expected to: (i) be small scale with relatively simple organizational structuring; (ii) focus on one product or market with growth by opportunistic diversification; (iii) have centralized decision making with heavy reliance on one dominant executive; (iv) have a close overlap of ownership, control, and family; (v) have a

paternalistic organizational climate; (vi) be linked to the environment through networks of interpersonal obligations; (vii) be very sensitive to matters of cost and financial efficiency; (viii) be linked strongly, but informally, with related but legally independent organizations handling key functions such as parts supply or marketing; (ix) be relatively weak in terms of creating large-scale market recognition for brands; and (x) have a high degree of strategic adaptability (Redding 1990).

Studying Chinese business firms in contemporary Hong Kong

With its vibrant entrepreneurship and proliferation of Chinese business firms, Hong Kong constitutes a rich resource for the study of Chinese business firms and entrepreneurship. There have, of course, been noteworthy studies of entrepreneurship and business organizations in Hong Kong. However, past analyses were mostly based on either aggregate firm-level statistics or small samples of specific entrepreneurs such as the Shanghainese cotton spinners, or large business groups such as the top 100 firms, rather than a spectrum of firms covering *all* sectors and sizes (Sit 1982; Sit, Wong, and Kiang 1979; Tuan, Wong, and Ye 1986; S.L. Wong 1988b). Like other restricted case studies, such single-type organizational studies have only limited utility, and their results cannot be generalized to the entire organizational matrix (Kalleberg, Knoke, Marsden, and Spaeth 1994, 1996). This means that the importance of family relations in the business activities they studied may not apply to other firms in the city, and that the significance of other organizational principles may have been neglected. More importantly, even if the generalizations about family firms hold true, they are derived from the experiences of a particular period (from the 1960s to the early 1980s) and may no longer be relevant today.

The past two decades witnessed some significant changes in Hong Kong that might have led business firms to shift away from a family firm structure. First, while the trend of monotonic decline in the size of manufacturing firms[6] seems to have continued, the nature of the decline is very different today than it was 20 years ago. In the past decade or so, more and more manufacturing firms have shifted their production offshore to southern China and Southeast Asia, leaving their Hong Kong operations to specialize in the final processing of semi-finished goods and packaging for export. With the relocations, the organizational structure of manufacturing firms in Hong Kong saw significant changes. Many small manufacturing firms are now employing hundreds if not thousands of workers in mainland China. It has been estimated that Hong Kong capitalists employ, directly and indirectly, 7 to 10 million Chinese workers, a figure far exceeding the total working population in Hong

Kong (Tang 1993: 45). The organization of production in local firms has shifted accordingly toward new areas such as product design, research and development, long-term planning, quality control, coordination, and financing. At the same time, the booming China trade has furthered the proliferation of small trading firms that have few employees or none. The extent to which these firms continue to rely on family members as their primary labor pool or turn to incorporate non-family members is an interesting, open question.

Second, the Hong Kong economy has transformed rapidly over time, with the service sector (personal and financial services) rising in importance. The continual expansion and consolidation of existing conglomerates, the proliferation of chain stores and franchises, and the establishment of branch offices or firms with direct or indirect ties to multinational corporations would suggest a very different landscape for business firms and their organizational structure.

Third, there is increasing influence of government regulatory and standardization procedures on the organization of corporate hierarchy. According to the neo-institutionalist perspective (DiMaggio and Powell 1983; Meyer and Rowan 1977; Powell and DiMaggio 1991), conformity and legitimation within a common context, rather than simply economic rationality and efficiency, plays an important role in the standardization of institutional arrangements. Despite its relative laissez-faire orientation, the Hong Kong government has always played an active role in drafting and overseeing corporate laws to protect the general public and labor regulations to protect workers against fraudulent and illegal practices. Over the years, these may have effected significant changes in the organizational structures of Chinese business firms in Hong Kong.

Finally, the changing demographic composition of the population may also have profound implications for business organizations. The continuous educational upgrading of the past decades, with record numbers of eligible college-bound students, means that more potential entrepreneurs are better educated, more exposed to Western management practices and philosophies through adult learning courses, and more inclined to adopt Western methods of organizing economic activities. Furthermore, with the rise of the nuclear family and call for gender equality, the notion of passing on the family business to sons may become less compelling, as is the idea of relying on children for the potential labor pool.

These changes raise two important questions that this chapter seeks to explore: (i) to what extent is the notion of family business firms still valid in the present economic environment of Hong Kong? and (ii) what is the level of organizational complexity of Hong Kong business firms nowadays? To address these questions adequately, a representative sample of the entire population of business firms in Hong Kong, not just

a segment or segments, is used. Furthermore, to assess whether and how the organizational structure of Chinese business firms actually differs from that of Western corporations, a comparison between Hong Kong and the United States is included. In sum, this chapter has two major components: (i) a comparison of business organizational forms in Hong Kong and the United States in formalization, vertical levels, departmentalization, decentralization, and organizational size; and (ii) an investigation of Hong Kong business owners' attitudes toward hiring family members and relatives, Chinese family firms, and the attitudes of successful business entrepreneurs, as well as an exploration of factors that account for favorable and unfavorable attitudes toward such matters.

Data

The comparison of organizational structure is based on the Hong Kong Business Organizations Survey (HKBOS) and the National Organizations Survey (NOS) in the United States. The HKBOS is a citywide probability sample, funded by the National Science Foundation of the United States to the author and conducted by the Social Science Research Centre (SSRC) at the University of Hong Kong in late 1997. A common problem in generating a sample of establishments or organizations is the *absence* of a complete sampling frame. Most lists of organizations are incomplete or limited to one or a few types and may omit or under-represent certain organizations, especially small or new ones. Fortunately, this is not a problem for Hong Kong because the Census and Statistics Department of the Hong Kong Government collects periodic detailed information of *all* registered establishments in Hong Kong. I was able to obtain from the Census and Statistics Department a 20 percent random sample of establishments as of March 1997.[7] The master database contained information about the name, address, industry, district code, and establishment size. After eliminating non-profit organizations, a stratified random sample (by over-sampling medium and large establishments) was drawn.[8] These firms were then contacted by telephone to interview the person who is knowledgeable about the establishment sampled. A total of 550 interviews were completed, and the response rate was about 23.8 percent. This may seem low by Western standards, but it is comparable to similar past surveys conducted by the SSRC, which has an average response rate of about 20 percent for a moderate length questionnaire. In fact, the HKBOS is the longest survey that the SSRC has ever undertaken, averaging about 35 minutes. Thus, the relatively low response rate is a reflection of the difficulty of conducting large-scale surveys in Hong Kong, not of faulty research design.

To maintain a high degree of comparability, the questionnaire of HKBOS parallels closely that of the 1991 National Organizations Survey (NOS) in the United States, collected by Kalleberg, Knokes, Marsden, and Spaeth (1999).[9] In brief, the NOS is a sample of firms (N=688) proportional to the size of employment, and appropriate weights are needed to obtain a representative distribution of establishments in the United States. Both the NOS and the HKBOS collect detailed information about organizational structure such as departmentalization, formalization and decision decentralization, information about organizational environment, as well as human resource practices and policies in recruitment and staffing, training, promotion opportunities, and incentives such as earnings and fringe benefits. The American survey contains both for-profit and non-profit organizations, and only the for-profit organizations are included in the present study (a total of 452 firms).

The analyses below contain two meaningful sets of comparison. One is comparison by labor force experience, that is, the analysis is weighted to represent the experience of an average worker. The other is a weighted comparison to represent the population of firms. Depending on circumstances, the two comparisons may yield different results. For instance, if large firms are more organized, hierarchically structured, and employ a disproportionate share of the labor force, this representation will dominate in the findings using labor force weights, as more workers share the experience. On the other hand, if there is an abundance of small firms that are less structured and employ few workers, the measure by population weight would show a far less differentiated organizational structure.

For analyses on Hong Kong business owners' attitudes toward Chinese family firms and hiring family members, data from the Hong Kong Business Entrepreneurs Survey (HKBES), conducted in parallel with the HKBOS, are used. Like the HKBOS, the HKBES is a citywide probability sample of business establishments, drawn independently from the master database. A total of 130 interviews were completed, representing a response rate of 11.3 percent. Aside from some slight under-representation of entrepreneurs with an establishment size of 1–2 and over-representation of establishments with a size of 10–19 from the sampling frame, there is no strong indication that the sample is biased in any systematic manner. The survey collects detailed demographic and socioeconomic characteristics of the owners, their work histories (first and last occupation prior to operating their own businesses), nature of their businesses, management style and philosophy, motivations for entrepreneurship, attitudes toward hiring family members and relatives, attitudes toward Chinese family business firms, and their assessment of

factors contributing to the economic success of Hong Kong during British rule.

Declining significance of family firms in Hong Kong?

Despite the widespread interest in and voluminous literature on family firms, there is surprisingly no general consensus on what constitutes a family firm. Researchers often adopt incompatible definitions and some even avoid any specific definition in their works. The following characterizations are typical.

> A family firm can be one where one family holds a majority of the voting shares; it can be one where the family has a cohesive and substantial minority shareholding; it can be a business where the family, by more subtle means, exerts control over its destiny; or it can be a business where a proportion of the senior management posts are held by members of one family and where their children are expected to follow suit. Definition of a family firm is often a case of intuition – one just senses family control in the culture of the company.
>
> (Rock 1991: 5)

Beneath such fuzziness, however, some common criteria for identifying the family firms can be located. One is the recruitment of family members and/or relatives. Thus, a family firm can be defined as an organization where two or more members of the extended family influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights (Davis and Tagiuri 1991). Another criterion centers on control and ownership. While who controls the day-to-day operation of the business is important, control *per se* is not a sufficient criterion. Being under sole proprietorship or owner-control does not mean that the business is automatically a family firm. It must also be regarded as a *family* possession with a primary function of increasing family wealth and prestige. One way of indicating the treatment of a business as a family possession is the intention to pass the management and the control of the business to the next generation (Ward 1987).[10] Another, perhaps more straightforward criterion is the owners' self-identification of their firms, that is, whether they consider their businesses family firms. Of course, these criteria are not mutually exclusive; one or some combinations of them may be used in classifying family firms.

Before discussing our findings about whether Chinese business firms in Hong Kong are still predominantly family firms according to these contexts, a brief overview of past findings is in order. According to Espy

(1970), about 61 percent (14 out of 23) of the large Chinese industrial firms in Hong Kong had family members. Of the 415 small-scale factories in their 1978 survey, Sit, Wong, and Kiang (1979) found that about 45 percent had relatives of the owners in the workplace. Similarly, S. L. Wong (1979) found that nearly 60 percent of the cotton-spinners had employed relatives in their mills, but usually only "one or two" or "a few." In his later work, S. L. Wong (1989) speculated that about half of Chinese firms in Hong Kong employed relatives. Finally, Redding and Tam (1985) assert that virtually *all* firms, even large ones, remain under family control and they display predictable features of nepotism, restricted use of professionals, and personalism in decision making.

If the above statistics can be generalized to the entire population of firms, it means that between half and two-thirds of the firms in Hong Kong during the 1970s and 1980s employed family members and/or relatives. Taking this to be the key criterion in defining family firms would then put at least two-thirds of Hong Kong firms in the category of family firms. While this may sound impressive, it is not unusual even in advanced industrial societies. According to the statistics compiled by the Family Firm Institute (2000) in the United States, over 90 percent of all business enterprises there and nearly 35 percent of the Fortune 500 companies are family-owned. The statistics in the United Kingdom and Canada are somewhat lower, about 76 and 66 percent, respectively (see also Rock 1991). Without an explicit delineation of the criteria used and the methodologies involved, the above numbers are not strictly comparable, but the figures still cast doubt on the *uniqueness* of family firms to Chinese business settings.

What about the Chinese business firms in Hong Kong nowadays? According to the statistics compiled from the HKBOS, about 34.0 percent of the firms have at least one family member or relative of the owner(s) working in the firm. The corresponding number from the HKBES is somewhat lower, only about 28.2 percent (see Table 2.1 for details). Taken together, the figures indicate that only about one-third of business firms in Hong Kong now have family members and/or relatives as workers, a number that is significantly lower than the 50 to 60 percent range cited in previous studies. This means that family members no longer constitute the backbone of Chinese business firms in contemporary Hong Kong.

As to the other two criteria, our findings show slightly over 27 percent of the business owners identify their firms as family businesses, and about 40 percent intend to pass their businesses to the next generation. Of those who affirm their intention, an overwhelming majority (85 percent) choose either sons or daughters or whoever wants to inherit, and the remaining 6 and 9 percent choose, respectively, sons and daughters only. These numbers suggest a dramatic shift in gender inequality within the

family in contemporary Hong Kong, contrary to the notion that a strong Chinese tradition still favors male descendants.

A cross-classification of the above three criteria further reveals another surprising finding: over 35 percent of business firms meet none of the criteria while only slightly more than 4 percent of firms satisfy all three. If we had relied on control of the business as the determining factor, we would have concluded erroneously that virtually all business firms in Hong Kong are family firms, as close to 87 percent of the owners in the HKBES claim to control the day-to-day operation of their business, and an additional 10 percent have some kind of control. As it is, less than 65 percent of the firms in the HKBES satisfy at least one of the three criteria, which represents the upper limit of family firms in Hong Kong in the late

Table 2.1 Distributions of firm business characteristics from the Business Entrepreneurs Survey

(A) Univariate distributions

	ORG has family members as workers		*Consider ORG a family business*		*Intend to pass ORG on to children*	
	%		%		%	
	Unweighted	*Weighted*	*Unweighted*	*Weighted*	*Unweighted*	*Weighted*
No	62.8	71.8	68.5	72.8	58.5	60.5
Yes	37.2	28.2	31.5	27.2	41.5	39.5
	N=129		N=127		N=130	

(B) Joint distributions (N=127)

ORG has family workers	*Consider ORG a family business*	*Intend to pass ORG on to children*	% *Unweighted*	*Weighted*
No	No	No	32.3	35.6
No	No	Yes	21.3	24.7
No	Yes	No	5.5	6.2
No	Yes	Yes	4.7	5.5
Yes	No	No	7.9	7.4
Yes	No	Yes	7.1	5.0
Yes	Yes	No	12.6	11.3
Yes	Yes	Yes	8.7	4.2
			100.0	100.0

Note: Figures are rounded and may not add to 100.

Source: The Hong Kong Business Entrepreneurs Survey.

1990s. While this number is still substantial, it is by no means overwhelming or dramatically higher than that in other countries.

Organizational characteristics of Hong Kong firms

If the conventional image of the Chinese business firms as family firms does not fit a sizable proportion of contemporary Hong Kong businesses, the notion of Chinese business firms sharing a distinctive organizational structure also needs close examination and, possibly, revision. Our comparative analysis of the organizational structure of business firms in Hong Kong and the United States suggests as much. As detailed in the following sections, the organizational structure of Chinese firms in Hong Kong nowadays does not conform to the conventional image of Chinese firms as small, flat, and undifferentiated. The degree of organizational complexity found in the surveyed firms has become remarkably similar to that of American firms in terms of vertical levels, formalization, decentralization, and departmentalization.

Organizational size

In terms of labor force experience, Table 2.2 indicates that about 19.2 percent of US workers are in business firms with two workers or fewer. But in terms of the number of firms in the entire population, it represents a massive 78 percent.[11] This is in sharp contrast to the situation in Hong Kong, despite the common perception that firms are smaller there. Establishments with two workers or fewer employ only about 12.6 percent of the labor force and constitute about 29 percent of business establishments in Hong Kong. While most Americans work in medium size firms (10–499 employees), most Hong Kong workers are employed in firms with fewer than 50 workers. Despite such differences, the average organizational size, as measured by labor force experience, is highly comparable in both places (404 in the United States and 413 in Hong Kong). When it comes to comparison by the population of firms, however, the average firm size is greater in Hong Kong than in the United States (45 versus 5).[12] Close to 26 percent of the American labor force work in firms with fewer than four workers and an additional 20 percent in firms with fewer than 20 workers. In Hong Kong, the corresponding figures are 23 and 44 percent, respectively. Yet, it should also be noted that the distribution is highly skewed in the United States (the kurtosis in the United States is about 28 times larger than it is in Hong Kong when using population weights).

Two observations can be drawn from the above comparison. First, contrary to the conventional notion that firms are particularly small in Hong Kong, (very) small firms also dominate in the United States. This

Table 2.2 Distribution of business organization by size

Number of full-time workers	*United States*		*Hong Kong*	
	LF experience %	*Pop of firms*	*LF experience* %	*Pop of firms*
1–2	19.2	77.8	12.6	28.9
3–4	6.5	7.9	10.3	27.1
5–9	8.7	6.1	11.1	12.7
10–19	11.6	4.5	11.1	13.4
20–49	13.8	2.3	12.2	6.3
50–99	10.3	0.7	9.8	3.2
100–499	17.0	0.5	20.4	7.1
500–999	4.5	0.0	7.3	0.6
1,000+	8.5	0.0	5.3	0.6
N	448	447	452	452
Mean	404.48	5.08	413.15	45.36
SD	1635.12	48.90	1811.08	318.44
Median	25.00	1.00	26.00	4.00
Skewness	9.65	148.19	7.46	36.58
Kurtosis	125.81	48792.84	62.89	1743.24

Note: Organization size includes both full-time and part-time workers and LF means labor force.

Sources: The Hong Kong Business Organizations Survey and the National Organizations Survey.

fact about US firms is not widely known and may seem counter-intuitive initially. But such development can be seen as fitting in a post-industrial, globalized economy that emphasizes flexible accumulation. Second, the size of Hong Kong firms has grown considerably and they are no longer small by any conventional standards. The two largest firms in the sample (with over 10,000 workers) illustrate clearly this new development: one is a major public transportation company and the other a major electronic manufacturing company that also employs thousands of workers elsewhere.

Vertical levels

A measure of organizational complexity is the number of vertical levels between the highest and lowest positions at an establishment. Not surprisingly, the number of vertical levels is greater in US firms than in Hong Kong firms, though not substantially so (6.3 versus 5.3 for labor force experience). Because of the high concentration of American firms

with 1–2 workers, the mean level in the United States is actually smaller (2.1 versus 3.7) when measured by the population of firms, but the distribution is much more skewed in the American case.

Formalization

Formalization refers to the existence of written rules and procedures, as well as the creation of routines and standard operating procedures in an establishment. The surveys asked the informants to indicate whether their establishments have written documents for several types of personnel-related processes. These include rules and procedure manuals, documents on fringe benefits, written job descriptions, documents on safety and hygiene, written performance records, documents on hiring and firing procedures, documents on personnel evaluation, and employment contracts. The formalization scale indexes the proportion of the eight documents present in an establishment and the results are presented in Table 2.3.[13]

Table 2.3 Formalization measures (percentage of establishments having documents and procedures)

	United States			*Hong Kong*		
Document	*LF*	*Pop*	*N*	*LF*	*Pop*	*N*
Rules and procedures manual	71.7	31.8	448	52.6	27.4	518
Documents on fringe benefits	69.3	22.4	452	56.1	34.4	518
Written job descriptions	63.3	19.2	452	47.0	35.3	518
Document on safety and hygiene	68.1	26.2	451	29.3	18.1	518
Written performance records	60.1	16.8	451	53.0	31.0	518
Documents on hiring/firing procedures	57.1	12.9	452	59.7	39.5	518
Document on personnel evaluation	54.9	12.8	452	33.7	12.4	518
Employment contracts	28.8	21.0	451	72.6	51.7	518
Formalization scale						
Mean	0.59	0.20	452	0.47	0.28	518
SD	0.35	0.28		0.34	0.29	
Median	0.75	0.13		0.43	0.14	
Skewness	-0.56	1.40		0.08	0.82	
Kurtosis	1.82	3.87		1.68	2.65	
Cronbach's alpha*	0.89			0.80		

Note: *The Cronbach's alpha is based on unweighted counts.

Sources: The Hong Kong Business Organizations Survey and the National Organizations Survey.

The degree of formalization is very high in US firms, especially in the case of documents for rules and procedures, fringe benefits, and safety and hygiene. Approximately 70 percent of US workers are employed in firms providing these documents. In Hong Kong, the only document that exceeds 70 percent of the labor force experience is the employment contract. The figure for the next most available document, hiring and firing procedures, drops to about 60 percent. The relative availability of these two documents in Hong Kong does not mean greater employment security for the workers, since unionization is extremely low there and legal protection by the government is limited. It reflects perhaps more of a response to regulatory directives from the Labour Department. As a whole, the formalization scale is higher in the United States (0.59) than in Hong Kong (0.47), and the reliability of both measures (Cronbach's alpha) is fairly high.[14]

In terms of the overall demography of firms, the availability of documents and procedures drops substantially in both places, especially in the United States. In Hong Kong, slightly more than half the business firms provide employment contracts for their workers, which is substantially higher than the American figure (21 percent). As a result, the formalization scale of Hong Kong is slightly higher than that of the United States (0.28 versus 0.20), but the median is much closer (0.14 versus 0.13).

Departmentalization

Departmentalization is a measure of the level of horizontal complexity of an establishment. The surveys asked whether there are separate departments or sections responsible for each of the following eight functions: finance, personnel/labor relations, accounting, health and safety, public relations, research and development, long-range planning, and marketing or sales. The departmentalization scale indexes the proportion of the eight departments present in an establishment (see Table 2.4 for details).[15]

Unexpectedly, most Hong Kong firms have a high degree of horizontal complexity. Over 60 percent of the Hong Kong labor force work in firms that have separate departments for finance and accounting, compared to only about 30 percent in the United States. However, this figure should be interpreted cautiously, since having a separate department does not necessarily imply a hierarchy of positions within the department. Most of these departments are probably very small, with at most a handful of workers. Still, the departmentalization scale is significantly higher in Hong Kong than in the United States (0.41 versus 0.22), and the reliability of the measure is quite high in both contexts.

Table 2.4 Departmentalization items (percentage of establishments having department for function)

	United States			*Hong Kong*		
Department	*LF*	*Pop*	*N*	*LF*	*Pop*	*N*
Finance	30.3	4.6	446	62.2	27.6	518
Personnel/labor relation	26.7	1.0	446	45.8	13.5	518
Accounting	26.5	3.6	446	66.7	30.7	518
Health and safety	18.2	0.6	445	21.9	6.2	518
Public relations	15.3	0.8	445	23.0	9.7	518
Research and development	15.4	0.6	448	31.3	13.7	518
Long-range planning	11.5	1.2	444	32.2	13.7	518
Marketing or sales	32.1	5.2	443	43.1	18.4	518
Departmentalization scale						
Mean	0.22	0.02	445	0.41	0.17	518
SD	0.29	0.08		0.35	0.29	
Median	0.13	0.00		0.38	0.00	
Skewness	1.24	5.06		0.25	1.67	
Kurtosis	3.48	36.29		1.68	4.48	
Cronbach's alpha*	0.86			0.88		

Note: *The Cronbach's alpha is based on unweighted counts.

Sources: The Hong Kong Business Organizations Survey and the National Organizations Survey.

The difference in the degree of horizontal complexity is even higher in terms of the demography of firms. None of the listed departments are present in more than 10 percent of US firms. Among Hong Kong firms, finance and accounting departments are the most prominent ones, but they account for fewer than half the number registered in the labor force experience. The mean departmentalization scale is very low in the United States (0.06) and moderate in Hong Kong (0.16). However, the median is the same (0), since small firms are abundant in both places.

Decentralization

Decentralization measures the extent to which decision making is still concentrated in the hands of the head of an establishment (see Table 2.5). The surveys asked about the actual level of decision making in six different areas: performance evaluation, recruitment, promotion, discharge/layoffs, wage and salary levels, and number of employees.[16] Five responses are possible: someone at larger organization (for establishments that are part of larger firms), establishment head and

someone at larger organization, establishment head, establishment head and someone below, and someone below establishment head. The decentralization scale is the mean of the responses to the eight items, with scores of 1–5 assigned to the above responses, respectively.[17] The higher the scale, the more decentralized an organization is.

In the United States, decisions regarding performance evaluation and recruitment are often delegated to other workers (54 and 47 percent of labor force experience, respectively). The same is true for Hong Kong, although the figures are lower (37 and 33 percent, respectively). Generally speaking, the degree of delegation is consistently higher in US firms than in Hong Kong firms, resulting in a higher decentralization scale for the former (3.5 versus 3.0). The degree of inter-item reliability is highly comparable in both contexts.

In terms of the demography of firms, however, differences in the decentralization scale between the two places are marginal (2.9 for the United States and 3.0 for Hong Kong). The response patterns in Hong Kong clearly do not confirm the image of tight vertical control projected in literature about the Chinese family firm. But there may still be an important distinction between US and Hong Kong firms. As noted earlier, virtually all business owners in Hong Kong claimed to have some form of control in the day-to-day operation of their business. This may

Table 2.5 Decentralization items (percentage of establishments where final decision about issue involve someone below establishment head)

	United States			*Hong Kong*		
Issue	*LF*	*Pop*	*N*	*LF*	*Pop*	*N*
Performance evaluation	53.9	10.5	421	37.0	19.4	478
Recruitment	46.9	8.3	429	32.8	10.1	488
Promotions	38.3	6.7	418	29.6	16.8	472
Discharge/layoffs	36.1	7.0	421	22.1	8.8	486
Wage/salary levels	17.9	2.7	435	16.0	9.0	495
Number of employees	15.4	3.5	429	17.4	8.4	482
Decentralization scale						
Mean	3.45	2.88	428	3.04	2.96	496
SD	0.90	0.64		0.98	0.69	
Median	3.33	3.00		3.00	3.00	
Skewness	-0.20	-0.77		-0.10	-0.30	
Kurtosis	2.87	6.63		3.01	5.78	
Cronbach's alpha*	0.81			0.86		

Note: *The Cronbach's alpha is based on unweighted counts. The higher the decentralization scale, the less centralized the decision making.

Sources: The Hong Kong Business Organizations Survey and the National Organizations Survey.

not be the case with American firms, which are more likely to be run by professional managers and executives, not corporate owners and founders.

Attitudes toward the practices of Chinese family firms

Given the above finding of a lower-than-expected proportion of family firms and high level of organizational complexity among Chinese business firms in Hong Kong, it is questionable whether family firms remain the norm in Hong Kong business. To further explore this issue, the extent to which the ideas and principles behind the family firm continue to inform the thinking and practices of business owners in Hong Kong is analyzed, using data from the HKBES.

Attitudes toward hiring family members

Respondents were asked to rate on a five-point scale, ranging from strongly agree to strongly disagree, the extent to which they agree with the following statements: family members are (i) more trustworthy; (ii) more capable; (iii) more cooperative; (iv) cheaper to employ; (v) easier to recruit and retain than other employees; (vi) likely to cause problems to others; and (vii) the same as others. Factor analysis reveals that only one factor is needed to extract scores from the seven indicators. Items that loaded heavily (using 0.30 as the cutoffs) include trustworthy, capable, cooperative, and easier to retain and recruit. The extracted factor scores are scaled in a manner such that a high score means a more favorable attitude toward hiring family members. The results are presented in Table 2.6. Interestingly, attitudes toward hiring family members tend to be polarized, with most respondents either agreeing or strongly disagreeing with the statements. Even among those who have strong positive attitudes, however, an overwhelming majority does not think that family members are more capable or cheaper to hire than other non-family workers. Their support of family members seems to be based on the perception of trustworthiness, ease of recruitment and retention, and cooperation.

Attitudes toward hiring relatives

The same statements about hiring family members were used to gauge respondents' attitudes toward hiring relatives, plus an additional item regarding whether hiring relatives fulfill kinship obligations. Results from principal component factor analysis indicate that only one factor is needed. The following items have high loadings: trustworthy, capable, cooperative, cheaper, easier to retain and recruit, and fulfill kinship

Table 2.6 Attitudes toward hiring family members in Hong Kong (weighted analysis)

Attitude	*Strongly agree*	*Agree*	*Neutral*	*Disagree*	*Strongly disagree*	*N*
(A) Descriptive statistics						
Trustworthy	13.4	43.4	11.6	6.8	24.9	129
Capable	1.9	11.3	9.5	6.5	70.8	129
Cooperative	11.9	37.2	15.7	4.0	31.3	127
Cheaper	0.6	11.0	17.8	5.2	65.4	128
Problem to others	3.5	46.1	8.6	5.9	36.0	126
Same as others	2.4	50.2	12.1	2.5	32.7	126
Easier to recruit/retain	7.3	49.1	13.7	0.8	29.2	126

(B) Factor analysis (N=125)

Attitude	*Loading*	*Uniqueness*
Trustworthy	**0.55**	0.70
Capable	**0.61**	0.63
Cooperative	**0.59**	0.66
Cheaper	0.16	0.97
Problem to others	-0.19	0.97
Same as others	-0.28	0.92
Easier to recruit/retain	0.45	0.80

Note: Factor loadings greater than 0.30 are highlighted.

Source: The Hong Kong Business Entrepreneurs Survey.

obligation. Again, the extracted factor scores are scaled such that a high score means more favorable attitude toward hiring relatives (see Table 2.7).

The results show the same kind of polarization observed in attitudes toward hiring family members, but the responses are generally more negative. That is, if hiring family members is not considered completely desirable, the hiring of relatives is seen as even more problematic. This implies that relatives are not as important a source of core workers in Hong Kong business firms today as the literature on Chinese family firms suggests. Note especially the last item, which asks respondents whether they consider hiring relatives a way of fulfilling kinship obligations. While a quarter of the responses are affirmative, the overwhelming majority are decidedly negative (59 percent strongly disagree). If kinship ties and kinship connections have indeed been important in structuring economic life in the past, as Fei (1992) indicates, this result indicates that the new generation of Chinese entrepreneurs in Hong Kong is definitely moving away from such practices.

Table 2.7 Attitudes toward hiring relatives (weighted analysis)

Attitude	*Strongly agree*	*Agree*	*Neutral*	*Disagree*	*Strongly disagree*	*N*
(A) Descriptive statistics						
Trustworthy	4.8	25.7	12.3	3.7	49.2	126
Capable	4.0	7.6	11.5	13.7	63.2	127
Cooperative	4.0	28.7	10.9	10.8	45.7	126
Cheaper	0.6	10.3	13.0	8.6	67.5	126
Problem to others	4.2	40.8	12.0	6.9	36.2	126
Same as others	3.3	60.6	13.8	0.7	21.7	126
Easier to recruit/retain	4.8	38.6	8.0	6.6	42.0	126
Kinship obligation	0.2	24.0	14.6	2.6	58.7	126

(B) Factor analysis (N=126)

Attitude	*Loading*	*Uniqueness*
Trustworthy	**0.54**	0.71
Capable	**0.66**	0.56
Cooperative	**0.73**	0.46
Cheaper	**0.51**	0.74
Problem to others	-0.15	0.98
Same as others	0.18	0.97
Easier to retain/recruit	**0.53**	0.72
Kinship obligation	**0.49**	0.76

Note: Factor loadings greater than 0.30 are highlighted.

Source: The Hong Kong Business Entrepreneurs Survey.

General attitudes toward Chinese family firms

Respondents were asked to rate the extent to which they agree with the following statements about Chinese family firms: (i) it is difficult for them to be owned by the same family for more than three generations; (ii) they often face problems in succession; (iii) they diversify into different types of unrelated business to reduce risks and increase profits; and (iv) they are generally reluctant to give control and ownership to workers who are not related to the family. Only one factor can be extracted from the four items, and all but the third item regarding diversification into unrelated businesses have high loadings. The higher the factor scores, the more favorable the assessment is (see Table 2.8).

Except for a few core supporters of Chinese family firms, respondents are either in general agreement with the above statements or do not have any strong opinions one way or the other. A relatively high degree of ambivalence (half of the responses) is shown toward the statement that it is difficult for Chinese family firms to be owned by the same families for more than three generations. At the same time, more than 80 percent of respondents recognize the succession problems of Chinese family firms.

Table 2.8 Attitudes toward Chinese family firms (weighted analysis)

Attitude	*Strongly agree*	*Agree*	*Neutral*	*Disagree*	*Strongly disagree*	*N*
(A) Descriptive statistics						
Difficult to own > 3 generations	10.5	35.0	50.3	0.0	4.2	128
Face succession problems	4.7	79.3	14.6	0.0	1.4	128
Diversify to unrelated businesses	7.6	71.8	18.4	0.0	2.3	129
Reluctant to give outsiders control	12.6	60.2	25.3	0.0	1.8	129

(B) Factor analysis (N=128)		
Attitude	*Loading*	*Uniqueness*
Difficult to own > 3 generations	**0.41**	0.84
Face succession problems	**0.64**	0.59
Diversify into unrelated businesses	0.24	0.94
Reluctant to give outsiders control	**0.55**	0.71

Note: Factor loadings greater than 0.30 are highlighted.

Source: The Hong Kong Business Entrepreneurs Survey.

Some of this ambivalence may stem from the belief that if the descendants can resolve the succession problem without breaking up the company, then it is possible for the same family to continue owning the business for an extended period of time. But for this to be feasible, a different management arrangement may be required, as a substantial proportion of the respondents agree that Chinese family firms are often reluctant to relinquish control to others and diversify into unrelated businesses.

Characteristics of a successful businessman or entrepreneur

Respondents were asked to rank the relative importance of the following attributes constituting a successful entrepreneur: (i) open-minded; (ii) hard working; (iii) frugal; (iv) profit-oriented; (v) possess organizational and management skills; (vi) avoid nepotism; (vii) cultivate and develop *renqingwan* (humanized obligation network); (viii) willing to take risk; (ix) adept in deal-making; (x) flexible in adapting to market changes; (xi) able to learn from experience and mistakes; (xii) follow Confucian ethics and traditions; (xiii) able to cultivate and develop *quanxiwan* (connection networks); (xiv) have face, goodwill, and *xinyong* (trustworthiness); and (xv) have good luck and *fungsui*.

Factor analysis reveals that two factors can be extracted. Based on the pattern matrix, factor one is labeled managerial and network skills (management and organization skills, deal-making skills, adapt to change, able to cultivate *renqingwan*, able to cultivate *quanxiwan*, avoid

nepotism, goodwill and *xinyong*, and frugality), while the second factor is labeled personal attributes or personality traits (hard working, learn from mistakes and experience, open-minded, frugality, risk taking, and Confucian ethics, with strong negative loadings in profit-oriented, cultivate *renqingwan*, cultivate *quanxiwan*, and organization and management skills). The extracted scores of the two orthogonal factors are scaled such that a high score means greater importance (see Table 2.9).

Summarily speaking, an overwhelming majority of respondents consider the following characteristics as either important or very important: open-minded; hard working; possess organizational and management skills; avoid nepotism; cultivate *renqingwan*; adept in deal-making; adapt to changes; learn from mistakes and experience; cultivate *quanxiwan*; and have goodwill and *xinyong*. Though deemed important by a few respondents, the following characteristics are not considered as important by most: frugal; profit-oriented; risk-taking; Confucian ethics; and luck and *fungsui*.

Correlates with attitudes/attributes

To explore how the various constructed factors relate to substantively interesting covariates, additional statistical analyses are performed by regression analysis. It should be noted that the results here are exploratory rather than explanatory. The analysis strategy adopted is fairly simple. A list of independent variables are first entered as a group into the regression model. The variables include age; sex; individual education; parents' highest education; born in Hong Kong or not; whether parents have ever been business owners; experience working in parents' business when young; whether employing any family members or relatives currently; self-identify business as a family business or not; intention of passing business on to children; the type of industry; legal form; and size of the establishment; and the composite factor scores on attitudes toward hiring family members and relatives in business and attitudes toward Chinese family firms. Insignificant parameters are then eliminated backward incrementally until the remaining coefficients are statistically significant. The results are reported in Table 2.10.

ATTITUDES TOWARD HIRING FAMILY MEMBERS

Not surprisingly, current employment of family members and prior experience in parents' business when young both have strong and positive effects on hiring family members. However, the positive experience of working in parents' business is largely neutralized by the negative effect of their parents' ownership status. As a result, the *net* effect

Table 2.9 Characteristics of successful entrepreneurs (weighted analysis)

Attitude	*Very important*	*Important*	*Neutral*	*Not impor-tant*	*Not at all import-ant*	*N*
(A) Descriptive statistics						
Open-minded	29.3	68.8	0.0	0.0	2.0	127
Hard-working	51.7	46.2	0.0	0.0	2.1	130
Frugality	18.7	61.7	0.7	2.9	16.2	127
Profit-oriented	13.4	28.7	4.3	10.6	43.1	126
Organization/management skills	20.3	75.6	0.6	0.0	3.5	130
Avoid nepotism	15.7	79.3	0.6	2.8	1.6	130
Cultivate *renqingwan*	18.7	74.9	0.6	4.8	1.0	128
Risk-taking	16.2	64.6	0.6	1.6	16.9	125
Deal-making skills	16.6	72.6	0.6	3.5	6.7	129
Adapt to changes	16.6	81.5	0.6	1.1	0.2	129
Learn from mistakes/experience	27.3	70.5	0.6	0.6	1.0	130
Confucian ethics	5.4	58.2	2.6	3.5	30.3	124
Cultivate *quanxiwan*	16.5	77.6	1.7	3.3	1.0	130
Goodwill/*xinyong*	30.1	68.5	0.6	0.1	0.6	130
Luck/*fung shui*	4.1	47.7	9.0	1.5	37.7	126

(B) Factor analysis (N=107)

	Loading		
Attitude	*Skills*	*Personal*	*Uniqueness*
Open-minded	0.08	**0.40**	0.83
Hard-working	0.22	**0.64**	0.54
Frugality	**0.30**	**0.42**	0.73
Profit-oriented	0.13	**-0.31**	0.89
Organization/management skills	**0.83**	**-0.37**	0.16
Avoid nepotism	**0.32**	0.16	0.87
Cultivate *renqingwan*	**0.77**	-0.29	0.32
Risk-taking	0.23	**0.38**	0.80
Deal-making skills	**0.71**	-0.01	0.50
Adapt to changes	**0.54**	0.24	0.65
Learn from mistakes/experience	0.18	**0.61**	0.59
Confucian ethics	0.10	**0.37**	0.85
Cultivate *quanxiwan*	**0.75**	**-0.30**	0.34
Goodwill/*xinyong*	**0.37**	0.26	0.79
Luck/*fungsui*	0.27	-0.01	0.93

Factor 1: Managerial and relational skills.
Factor 2: Personal attributes/personality traits.

Note: Factor loadings greater than 0.30 are highlighted.

Source: The Hong Kong Business Entrepreneurs Survey.

Table 2.10 Selected regression modes of various dependent variables (weighted analysis)

Independent	*Hiring family members*	*Hiring relatives*	*Chinese family firms*	*Successful personal attributes*	*Entre-preneur skills*
Family member currently working in ORG	0.508***			0.618***	-0.706***
	(0.149)			(0.179)	(0.175)
Intend to pass business to next generation	0.281*				0.404*
	(0.128)				(0.163)
Identify ORG as family business	0.410**	0.531***			
	(0.140)	(0.154)			
Female				-0.519#	
				(0.286)	
Worked in family business when young	0.533***	-0.458**	0.679***		
	(0.161)	(0.161)	(0.164)		
Parent ever business owner	-0.453***			-0.362*	
	(0.132)			(0.156)	
Wholesale/retail, import/export industry			-0.512***		
			(0.129)		
Other industries (services)	0.450**	0.707***			
	(0.141)	(0.170)			
Parental education (years)			-0.048***		
			(0.014)		
Individual education (years)				0.042#	
				(0.021)	
Born in Hong Kong	-0.224#	-0.442**	-0.432**		0.515**
	(0.124)	(0.146)	(0.137)		(0.178)
Partnership	0.461***				
	(0.128)				
Organization size (20–49)		-0.653*		-1.138***	
		(0.278)		(0.281)	
Age (35–49)					0.551**
					(0.181)
Age (50+)			0.585***		0.927***
			(0.169)		(0.233)
Attitudes toward hiring family members			-0.321***		0.549***
			(0.084)		(0.129)
Attitudes toward hiring relatives				-0.253**	-0.263*
				(0.094)	(0.101)
Attitudes toward Chinese family firms					-0.287**
					(0.108)
Intercept	-1.048***	-0.379	0.577***	0.199	-1.161***
	(0.264)	(0.233)	(0.184)	(0.392)	(0.319)
R^2	0.437	0.281	0.356	0.327	0.441
Adjusted R^2	0.396	0.250	0.317	0.286	0.394
RMSE	0.614	0.757	0.631	0.771	0.746
N	121	124	107	104	104

Note: The significance levels are: #p<0.10, *p<0.05, **p<0.01, and ***p<0.001; t-statistics are in parentheses.

Source: The Hong Kong Business Entrepreneurs Survey.

for those who had childhood work experience in parental business is only marginally better (0.533 – 0.443 = 0.090) than those whose parents are non-owners. Similarly, those who intend to pass their business on to their children and those who identify their firms as family businesses are also likely to view favorably the hiring of family members.

Interestingly, it is those who are in partnership, rather than sole proprietorship or incorporated businesses, that have the most positive attitudes toward hiring family members. This is possibly due to the desire to gain more and better control of the company than competing partners. Entrepreneurs from the sector of "other industries" (non-manufacturing, and non-wholesale/retail and import/export trades; in other words, mainly the service industry) also tend to have more favorable attitudes. Negative attitudes, on the other hand, are associated with entrepreneurs who were born in Hong Kong. The distinction between native-born and foreign-born (predominantly from mainland China) is important because it reflects not simply a demographic attribute, but differences in socialization, cultural and personal identification, and openness to Western ideas.

ATTITUDES TOWARD HIRING RELATIVES

Entrepreneurs who identify their firms as family businesses and those in "other industries" share similarly positive attitudes toward hiring relatives in the company. Interestingly, those who had prior working experience in their parents' business tend to have negative attitudes toward hiring relatives, even though their attitudes toward hiring family members are found to be positive earlier. This marks a clear distinction between family members and relatives as suitable employees. As in the case of family members, opinions toward employing relatives remain consistently low among the local-born. Likewise, entrepreneurs in medium-sized firms (20–49 workers) tend not to favor the hiring of relatives.

ATTITUDES TOWARD CHINESE FAMILY FIRMS

Prior work experience in parental business contributes significantly to a positive evaluation of Chinese family firms and practices. The coefficient (0.68) is significant at the 0.001 level and is comparable in strength to favorable attitudes toward hiring family members. The positive evaluation of Chinese family firms also seems to be generational, as only older entrepreneurs (50 and above) do not see Chinese family firms as rife with managerial and internal conflicts. Paradoxically, those who have favorable attitudes toward the hiring of family members have particularly negative evaluation of the practices of Chinese family firms. Perhaps

these entrepreneurs are more cognizant of the pitfalls of family firms because of their own experiences or perhaps they simply do not consider hiring family members a defining feature of Chinese family firms. Again, native-born entrepreneurs are inclined to view Chinese family firms negatively. The consistent finding that immigrants from mainland China tend to have more positive views than the native-born on hiring family members/relatives and Chinese family firms in general suggests that Hong Kong may have seen a fundamental shift in business culture away from traditional practices that focus on patrilineal and neo-local relationships.

CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS

The emphasis on individual attributes such as hard working, open-minded, frugal, learn from mistakes and experience, and Confucian ethics tends to be positively associated with those who currently employ family members and relatives. The same entrepreneurs would downplay the importance of managerial and network skills such as organizational/management skills, ability to cultivate *renqingwan* and *quanxiwan*, adaptability, deal-making skills, and the cultivation of goodwill and *xinyong*. It seems that the presence of family members and relatives in the business simplifies the social relationships among co-workers and attenuates the importance of skills in business transactions. In contrast, entrepreneurs who intend to pass their family business on to the next generation tend to emphasize the importance of managerial and network skills.

Favorable attitudes toward hiring relatives are negatively associated with the emphasis on both personal attributes/personality traits and managerial and network skills as key to entrepreneurial success. On the other hand, entrepreneurs with favorable attitudes toward hiring family members emphasize the importance of managerial and network skills, whereas those who view Chinese family firms positively are less appreciative of the importance of these skills. The relationship among the three attitude constructs and views on the attributes of successful entrepreneurs is fairly complex.[18] It probably means that for those who trust only core family members as employees, the need to rely on managerial skill is pertinent to economic success. But for those entrepreneurs who extend their trust to relatives and the common practices of Chinese family firms, the need to hone their managerial and network skills is somewhat reduced.

Entrepreneurs in medium-sized firms (20–49 workers) are more likely to downplay the importance of personal attributes and personality traits for economic success. Organizational size, however, is not associated in any way with the emphasis on managerial and network skills, as they are

highly valued by all, regardless of firm size. Also, as the age of the entrepreneur increases, the emphasis on managerial and network skills also increases. Finally, native-born entrepreneurs tend to emphasize the role of managerial and network skills in entrepreneurial success more than immigrant entrepreneurs.

Conclusion

Against the conventional characterization of Chinese firms as *family* firms that tend to be small, relatively undifferentiated, and vertically controlled with little delegation of power, the empirical evidence from recent representative samples of business organizations and entrepreneurs in Hong Kong presented in this chapter suggests a need for thorough reassessment of established understanding of Chinese business firms. The comparison between Hong Kong and US firms clearly shows that the degree of organizational complexity, in terms of number of vertical levels, formalization, departmentalization, and decentralization, in Hong Kong firms has become remarkably similar to that of American firms. Not only has the size of the former grown considerably to a level comparable to the latter, but the level of horizontal complexity, that is, departmentalization, is even higher in the entire population of Hong Kong firms.

Of course, the increasing similarity between firms in the United States and those in Hong Kong in terms of organizational complexity does not mean that large Chinese firms have the same corporate power as American multinational corporations. Also, the high level of organizational complexity in Hong Kong firms is probably not much related to the demand for economic rationality and efficiency, since the dominance of small- and medium-size firms has remained relatively stable over time. Rather, it is likely to be due to institutional isomorphism, that is, the need for legitimation and conformity within the common institutional environment, including governmental regulatory statutes, in which they are located. The institutional environments shape organizations through social pressure and result in institutional isomorphism. The organizations become more alike as they respond to similar regulatory and normative pressures or simply copy structures adopted by successful organizations under conditions of uncertainty.

As evidence of a possible decline in the significance of family firms in the Hong Kong business environment, this chapter reveals that the number of firms employing family members and/or relatives has declined from 50–60 percent in the 1970s and 1980s to only about one-third in the late 1990s. If we define family firms inclusively as those firms whose owners employ at least one additional family member and/or relative, or identify the business as a family firm, or intend to pass the business to the

next generation, then the study finds that no more than 65 percent of the firms in Hong Kong are family firms. While the number is still high, it is by no means phenomenal and is indeed comparable to that in developed economies such as Canada and the United Kingdom. Furthermore, while some entrepreneurs, particularly those who have had experiences working in family business, still value and support the hiring of family members and relatives, a surprisingly large proportion of Hong Kong business owners take a negative view of such practices and of Chinese family firms in general. This is particularly true among the native-born, who have been raised and socialized in a relatively Western environment and are therefore more open to Western management and organizational ideas. Such Western orientation is clearly reflected in the emphasis on managerial and network skills over personal attributes in determining entrepreneurial success.

In sum, our empirical findings suggest that family firms are no longer as predominant a norm among Chinese business as previous literature has suggested. Rather than being family-oriented, business entrepreneurs in Hong Kong today tend to be outward looking and armed with organizational and managerial know-how, relying less on family members and increasingly on professional management. Corporate management also shows signs of shifting from the traditional patrilineal management system to decentralized management, especially in medium and large enterprises. Of course, this does not necessarily mean an increasing separation of ownership and control of the company, as witnessed in many large Western corporations. By and large, Chinese business owners still maintain tight control of their organizations. What is new seems to be an increase in professionalism and an improvement in the coordination and division of labor. That, at least, is the case of Hong Kong business firms today. The extent to which the same is true of Chinese firms elsewhere, particularly in Singapore, Taiwan, and Southeast Asia, is a question of great interest to all.

Notes

1 An earlier version of this chapter was presented at the “International Conference on Ethnic Chinese Business and Culture in Global and Local Contexts,” jointly organized by the Program for Southeast Asian Area Studies (PROSEA) at the Academia Sinica and the Research Programme of the Transnational Communities of the Economic and Social Research Council (ESRC), February 15–17, 2001 in Taipei, Taiwan. The project is funded by the National Science Foundation (SBR9515114) and the Pacific Rim Research Program at the University of California. I am also grateful to the East–West Research Centre at the Hong Kong Baptist University and the Social Science Research Centre at the University of Hong Kong for support, and to Peter Chua, Janette Kawachi, and Ming-Yan Lai for assistance.

2 The proliferation of Chinese entrepreneurs in small trading companies is found not only in East Asia but throughout Southeast Asia as well (see Lim 1983; Kuo 1991; Tan 1991; Mackie 1992).

3 Whether there is a culturally derived "Chinese entrepreneurism" is, of course, highly debatable (for a critique, see Clegg, Higgins, and Spybey 1990; Hamilton 1991; and Redding and Whitley 1990). In any case, such a "post-Confucian" hypothesis runs a high risk of essentializing Chinese cultural traits to account for whatever economic phenomena are under discussion.

4 Regional ties (*tongxiang guanxi*) or native place origins play an important role in the establishment of a stable network of personal relations and trust in mediating economic transactions (Kao 1991; Redding 1990; and G. Wong 1991). For example, *tongzong* (same last name) and *tongxiang* (same native place origins) have played a significant role in the establishment of *Tainangbang* in Taiwan (Numazaki 1991).

5 S. L. Wong (1986: 318) assesses the positive effects of familism on the conduct of business as follows: "A much stronger measure of trust exists among family members than among unrelated business partners. Consensus is easier to attain. The need for mutual accountability is reduced. This enables family firms to be more adaptable in their operations. They can make rapid decisions during rapidly changing circumstances, and maintain greater secrecy by committing less to written records. As a result, they are well-suited to survive and flourish in situations where a high level of risk is involved, such as an unstable political environment, a fluctuating industrial sector, or a newly created line of business."

6 Redding (1988) notes that the size of Hong Kong manufacturing firms has *declined* monotonically from the mid-1950s onwards, with the average company size in the manufacturing sector declining from a high of 44.6 employees in 1954 to 27.8 in 1970 and 18.4 in 1984.

7 The database contains a total of 65,735 establishments (for-profit and non-profit establishments), and represents about 502,400 workers. According to the official report, there were a total of 305,339 establishments with a total of 2,367,688 persons engaged in these establishments in March 1997 (Census and Statistics Department 1997). Thus, the database is quite representative of the population of establishments and the number of persons engaged in such establishments.

8 Note that establishment size refers only to the particular location and does not necessarily correspond to actual firm size because the firm may have more than one site of operation.

9 For a detailed discussion about the sampling frame of NOS, see Kalleberg, Knoke, Marsden, and Spaeth (1994, 1996).

10 Of course, individual intention changes rapidly over time and may not match the final outcome. The measure, however, does reflect the extent to which the owner treats the business as a family possession at the time of the survey.

11 A similar observation can be found in Marsden, Cook, and Knoke (1994), which includes both non-profit and for-profit organizations. It is reasonable to assume that many of them are self-employed, own account workers.

12 If we exclude the two largest firms in Hong Kong (with more than 10,000 workers), the mean size drops to 201.2 for the labor force experience and 40.2 for the population of firms.

13 "Don't know" responses were treated as missing and then imputed by the other formalization items using logistic regression if there were altogether at least five or more valid responses to the indicators.

14 Cronbach's alpha assesses the reliability of a summative rating scale.
15 "Don't know" responses were imputed by logistic regressions if the respondent answered five or more of the departmentalization items.
16 Additional items about scheduling and overtime and use of subcontractors and temporaries are included in the NOS.
17 "Don't know" and "does not apply" responses were imputed by logistic regression if there were responses to four or more of the other decentralization items.
18 There is substantial overlap between those who have favorable attitudes toward hiring family members and those favoring the hiring of relatives (Pearson correlation of 0.58).

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3

CORPORATE CAPITALISM AND SOCIALIST CHINA

Andrew Wedeman

Introduction

As the Chinese economy moves away from central planning, scholars have predicted that it will evolve into a hybrid semi-socialist, semi-market system. Oi (1999), for example, sees the emergence of a new form of "local state corporatism" in which local governments form developmental alliances with local firms.[1] Duckett (1998) argues that elements of the state bureaucracy are becoming entrepreneurial actors in their own right and hence there is the emergence of an "entrepreneurial state."[2] Blecher and Shue (1996) maintain that the local state involvement in the economy has led to the emergence of a new "developmental state,"[3] while Gore (1998: Chapter 3) foresees the emergence of a new "developmental communism." Karmel (1994), on the other hand, sees China moving in the direction of "state managed capitalism." Others take a less optimistic view. Lu (2000), for instance, argues that rising corruption has given birth to a degenerate form of "booty socialism." Conventional wisdom thus suggests that as it emerges, "capitalism with Chinese characteristics" will remain a degenerate form of capitalism, one which combines elements of Leninism and capitalism. Moreover, mainstream thinking holds that China will "grow out of the plan" as the private sector grows more rapidly than the state sector, thereby gradually shrinking the state sector's relative size and marketizing the economy through evolution rather than privatization.

Without necessarily disagreeing that the Chinese economy is likely to remain a "mixed" market system, in this chapter I suggest that even in the absence of privatization the state-owned sector in China has already begun a "corporate revolution" similar to that which occurred in the West during the late nineteenth and early twentieth centuries. In the pre-reform economy, state-owned enterprises (SOEs) were essentially administrative extensions of their bureaucratic owners. Enterprise managers had limited formal autonomy and were primarily responsible for seeing that orders handed down by the "owners" were implemented

in a satisfactory manner. This is no longer the case. Reforms intended to transform SOEs from "productive bureaus" into state-owned corporations have attenuated the principal–agent relationship linking the state to individual SOEs by first formally dividing ownership from control and transferring control to managers and then transferring ownership rights to state-owned holding corporations and asset management companies. Thus, rather than a direct principal–agent relationship in which the agent has only limited discretionary authority, a hierarchy of principal–agent relationships in which the agents enjoy considerable discretionary authority now stands between the state and SOEs. This creates a layering of information asymmetries that make it difficult for the state owner to effectively monitor and regulate its manager-agents. Imperfect monitoring and regulation, in turn, tip the principal–agent relationship in favor of managers by granting them not only greater operational discretion but also influence, albeit informal and often illicit influence, over the allocation and distribution of profits. The shifting of power from owners to managers associated with "corporatization without privatization" in China resembles shifts that occurred in the United States and other Western economies during their corporate revolutions. This parallel suggests that corporatization could lead to a "managerial revolution" in which the state becomes a passive and essentially "absentee" owner while managers assume largely unfettered control over the SOEs they direct.

To illustrate how corporatization has altered the relationship between enterprises and their owners, this chapter begins with a discussion of the corporate revolution in the United States and then examines the process of corporatization in China. In the third section I analyze the ownership structure of joint stock firms. The final section of the chapter assesses the significance of China's corporate revolution.

The corporate revolution and advanced capitalism

Skepticism about China making a clear break with its socialist past and leaping into capitalism derives in large part from the Chinese leadership's stubborn rejection of privatization. Whereas the Russian government and those of other former Soviet bloc nations sold off state-owned industries during the initial stages of economic reform, the Chinese retained extensive state ownership and opted to allow growth in the private and collective sectors to gradually diminish the relative size of the state sector. Chinese SOEs did, of course, undergo a series of reforms designed to transform them from plan-based production units into profit-seeking companies. Large-scale privatization, however, was out of the question and it was only after the state sector began to hemorrhage red ink that the leadership allowed for the privatization. Even then,

privatization was to be a means of last resort. The absence of privatization within the state sector suggests that while China's reformers may be willing to set a foot down in capitalism, they are determined to keep the other foot firmly rooted in socialism.[4]

Despite the lack of large-scale privatization, economic reforms in China during the last decade and a half have put many state-owned enterprises onto a trajectory similar to that taken by many firms in the West during the maturation of capitalism. Like Western firms, Chinese state-owned enterprises are undergoing a shift from "private ownership" to "public ownership." Herein, the terms "public" and "private" are problematic because they have different connotations in the contexts of socialist economics and Western business parlance. In the discourse on socialist economics, "public ownership" is generally taken to mean "state ownership." In Western business parlance, however, a "publicly held corporation" is one whose stocks are "publicly traded" on a stock exchange and which is owned by investors. A "privately held corporation" is one that is either wholly owned by an individual or "closely held" by a small cadre of investors. Thus, in Western business parlance, "public" and "private" refer to differences in the concentration of ownership rather than a state–private dichotomy. "Private" and "public" firms in the West also differ in that the owners of private firms generally hold both ownership and control rights, while these rights are split between owners and managers in public corporations. "Public" companies in the West are thus corporations owned by investors and operated by managers. Recast into these terms, wholly owned state enterprises such as existed in China prior to the reform period would be defined as "private companies" because the state was a sole owner and it held both ownership and control rights.

Like Chinese state-owned enterprises, most Western firms were "private" during the early stages of capitalism. They were owned by a single individual, by a family, or by a limited number of partners. Capitalism was "personal" in that "owners managed and managers owned" and "all top managers were owners; they were either partners or major stockholders" (Chandler 1977: 3; 1985: 396). Firms were essentially the personal property of their owners and had no legal identity independent of their owners. Some larger, more complex firms existed, particularly in Europe, where firms first shifted from an "unlimited" to a "limited liability" structure in which owners' "private" and business assets were legally separated, thereby protecting the owner and his family from losing everything in the event of a business failure. As international trade expanded, "joint stock companies" emerged. This structure allowed investors to pool resources and thereby generate the capital needed to finance long-distance trade ventures. At first, joint stock companies were formed for single ventures, with investors splitting up

the proceeds at its end. By the early seventeenth century, however, some companies began to assume a more permanent form, with investors receiving dividends based on the profits from a series of ventures but continuing to vest the company with their original capital investment. By the mid-seventeenth century major companies such as the British East India Company had become shareholding companies. Investors no longer contributed capital directly, but rather bought (and sold) shares on exchanges such as the London Stock Exchange or the Amsterdam Bourse (Braudel 1979: 438–51).

Until the industrial revolution, the joint stock company was primarily found in international trade. Industrial production and most domestic commerce remained dominated by small, owner-managed firms and workshops. As the industrial revolution progressed, early industrialists soon found that they could not meet their firms' growing capital requirements out of their private resources or those of their extended families. Since the banking sector remained underdeveloped, businessmen obtained much of the needed capital by selling shares in their companies to investors, who received a share of the profits. Wanting to make sure that their capital was put to efficient use, investors soon began to demand that they share supervisory authority with the erstwhile owner-proprietor. As the number of investors – and hence owners – increased, supervisory authority became increasingly diffuse and fragmented. In very large corporations, the fragmentation of ownership increased to the point that nobody, including the original owner, controlled more than a tiny fraction of the total stock (Berle and Means 1968: Chapters 1–6).

At the same time that ownership and supervisory authority was becoming more diffuse, growth in firm size and organization complexity also made it increasingly difficult for owners to direct their firms' operations. Owners thus began to turn to a new class of "managers" to supervise and coordinate operations. Unlike owners, managers did not necessarily have a financial stake in the firm but they were nevertheless expected to run the firm efficiently and maximize profits, and hence the return on the owners' invested capital.

The resulting combination of increasingly fragmented ownership and increasing dependence on professional managers led to what Berle and Means (1968) term the "corporate revolution" or what Chandler (1977) calls the "managerial revolution" during the late nineteenth century. The shifting of power from owners to managers caused by "corporatization" radically changed the nature of capitalism. Whereas early capitalist firms had been basically direct extensions of their owners' personal property, corporatization transformed firms into independent "legal persons." Like a "natural person," a legal corporation could own property, assume debt, represent itself in court, and be held financially liable. In the case

of "unlimited liability" companies, the connection between corporate property and the personal property of the owners remained direct because owners continued to be liable for the debts of their companies. In the case of "limited liability" corporations, however, owners' personal property was legally segregated from that of the corporation and owners were only liable up to the value of their stake in the firm. The limited liability corporation thus assumed a legally independent identity from that of its owners, who could remain at arms' length, claiming a share of corporate profits and governance rights without necessarily having to assume a direct role in corporate operations. This arms' length relationship also made it possible for individual "owners" to sell their shares to others without necessarily affecting the operations or legal status of the firm (see McNaughton 1960: Chapter 4). Owners could thus become investors, rather than having to act as owner-proprietors.

By separating ownership from control, corporatization also allowed owners to more fully transfer control functions to managers. Managers could, in fact, be authorized to run the corporation on a day-to-day basis with the owners retaining control over their appointment and general supervisory rights (Hansmann 1998: 734-5). Delegating authority to professional managers allowed owners to hire skilled businessmen to run their corporations. Delegation, however, also created new principal–agent problems because the interests of owners and managers necessarily diverge. Although both are made better of by maximizing profits, each benefits by minimizing the share of profits paid to the other. Delegating greater power to managers and removing owners from the day-to-day running of a corporation created a situation in which managers were expected to maximize owners' profits but, because they possessed better information about the firm's profitability, managers could now more easily deceive the absentee owners and skim off a share of gross profits for themselves.[5] As a result, while allowing for greater capital agglomeration, corporatization also called forth the need for governance structures through which owners could monitor the behavior of managers.

Governing managers, however, imposed monitoring and enforcement costs on owners, and as ownership became increasingly fragmented owners faced increasing collective action problems. These problems arose because of individual owners' propensity to shirk their responsibility to vigorously monitor managers and to free ride off the efforts of other owners. This, in turn, exacerbated the information asymmetries facing owners and increased managers' ability to avoid close scrutiny by owners. To compensate for the collective actions problem, shareholders generally formed corporate boards and vested the board members with the power to supervise managers. Once again, however, stockholders faced collective action problems in selecting board members because, where

ownership was highly fragmented, individual stockholders had weak incentives to invest time and effort in the selection of board members. As a result, managers often informally controlled the selection process, picking candidates they considered "friendly" and then collecting voting proxies from shareholders to ensure the victory of "their" candidates at annual shareholders' meetings.

Corporatization thus dramatically altered the relationship between owners and the firm. By reformulating the corporation as an independent legal person, corporatization "de-personalized" or "de-privatized" the firm. Companies were no longer the personal property of their owners. Owners now had income and governance rights proportionate to their share of ownership, but professional managers had actual control rights. Where ownership became fragmented, information asymmetries tended to shift the balance of corporate power in favor of managers. The result was a "managerial revolution" in which managers effectively displaced owners as the dominant actor, forcing owners to assume a secondary role. As absentee owners, they had some control over the selection of managers but little influence on how managers ran the firm. For the most part, owners had two options: they could hold the stock and collect dividends or, if they were dissatisfied with the returns on their investments, they could sell their stock to other investors and take their capital elsewhere (Veblen 1923). Where ownership remained concentrated in the hands of a small group of owners, managers obviously gained less power and in many closely held corporations they continued to act as agents even when corporatization attenuated the property relationship between owners and the firm. The corporate revolution thus had its greatest impact on large corporations.

The fragmentation of capital and the resulting rise of a new class of "strong managers" and the decline in owner power represented the first stage of the "corporate revolution" (Roe 1994: Chapter 1).[6] In the latter half of the twentieth century, the corporate revolution entered a new phase with the rise of "institutional investors."[7] Institutional investors were corporations that brought together the capital of many investors and invested it in other corporations. These new actors, which included holding companies, pension funds, mutual funds, index funds, and insurance companies, controlled large pools of capital and were thus able to buy large blocks of stock. During the first stages of the corporate revolution, institutional investors had accounted for only a small percentage of total stock ownership in the United States, less than 10 percent in 1950 and 12.6 percent in 1960. Over the next decade, however, their share of total stock ownership doubled to 19.4 percent. By 1980, their share had jumped to 33.9 percent. Ten years later, institutional investors held 47.3 percent of all stocks (Hamilton 2000: 349–73).

In theory, because they controlled large blocks of stock, institutional investors had stronger incentives to actively govern the firms in which they had investments because their financial gains from strict supervision were greater (in absolute terms) than those of individual investors. Institutional investors were thus presumably less likely to free ride and let managers do as they pleased. Moreover, even when they did not actually control a majority of the stock, institutional investors were likely to dominate corporate boards or become the nucleus for shareholder coalitions capable of wresting control from managers and their pawns.

Although increasing concentration may have shifted the balance of power back in favor of owners and broken managers' grip on corporate governance, the rise of institutional investors also accelerated the shift away from private capitalism and toward public capitalism. Institutional investors were themselves corporations. They too were characterized by the separation of ownership and control, with the latter vested in professional managers. Like their counterparts in operating corporations, the managers of investment corporations enjoyed an asymmetry of information over their corporation's owners and could thus deceive owners about returns on their investments. Profits extracted from operating corporations by tighter supervision and governance by an institutional investor might be thus diverted into the pockets of investment managers rather than passed on to shareholders as dividends. The rise of institutional investors, therefore, created a system in which corporations, acting as financial agents for individual investors, owned other corporations from which they earned profits. A corporation's flesh and blood owners were now often two steps removed, with two layers of agents intervening between them and their capital – and hence two sets of agents who could, by manipulating the flow of information to owners, manipulate the allocation of revenues to profits and dividends (see Diamond 1984). The asymmetry of information and collective action problems that putatively shifted power from owners to first-order managers in the first stage of the corporate revolution were, therefore, increased during the second-stage corporate revolution. As a result, the balance of power tipped further in favor of the managerial class and away from the capitalist class.

Fully developed capitalism, as it is found in the advanced industrial economies of Western Europe, North America, and Japan, is thus characterized not by a direct relationship between corporate ownership and control, but rather by a fairly circuitous link between the actual owners of capital and those who control capital. Lacking meaningful leverage over managers, owners' primary recourse should they become dissatisfied with the returns they receive on their investment is to sell their stock and move the proceeds to other investments or uses. They

have, in other words, the power to exit and can, in effect, vote with their feet.

Viewed historically, therefore, the evolution of corporate capitalism in the West is actually from "private ownership" to "public ownership" and from "strong owners" to "strong managers." In advanced capitalism, as Nolan and Wang (1999: 169–200) point out, a corporation's owners actually do not own the firm, but rather own a right that grants them limited participation in the supervision of management and a percentage of the corporation's net profits. Real control over the firm – including *de facto* control over the allocation of gross profits between costs, retained profits, and dividends – lies in the hands of managers who do not own capital but rather control the capital of others.[8] Thus, although private ownership remains the foundation of advanced capitalism, managerial control is interposed between the individual capitalist and the corporations in which their capital has been invested.

Corporatization in China

In key respects, the two-decade-long program to reform state-owned industrial enterprises (SOEs) in China boils down to a process of "corporatization" in which the state has sought to transform SOEs from administrative agencies into business enterprises. Prior to reform, SOEs were nominally owned by the "whole people." In reality, bureaucratic agencies administered the peoples' ownership rights and because "the people" exercised no meaningful leverage of the state, over time state agencies assumed *de facto* ownership. Under the planned economy, owner-bureaus set production goals for "their" enterprises, directed production and distribution, collected all revenues, paid the enterprise's wages and material costs, and provided investment funds as needed. Enterprises retained no profits, if they earned any, and suffered no losses, if costs proved to be greater than revenues. Enterprise managers were primarily responsible for ensuring that the bureau's orders were carried out and had only very limited residual control (subject to oversight by the party organization) over the actual production process. Ownership and control were thus largely merged, with the owning agency having both ownership rights and control rights. In practice, ownership rights were rarely held by a single agency and most enterprises were subject to multiple and shifting ownership claims by a range of different government agencies, including agencies of the central government, local governments, party organizations, and mass organizations (see Granick 1990: Chapter 2).

As they returned to positions of power in the waning days of the Cultural Revolution, Deng Xiaoping and others who had been purged for attempting to introduce limited market incentives in the early 1960s,

sought to improve enterprise performance and accelerate growth by providing enterprise managers with new, profit-based incentives (Xu 1998). Although the various measures enacted during the 1980s and 1990s were themselves complex, at base they involved a gradual separation of ownership and control and the transfer of control from the enterprises' bureaucratic owners to managers who were to use their new authority to improve efficiency and seek profits.

For the overwhelming majority of SOEs, the separation of ownership and control was not accompanied by a major change in nominal ownership. Most remained wholly "state-owned." Yet, even when SOEs remained wholly state-owned, ownership rights were generally transferred from bureaucratic agencies to state-owned holding companies or asset management bureaus. Some SOEs were converted to joint stock companies with state holding companies retaining 100 percent of the stocks. A few SOEs, less than a thousand as of 2000, eventually became public corporations, with state-owned holding companies retaining a share of the total stock but with individual private investors also owning shares.

The corporatization process has proven messy and uneven. Early on, state policy opposed the creation of shareholding corporations and focused instead on reforming managers' incentive structures. Despite opposition to shareholding, the Central Committee nevertheless issued a decision stipulating that henceforth government departments would no longer "manage or operate enterprises directly" and SOE managers should assume responsibility for enterprise operations and have greater control of the allocation of profits (Cao 2000). In 1987, a new Civil Law allowed SOEs to become "legal persons" (*faren*) and thus assume the right to own property and to take on debt.[9] The next year, a new Enterprise Law and accompanying state regulations stipulated that SOEs were to operate on the basis of the "Contract Management System" (CMS), the "Managerial Responsibility System" (MRS), and the "Internal Contract System" (ICS). Under the CMS, enterprise managers signed contracts with the state delineating their rights and responsibilities, including how profits would be divided. The MRS reduced the authority of party committees within the enterprise and centralized operational authority in managers' hands. The ICS created a system of intra-enterprise subcontracting that devolved new authority to middle managers (Lee 1990). Four years later, new regulations increased managers' autonomy from their state owners by explicitly granting them control over key functions including production, pricing, investment, the allocation of retained profits, mergers and acquisitions, personnel management, and wages (Qian 1996). As spelled out in the "Regulations for Converting the Status of Enterprises Owned by the Whole People," once a SOE became a legal person, state agencies would exercise

ownership rights – on behalf of the people, of course – including the right to appoint and remove managers, examine financial records, decide the allocation of profits, and approve mergers and acquisitions (Yu 1997).

The 1993 Company Law provided for the reorganization of SOEs as either limited liability (i.e., closely held) or joint stock limited (i.e., publicly held) companies, granting them the right to own property, including an ownership stake in other firms and subsidiary firms (Chen 1994). Shareholders in joint stock limited liability corporations were given the right to examine company records, and to elect the board of directors, with each shareholder voting in accordance with their share of the total stock. The board and the company chairman had the authority to set the company's business plan, approve major financial decisions, and appoint or dismiss the general manager and other managers. The general manager was given control over production and management. Large companies were also required to establish supervisory boards composed of shareholder representatives and company staff to monitor the company's finances.[10] The Company Law also explicitly barred government functionaries from serving as directors, supervisors, or managers.[11] Henceforth, only the representatives of state-owned holding companies, state asset management bureaus, or other "private citizens" could serve on the corporate boards.

The law did not, of course, mandate that SOEs convert into publicly traded corporations and allows for most of them to remain wholly state-owned. But even those enterprises that remained wholly state-owned were to become corporations. According to the law: "a wholly state-owned company . . . means a limited liability company invested in and established solely by [a] state-authorized investment institution or a department authorized by the state."[12] The law in fact stipulated that certain types of firms (those engaged in defense-related production or whose business operations were likely to constitute a "natural monopoly") should remain wholly state-owned. Like other firms, wholly state-owned firms were to be governed by a board of directors appointed by the owning institution or department, and managers were granted the same rights as managers in other companies.[13] The Company Law thus calls for corporatization, not privatization (Art and Gu 1995).

Although the Company Law calls for corporatization, it also creates barriers that have prevented many SOEs, particularly small SOEs, from incorporation. The law gives the State Council's Department of Securities Administration approval authority over the transformation of SOEs into joint stock limited companies and sets relatively high thresholds for incorporation.[14] To incorporate as a limited liability company, a firm must have a minimum capital of between Y100,000 and Y500,000, depending on the nature of its business activity. To incorporate as a joint stock company, a firm must have capital of at least Y10 million. A joint

stock company can be incorporated either by "sponsorship," in which case a minimum of five "sponsors" must subscribe all of the shares, or by "share offer," in which case five sponsors are required to buy at least 33 percent of the stock and may not sell their stock for three years. To become publicly listed, a company must have a minimum capital of Y50 million, have been in operation for at least three years, and have turned a profit for at least three consecutive years. Small and unprofitable SOEs are thus effectively barred from becoming joint stock corporations.

When a firm is converted into a joint stock company, the state does not buy shares but rather is issued shares according to its existing equity investment in the enterprise, making it possible for the state to simply covert its equity investment into 100 percent ownership. The Company Law mandates, however, that joint stock corporations with total capital of between Y50 million and Y400 million must sell at least 25 percent of their stock to the public. Companies with capital assets in excess of Y400 million must sell at least 15 percent of their stock to the public. The rules are thus structured in ways that encourage large, profitable SOEs to go public while allowing most medium-sized SOEs to convert to wholly state-owned limited liability corporations and forcing most small SOEs to continue to function as extensions of their state owners.

In general, when an enterprise becomes a joint stock corporation, the state's shares are to be assigned to the central State Asset Management Bureau, to local state asset bureaus, or to holding companies owned by state asset management bureaus or by bureaucratic agencies (Zhang 1997). Although state asset management bureaus and holding companies can transfer shares and buy additional shares, state shares cannot be sold to the public or publicly traded.[15] If it chooses, the state can, however, transfer ownership rights for "large-sized wholly state-owned companies with a sound business management system and relatively successful operations" to the company itself.[16]

Although legal regulations governing corporatization were not in place until the mid-1990s, joint stock companies began to form during the early 1980s, first on an ad-hoc – and often illegal – basis, then on an "experimental" basis, and finally on the basis of new local regulations. During the early 1980s, a number of SOEs informally transformed themselves into shareholding companies by first reorganizing some of their subsidiary units into "cooperative operations" (*lianying*) and then shifting these operations into shareholding enterprises (*gufenzhi qiye*) that sold shares to individual investors (Fang 1995: 153). Shareholding also emerged in the rural industrial sector where cash-strapped cooperatives were allowed to sell shares to individual farmers and to pay dividends based on invested capital. Although shareholding spread rapidly in the rural industrial sector during the early 1980s, it was not until 1984 that the first legitimate shareholding companies were established in the urban

industrial sector. At that time, a limited number of SOEs in Beijing, Shanghai, and Guangzhou were converted into shareholding firms on an "experimental" basis. In 1987, the state finally issued regulations governing stockholding in which it authorized collective enterprises to issue stocks but barred SOEs from issuing stocks. Instead, SOEs were authorized to issue fixed interest bonds (Potter 1992).

Stockholding companies continued to proliferate nevertheless. According to Ma (1998: 383–5), by early 1988 a total of 6,000 shareholding firms had been organized, about half of which were actually "shareholding cooperatives" owned by their employees. Some 3,800 firms, however, were actual shareholding enterprises (SHEs), with shares held by a combination of other corporations, employees, and individual investors. Most were small firms and had been collective enterprises, not SOEs. Stocks were not publicly traded and investors generally received interest payments plus dividends. Many stocks could also be redeemed at face value, thus making them more like bonds than true stocks (Ma 1998).

Initially, stocks were not transferable. By the mid-1980s, however, informal secondary markets for both enterprise and state treasury bonds had sprung up.[17] In 1985 the city of Xiamen issued the first set of regulations authorizing trading, followed by Guangdong province and Beijing. China's first securities exchange was set up in August 1986 in Shenyang. The exchange dealt in bonds issued by SOEs in the northeast. Similar exchanges soon appeared in Tianjin, Guangzhou, Wuhan, Chongqing, Harbin, and Dalian (Hong 1999: 107). Ultimately, 54 bond trading centers were opened. An underground stock market also began to emerge during the mid-1980s when banks such as the Shenzhen Development Bank began acting as an informal securities exchange for stocks issued by Hong Kong-based joint ventures (Anderson 2000).

After a rather slow start, China's emerging securities market was swept by a wave of "securities fever" (*zhengquan re*) during 1987, by which time companies had reportedly issued upwards of Y10 billion worth of underground stocks (Karmel 1994: 1109). Facing rising inflation and fed with tales of individuals who had made themselves rich overnight by trading in stocks, savers began to move money out of low-interest-paying savings accounts and into the unregulated underground stock market (Potter 1992: 66–7, 74). When inflation took off during 1988, stock prices began to shoot upward as demand outstripped supply. Stock fever, however, contributed to fears by conservatives that the economy was spinning out of control. And in the economic and political turmoil that followed Tiananmen in the summer of 1989, Li Peng and the conservatives imposed new restrictions that limited shareholding to inter-firm investments and barred individuals from owning stocks (Ma 1998: 386). Li's attempt to squash China's incipient securities market proved

short-lived. Faced with a sluggish economy and chronic shortages of both operating and investment capital, Li and his allies were soon forced to allow SOEs to turn to private investors for capital. They thus agreed to the formation of formal stock exchanges in Shanghai (December 1990) and Shenzhen (July 1991).[18]

Early on, both markets were tiny and only a few, mostly non-state, companies sought listings. Once lingering conservative opposition to shareholding was finally overcome in 1992–3 after Deng Xiaoping's "southern tour," however, the number of shareholding enterprises began to increase rapidly (see Table 3.1). Local governments, many of which had staunchly opposed shareholding previously, rushed to convert locally owned SOEs into "internal shareholding" (*neibu gufen*) or "public shareholding" (*gongzhong gufen*) companies (Ma 1999). Large and medium-sized SOEs, which had shunned shareholding previously, began looking to the stock market as a new source of cash and capital (Sun 1999). Individual investors quickly became caught up in a new wave of "stock fever" (*gupiao re*) as turnover increased six-fold to over Y60 billion in 1993 and then rose to Y563 billion in the first six months of 1994 (Gamble 1997).[19]

Officially, the total number of shareholding enterprises nationwide did not increase dramatically, even though the number of SOEs converting to SHEs rose from 103 in 1991 to 1,360 in 1994. Unofficial estimates, however, suggest that the number of SHEs was increasing rapidly, rising from 6,000 in 1991 to over 13,000 in 1994. Other estimates put the number of SHEs as high as 25,800 by 1994 (Karmel 1994: 1109; Dong and Hu 1995: 15–29). Most SHEs remained closely held. Of the 3,220 joint stock firms established prior to 1991, for example, 2,751 (85 percent) were owned by their employees and 380 (12 percent) by other corporations. Only 89 (3 percent) sold shares to the public. In 1992, only 34 (9 percent) out of the 363 newly formed joint stock companies sold shares to the public (Hong 1999: 107–8). As a result, the number of companies listed on the Shanghai and Shenzhen exchanges remained small and it was not until 1993 that the number of listings began to approach 200. By 1996, over 500 companies were listed, with the number eventually reaching over 1,000 in 2000. Total market capitalization, meanwhile, rose from Y10.9 billion in 1991 to Y353.1 billion in 1993 and then Y2.65 trillion in 1999. Turnover increased from Y362.7 billion in 1993 to Y3.13 trillion in 1999. The total number of shareholding companies, meanwhile, reached over 40,000 in 1999, of which approximately 6,200 were joint stock limited liability corporations (*Zhongguo Qiye Guanli Nianjian* 2000: 728).[20]

Table 3.1 Growth of listed enterprises, 1990–1999 (billions of RMB)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Publicly listed companies	10	14	53	183	291	323	530	745	851	949	1,139
Shanghai exchange	8	8	29	106	171	189	293	382	438	484	623
Shenzhen exchange	2	6	24	77	120	135	237	362	413	465	516
Market capitalization		10.92	104.8	353.1	369.1	347.4	984.2	1,752.9	1,950.6	2,647.1	
Market capitalization as a percentage of GDP		0.51	3.39	10.20	7.89	5.94	14.50	23.44	24.46	31.82	
Turnover				362.7	812.8	403.6	2,133.2	3,072.2	2,354.4	3,132.0	
Total assets			48.1	182.1	330.9	429.5	635.2	966.06	1,228.8	1,610.7	
Total revenue			22.6	95.4	168.0	233.7	341.2	483.6	624.1	797.5	
Total profits			3.2	15.7	25.6	25.6	34.4	57.7	63.6	80.6	
Net profits			2.4	13.7	21.4	21.1	28.2	46.8	48.9	62.9	

Sources: Zhongguo Tongji Nianjian, 1996 and 2000; *Zhongguo Jinrong Nianjian* 2000; *Zhongguo Guoyou Zichan Nianjian*, 1993, 1994, and 1995; *Zhongguo Jingji Nianjian*, 1998 and 2000; and *Zhongguo Zhengquan Qihuo Tongji Nianjian*, 1999 and 2000. Data on the total number of joint stock companies for 1991 and 1992 are from *Zhongguo Di San Chanye Pucha Ziliao Gaoyao* (Beijing: Zhongguo Tongji Chubanshe, 1995): 24. Figures for 1994–1999 are from *Zhongguo Tongji Nianjian*, 1999 and 2000. Data on firms listed on the Shanghai and Shenzhen Stock Exchange are from http://www.sse.com/cn.

Compared to the total number of firms in China, the number of joint stock and listed firms remained small. In 1999, for example, there were officially 14,200 shareholding industrial enterprises, 416 of which were publicly listed. That same year, however, there were a total of 7.93 million industrial enterprises in China. As such, shareholding enterprises constituted a mere 0.18 percent of the total. Limited liability and shareholding corporations were more common in the commercial sector. In 1999, there were 1,400 limited liability and 575 shareholding corporations (of which just 86 were publicly listed) in the wholesale commercial sector compared to a total of 16,382 enterprises. Shareholding corporations thus accounted for 8.3 percent of the wholesalers. In the retail sector, out of a total of 10,733 enterprises, 824 were limited liability corporations and 658 were shareholding corporations. Finally, in the catering sector, there were 244 limited liability corporations and 93 shareholding corporations out of a total of 3,266 enterprises (*Zhongguo Tongji Nianjian* 2000: 556–7). In all, 12.5 percent of commercial enterprises were either limited liability or shareholding enterprises.

Despite their small numbers, joint stock firms constitute an important segment of the economy. In 1999, for example, even though they constituted less than one-fifth of 1 percent of all industrial enterprises, shareholding corporations accounted for 9.73 percent of gross value of industrial output (GVIO), a share that was more than three times that in 1995 when they accounted for 2.99 percent of GVIO (*Zhongguo Tongji Nianjian* 2000: 407). According to Chen and Lau (2000), companies listed on the Shenzhen and Shanghai Stock Exchanges accounted for 27 percent of China's GDP in 1998, up from a scant 0.5 percent in 1991.

Shareholding corporations accounted for 6.85 percent of investment in fixed assets in 1998 and 8.30 percent in 1999 (*Zhongguo Tongji Nianjian* 2000: 167). In the wholesale, retail, and catering commercial sectors, limited liability and shareholding companies accounted for 17.77 percent of total assets (*Zhongguo Tongji Nianjian* 2000: 566). By 1997, according to the *China Enterprise Management Yearbook*, the total registered capital of shareholding enterprises exceeded that of the collective sector. At that time, shareholding enterprises accounted for 20.93 percent of total registered capital, versus 20.90 percent for the collective sector and 46.63 percent for the state-owned sector. Over the next two years, according to this source, the capital assets of shareholding enterprises expanded to 33.28 percent of the total, while those of the state sector fell to 41.37 percent and those of the collective sector shrank to 12.51 percent, thus making the shareholding sector the second largest sector in terms of registered capital (*Zhongguo Qiye Guanli Nianjian* 1997 and 2000: 493 and 781 respectively).

Thus, as of 2000 a substantial portion of China's economy had undergone corporatization. Most SOEs, of course, remained wholly state-owned. As of 1999, roughly 5,000 had converted to closely held, limited liability companies. Fifty thousand, however, remained unconverted. The relationship between these unconverted SOEs and the state has nevertheless been changed. In accordance with the 1988 SOE Law, ownership was gradually and imperfectly shifted from state agencies to state asset management bureaus or state-owned holding companies organized under the State Asset Management Committee (SAMC) and the National Administrative Bureau of State-owned Property (NABSP).[21] State-owned insurance companies and pension funds have also assumed ownership rights (Qian 1996: 441). In theory, the SAMC and NABSP sit at the apex of a hierarchy of provincial and municipal level state asset management bureaus, below which are state-owned holding companies, asset management companies, and investment companies. In reality, the state asset management system remains disorganized, with a complex net of holding companies operating at the central, provincial, municipal, and district levels (see Guthrie 1997; Guthrie 1999: 59). Lines of authority are often unclear. Some asset management bureaus answer to local authorities but not to the central asset management system. Others answer to the agencies that originally controlled the SOEs assigned to them, not to the asset management system.

The operations of the asset management system are also disorganized. In some areas, state asset managers exert little control over the SOEs assigned to them, having either failed to name representatives to their boards of directors in a timely fashion, opted to name enterprise managers as the state's shareholder representatives, appointed individuals who failed to actively participate in governance, or simply abandoned ownership (Wu *et al.* 1997). Relations between major SOEs and their "owners" are further complicated by the fact that many large SOEs informally hold a bureaucratic rank equal to that of a ministry or bureau and thus may actually outrank the companies that own them (Lewis 1999). In many cases, ministries and agencies have simply set up holding companies and transferred both ownership and staff to these holding companies and thereby "de-bureaucratized" them without necessarily changing the way they function or linking their holding companies to the asset management companies (AMC) system. Moreover, many of the managers of state asset management bureaus and state holding companies are actually ex-bureaucrats or party cadres (Broadman 1999). To a considerable extent, therefore, the new asset management system replicates the old system of agency ownership from whence it came.

It is too early to tell if the state asset management system will ultimately break the link between SOEs and individual state agencies or

if the state asset management system will become truly independent of the state agencies from whence it came. In theory, if state asset management companies were set up as wholly state-owned limited liability companies, as provided for in the 1994 Company Law, then they would themselves function as corporations, with the state's role limited to the selection of managers, financial oversight, and allocation of profits of the asset management bureaus, but not the operating companies owned by the asset management bureaus. In this case, they would assume a role as financial intermediaries similar to that occupied by pension funds, insurance companies, and the like, in advanced capitalist economies. Even if they do not function as corporations and remain essentially government agencies, the establishment of the state asset management system necessarily attenuates the links between the state and wholly state-owned enterprises by interposing a semi-autonomous entity between the state and individuals SOEs. In structural terms, individual SOEs have thus become the agents of the asset management companies and their holding companies, which are, in turn, agents of the state (which is itself technically an agent of the "whole people"). Since a hierarchy of principal–agent relationships is also a hierarchy of information asymmetries, the ability of a principal necessarily declines as the number of nodes in the hierarchy increases. Simply by increasing the length of the chain, the creation of the state asset management system diminished the leverage of the state.

Other developments have also been attenuating the links between state agencies and the enterprises which they had owned prior to the advent of reform. Since the 1980s, the state has encouraged SOEs to join "business groups" (*qiye jituan*) (Keister 2000: Chapter 3). Formally and legally registered, a business group links independent firms engaged in complementary production so they can coordinate production and assist each other in raising capital and obtaining scarce raw materials, maintaining joint marketing systems, and cooperating in research and development.[22] Although members of a group do not necessarily own stakes in each other, groups generally cluster around "a core firm," which is often a spin-off of the administrative bureaus that had directed and coordinated the firms prior to reform.

By 1993, a total of 17,260 firms had officially registered as members of business groups, including 8,202 firms registered as core firms. Among group members, SOEs accounted for 39.9 percent, collectives 44.8 percent, and SHEs 11.3 percent (*Zhongguo Qiye Guanli Nianjian* 1994: 232). By 1995, it was believed that between 20 and 25 percent of SOEs belonged to business groups, and that group-affiliated firms accounted for a quarter of total state assets (Keister 2000: 67–70). In 1997, 2,304 major groups were registered, compared to 1,946 groups the year before. Combined, group members earned revenues totaling Y2.77

trillion in 1997, up from Y2.44 trillion in 1996, and controlled Y4.93 trillion in assets. Among these major groups, 1,359 were led by state-owned holding groups (*Zhongguo Qiye Guanli Nianjian* 1998: 216).

Resembling the Japanese *keiretsu* and, to a lesser extent, the South Korean *chaebol*, Chinese business groups formed another intervening layer between an SOE's nominal state owners and the firm.[23] Even though groups themselves lack corporate status and are not based on inter-firm ownership, core firms generally exercise informal control over the members through a combination of interlocking directorates, seconded managers, and common board members. Moreover, group members are frequently dependent on the core firm for access to share capital and markets. Core firms thus assume informal ownership rights.

Failing SOEs, meanwhile, have found themselves facing a choice between forced corporatization, privatization, or bankruptcy. After allowing many SOEs to hemorrhage red ink for years, the central government began to eliminate money-losing state enterprises in 1997.[24] According to the new policy, the state would sharply reduce the total number of SOEs and cull out the chronic money losers by "grasping the large and let go the small" (*zhua da, fang xiao*) (Hu 2000). Large and medium-sized SOEs were to be combined into conglomerates and converted into shareholding companies. Unprofitable SOEs were to be merged with other SOEs to form new corporations, shorn of their unprofitable operations and reorganized, or cannibalized, with other SOEs taking over their profitable operations and with their unprofitable operations either privatized or shut down. Small SOEs were to be absorbed by other firms, leased out, privatized, or simply closed. Over the next several years, the total number of SOEs was cut from a peak of 127,600 in 1996 to 58,000 in 1999, with most of the decrease coming from reductions in the number of small-size SOEs (*Zhongguo Tongji Nianjian* 2000).[25]

The 1997 reforms failed, however, to stop the flow of red ink and by 1998 the state sector appeared to be on the brink of a major debt crisis.[26] In hopes of averting a financial collapse that would have bankrupted the government treasury and the state-owned banks, the central government announced a new restructuring program in 1999. Under this new policy, four major asset management companies (AMCs) would buy Y1.3 trillion worth of non-performing loans to unprofitable SOEs from China's four major banks and then swap debt for equity in debtor firms (*Renmin Ribao* December 15, 2000). Like the US Resolution Trust Corporation, the AMCs would try to recover bad debts by helping debtors reorganize their operations, selling shares to outside investors, or shutting down firms and selling off their assets (Walker 2000; *Renmin Ribao* July 9, 2000; Ji and Thomas 1999).[27] By the end of 2000, according to the government, three of the AMCs had purchased a total of Y1.22 trillion worth of non-

performing loans and had placed a substantial number of money-losing SOEs on the block.[28] Although the AMCs were supposed to assume temporary ownership rights, they assumed these rights at the expense of the SOEs' original owners and thus became yet another layer separating the state from individual SOEs.

To summarize, China's state sector began a process of corporatization in the mid-1980s. At first the process was largely informal and often underground. In the early 1990s, the process accelerated following the establishment of the Shanghai and Shenzhen stock exchanges. By the time of the 1997 Asian economic crisis, a small – but significant – number of SOEs had either become joint stock companies or had set up joint stock subsidiaries. Faced with mounting losses and frustrated by a lack of progress in reforming the state sector, the central government adopted a series of policies during 1997–9 that, if fully enacted, would have forced other SOEs to corporatize, merge with corporatized SOEs, or shut down. Privatization still remained a last resort and was to be largely limited to small SOEs. The state's focus, therefore, remained on converting SOEs from administrative agencies into "modern," but still primarily state-owned, corporations.

Even in the absence of privatization, corporatization and the accompanying separation of ownership rights from control rights attenuated the state–enterprise relationship particularly when ownership rights were transferred from state agencies to financial intermediaries such as state holding companies and asset management bureaus. Whereas state agencies had exercised more or less direct authority over enterprises in the pre-reform period, by the 1990s their relationship with individual SOEs was indirect and they had limited formal authority to dictate how managers ran individual enterprises. In many cases, even their right to enterprise income was circumscribed because dividends accrued to an agency's subsidiary holding company rather than directly to the owning agency. The managers of enterprises, meanwhile, not only saw their formal authority increase and received new rights to retain a share of profits, they also had opportunities to increase their informal authority because corporatization created additional information asymmetries that made it more difficult for the state to monitor their activities and ensure that profits were properly reported and divided between the enterprise and its owners. In all but the most exceptional circumstances, managers gained only a greater degree of relative autonomy because the state owners still had the formal authority to remove them at will. Managers also remained enmeshed in social and career networks that tied them to the agencies which once ran them. Corporatization thus greatly loosened state agencies' grip on SOEs, but it did not break it, as would have been the case if SOEs had been privatized.

The Chinese corporate web

As noted earlier, the extent of corporatization within the state sector varies considerably. Most firms have either not undergone corporatization or have undergone a form of paper corporatization. Even among those SOEs that have undergone corporatization, most remain closely held and hence wholly state-owned. Only 1,000 enterprises, not all of which were SOEs to begin with, have become full-fledged public corporations. Despite the overtly small number of fully corporatized firms, corporatization has had a deep impact on the state sector because it has spawned corporate webs that extend well beyond those firms that have become fully corporatized. Moreover, corporatization has created new and more complex forms of ownership that in key respects render the notion of "state ownership" obsolete. The consequences of corporatizatation, both in terms of ownership and as regards the relationship between the state and individual firms, can best be illustrated by examining corporations that have undergone full corporatization and become publicly traded corporations on either the Shanghai or Shenzhen stock exchanges.

According to aggregate statistics, the state remains the largest single owner of corporate stocks listed on the Shanghai and Shenzhen exchanges (see Table 3.2). The proportion of shares owned by the state has fallen over the years, dropping from 42 percent of the total in 1992 to 36 percent in 1999. This drop, however, was offset by an increase in corporate shares, most of which are held by other SOEs or state holding companies (from 13 percent of the total in 1992 to 19 percent in 1999). The importance of B shares (shares available for purchase by foreigners) meanwhile dropped from 15 percent of the total in 1992 to less than 5 percent in 1999.[29] Privately held A shares, finally, increased from 16 percent of the total in 1992 to 26 percent in 1999. The Chinese stock market has thus seen an increase in the importance of corporate and individual stock ownership. The state, nevertheless, remains the most important player. Moreover, because state shares cannot be traded and trading in corporate shares is restricted, a majority of corporate stocks (65 percent in 1999) are actually not publicly traded.

Looking simply at the aggregate number of shares owned by the state can be misleading because stock ownership structures are quite complex. If we look instead at state ownership on a company-by-company basis, for example, using a sample of companies from the Shenzhen Stock Exchange,[30] we find that although state shares accounted for 31 percent of the total number of shares in 2001, 27 percent of the companies in the sample had no state shares and state shares accounted for less than 10 percent of company stock in an additional 17 percent of the companies

Table 3.2 Breakdown of share ownership, Shanghai and Shenzhen exchanges, 1992–1999 (%)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*% change 1992–9*
Non-traded shares									
State	41.38	49.06	43.31	38.74	35.42	31.52	34.25	36.16	-5.23
Chinese corporations	13.14	9.02	10.79	15.93	18.42	22.64	20.90	19.13	+5.99
Foreign corporations	4.07	1.05	1.10	1.40	1.23	1.34	1.42	1.31	-2.75
Privately placed corporate shares	9.42	10.59	10.64	7.30	7.53	6.72	6.03	6.16	-3.26
Staff	1.23	2.40	0.98	0.36	1.20	2.04	2.05	1.19	-0.04
Other	0.00	0.05	0.16	0.74	0.95	1.18	1.25	1.08	+1.08
Subtotal	69.24	72.17	66.98	64.47	64.75	65.44	65.90	65.03	-4.21
Traded shares									
A shares	15.87	15.82	21.00	21.21	21.92	22.79	24.06	26.34	+10.47
B shares	14.88	6.37	6.06	6.66	6.45	6.04	5.30	4.60	-10.29
H shares	0.00	5.63	5.96	7.66	6.88	5.74	4.75	4.03	+4.03
Subtotal	30.75	27.82	33.02	35.53	35.25	34.57	34.11	34.97	+4.22

Note: “Chinese corporations” includes sponsor (also known as promoter) shares.

Sources: *2000 Nian Zhongguo Zhengquan Qihuo Tongji Nianjian* [China Securities Statistics Yearbook] (Beijing: Zhongguo Caizheng Jingji Chubanshe) 2000.

(see Table 3.3). State shares accounted for over half the total in 26 percent of companies. In other words, the number of companies having no state shares was almost equal to the number having a majority of their stock designated as state shares. Half of the companies which had no state shares, however, had other corporations as their largest stockholder. State shares accounted for the largest block of stock in 35 percent of the companies, while A shares represented the largest block in 41 percent.

Corporate shares, including sponsor shares, made up the largest block in 22 percent of the companies. Among companies with majority state ownership, A shares accounted for between 25 and 49 percent of total stock in fully 80 percent of the cases. It was common, in other words, for the state to be "partnered" by a large number of private investors, a situation that virtually ensures the state – or its representative, more precisely – will be the dominant or hegemonic owner. Among companies where A shares represented the largest block, 29 percent had no state shares. In just over half these companies, however, state shares represented between 20 and 50 percent of the total.

Even though A shares accounted for a quarter of all outstanding shares in 1999, private shareholders were largely marginalized due to the small size of their holdings. Thus, for example, private citizens were among the top ten shareholders in 133 companies, but were among the top three shareholders in only 27 companies. In no case, however, did an individual own more than 5 percent of a company's stock (individuals are, in fact, prohibited by law from doing this).

Ownership also tended to be highly concentrated. In 26 percent of the companies examined, the major shareholder owned over half the total shares, while in 60 percent the largest shareholder owned between 20 and 50 percent of the shares. On average the largest stockholder owned 37 percent of the company's stock, while the second largest stockholder averaged only 9 percent. In only 11 percent of the companies sampled

Table 3.3 Ownership structure, Shenzhen Stock Exchange, 2001: breakdown of companies by distribution of stock

	A shares	*B shares*	*H shares*	*Staff*	*Corporate*	*Promoter*	*State*
None	0	83.5	99.2	n/a	40.9	38.0	27.0
Less than 10%	1.7	0	0	n/a	18.6	22.8	7.2
10–25%	9.7	5.9	0	n/a	9.3	16.0	5.5
25–49%	68.4	10.1	0.8	n/a	22.4	21.1	34.2
Majority	20.3	0.4	0	n/a	8.9	2.1	26.2
% of all shares	39.95	6.09	1.54	n/a	13.01	10.57	32.50

Source: Based on data from the Shenzhen Stock Exchange website: http://www.szse. com.cn/.

did the second largest stockholder hold more than 20 percent of the stock. The third largest shareholder, finally, averaged 4 percent of the stock and in only one case held more than 20 percent. Combined, the three largest owners held over half the total stock in just over half of the companies examined. The big three owned between 30 and 50 percent of the stock in an additional 37 percent of the companies. In only 10 cases did the top three stockholders own less than 20 percent of the total stock. Therefore, a small core of large stockholders tended to dominate listed companies, among which the state was often the largest and presumably most powerful player.

Looking at the Shanghai Stock Exchange, we find the same pattern of state dominance. Over one-third of the companies listed in 1997 were majority state-owned, with an additional 20 percent either sponsor-majority or corporate-majority owned (see Table 3.4). State shares also accounted for a quarter or more of corporate stock in an additional 26 percent of these companies. Conversely, however, 29 percent of companies had no state shares. Once again, we find that in a substantial number of cases where state shares constituted an absolute majority, 25 to 50 percent of the company's stock was in A shares. Once again, therefore, we see the pairing of a hegemonic state owner with large numbers of small private investors.

It would be wrong to assume, however, that the "state" actually owned the firms in which state shares constituted the largest block of shares. State-owned stocks are often held not by a state agency or bureau but rather by state-owned holding companies or corporations acting on "behalf" of the state. Among 129 companies listed on the Shenzhen Exchange for which data were available, the state's shares were owned by other state-owned companies in 29 percent of the cases and by state-owned holding companies in 43 percent of the cases. In 21 percent of the cases, the state owner was a state asset management bureau. In only 5 percent of the cases was the state owner identified as a government

Table 3.4 Ownership structure, Shanghai Stock Exchange 1998: breakdown of companies by distribution of stock

	A shares	*B shares*	*H shares*	*Staff*	*Corporate*	*Promoter*	*State*
None	2.4	87.4	96.8	72.9	44.7	51.3	28.9
Less than 10%	10.3	0.3	0	16.8	21.6	8.2	4.2
10–25%	21.3	1.1	0.3	8.4	21.3	7.4	6.6
25–49%	59.5	11.3	02.9	1.8	10.8	14.7	26.3
Majority	6.6	0	0	0	1.6	18.4	33.9
% of all shares	19.96	6.07	8.00	1.46	6.50	19.05	37.37

Source: Based on data in *Shanghai Zhengquan Shichan Nianjian* 1998.

bureau or other agency. In most cases, therefore, the "state" was actually a financial intermediary.

The complexity of the state–enterprise relationship characteristic of joint stock companies becomes clear when we look in detail at specific cases such as the Shenzhen Properties and Resources Development Group (SPRDG). With total reported assets of Y2.67 billion, revenues of Y658.1 million, and profits of Y53.7 million, SPRDG was a medium- to large-sized joint stock company. SPRDG has been listed on the Shenzhen Stock Exchange since 1992, making it one of the earliest public corporations in China.[31] A majority (60 percent) of its shares is owned by Shenzhen Construction Investments Holdings (SCIH), a state asset management company which is itself wholly owned by the Shenzhen municipal government, with the Shenzhen State Asset Management Bureau serving as the municipal government's trustee.[32] As the primary holding company, SCIH collects the state's share of net profits from SPRDG. SCIH does not, however, automatically pass the profits it collects from SPRDG on to the Shenzhen Municipal Finance Bureau. Instead, it may allocate a share of the net profits to new investments, either in SPRDG or in other companies. China Ping An Insurance owns an additional 10 percent of SPRDG. The remaining shares are split among smaller investors, none of whom own more than 0.5 percent of the total stock. Only 28 percent of SPRDG's stock was actually publicly traded, of which 17 percent were A shares and 11 percent B shares.

China Ping An Insurance, meanwhile, is a joint stock company owned in part by the Industrial and Commercial Bank of China, China Merchants Holdings (Shekou Industrial Zone), China Ocean Shipping Group, Morgan Stanley, and Goldman Sachs. Of these, the Industrial and Commercial Bank is wholly state-owned.[33] China Merchants Holdings is a publicly listed company, with no state shares. One-third of its shares are corporate shares owned by China Merchants Shekou Industrial Zone Co. Three subsidiaries of China Merchants Holdings (International) (CMHI) own an additional 20 percent of China Ping An's stock. Fifty-three percent of CMHI's stock was, in turn, owned by China Merchants Holdings Company, a subsidiary of the China Merchants Group (CMH) which reportedly owns a total of over 450 different companies and is controlled by the State Council of the PRC.[34]

SPRDG, meanwhile, itself wholly owned 21 subsidiary companies, including three (Shenzhen Properties and Resources Development (Group), Shenzhen Huangcheng Real Estate Company, and Shenzhen Property and Construction Development Company) that earned over Y100 million in 2000. SPRDG subsidiaries were located not only in Shenzhen, but also in Hainan province, Chongqing, Shanghai, Nanjing, Dalian, and Zhanjiang, as well as Hong Kong where it owned Shum Yip Properties Development. SPRDG owned shares in additional companies,

including a 50 percent stake in four, a 25–40 percent stake in four others, and smaller shares in an unidentified number of others.

Ultimately, SPRDG and its subsidiaries are "state-owned companies" because the state either owns SPRDG stock, owns the companies that own SPRDG stock, or has a controlling stake in the companies that own the companies that own SPRDG stock. In the case of the stocks formally designated as state-owned stocks, we can trace back reasonably quickly to a state holding company (SCIH) and thence to the Shenzhen municipal government's State Asset Management Office. When we examine who owns SPRDG corporate stocks, the tracing is considerably more tangled and involves a complex web of holding companies, but in the end most of these companies prove to be controlled or owned by the state.

Yet, even though the state may "own" SPRDG and its subsidiaries, the link between the Shenzhen municipal government and the company is clearly attenuated. In the case of the SCIH, we find that although it serves as a trustee of the Shenzhen municipal government, it – not the government – controls the allocation of the state's share of SPRDG's profits. In the case of the shares owned by China Ping An Insurance, the state appears at best several steps removed, even though in the end the firm is largely controlled by the China Merchants Group. Thus, although the state ultimately owns a dominant interest in SPRDG, it is perhaps much more accurate that the company is owned by a web of other corporations, some of which are directly owned by the state and others are owned by other corporations, which are in turn owned by the state.

Hubei Sanonda, China's leading producer of chemical pesticides, provides a second example of the emerging structure of state–corporate relations. Hubei Sanonda was established in 1992 when the state-owned Hubei Shashi Agrochemical Plant was transformed into a joint stock company.[35] Listed on the Shenzhen Exchange in 1993, 28 percent of its shares are state shares, with 27 percent held on behalf of the state by the Sanonda Group Corporation (a state-owned corporation which owns a series of other state-owned chemical and petrochemical corporations) and an additional 1 percent held by the Qichun County State Asset Management Bureau. The bulk of the firm's other shares are either A shares (32.7 percent) or B shares (38.7 percent), with the result that over two-thirds of the company's stock is held by "private" investors. Only a single non-state investor, the Taiji Investment Corporation, which owns 1.8 percent of the stock, owns more than 1 percent of the total stock. Thus, even though the state does not own a majority of Hubei Sanonda's stock, it nevertheless still has effective control over the firm because the fragmentation of non-state ownership virtually ensures that it will enjoy minority control. As was true of SPRDG, however, the "state" in this case is not a government agency or state asset management bureau, but rather a state-owned corporation (the Sanonda Group), acting as an agent of the

agencies and bureaus which own it. The "state" may thus control Hubei Sanonda (and hence its twelve subsidiaries), but does so only indirectly.

China Southern Glass, by contrast, has no state shares. Instead, 36 percent of its stock is listed as corporately owned and 15 percent is owned by its promoters and other investors. The remaining 49 percent is publicly traded, with 16 percent in A shares and 33 percent in B shares. Its largest shareholder is China Merchants (Glass Industries) Holding Company, a subsidiary of China Merchants Holdings (International) which is in turn a subsidiary of the China Merchants Group, a state-owned company. Its second largest stockholder, China Northern Industry Shenzhen Corporation, is part of the sprawling Northern Industries Corporations (NORINCO), which was created by spinning off enterprises controlled by the Ministry of Defense and was controlled by the military until Jiang Zemin forced the military to divest itself of its corporate empire. Three other major shareholders, Yiwan Industrial Development (Shenzhen) Co, Shenzhen Yida Trading Co, and Xuanwei Co. are subsidiaries of Shenzhen International Holdings. Combined, they account for the largest single block of shares (25 percent). Shenzhen International Holdings is a Hong Kong-based company 23 percent owned by the Shenzhen Municipal Construction Materials Corp, a state-owned company.[36] At first glance, therefore, China Southern Glass may appear to be a non-state company, yet the companies that own it prove to be either state-owned or owned by state-owned companies.

Complicating the corporate web further is the complexity of the state asset management system. The asset management system, like most other "systems" (*xitong*) in China, is a dual hierarchy in which central (vertical) agencies share authority with local/regional (horizontal) authorities. Thus, for example, the Guangdong Provincial State Asset Management Bureau (GSAMB) comes under the dual supervision of the central National State Asset Management Bureau and the Guangdong provincial government. GSAMB, in turn, owns a series of holding companies that control SOEs belonging to the provincial government (*Zhongguo Guoyou Zichan Nianjian* 1995: 142–5 and 210–13). GSAMB also shares supervision over municipal and county-level asset management offices with the financial bureaus of each locality and, informally, local party committees. Municipal and county asset management offices control the asset management companies, investment companies, and holding companies that actually "own" individual SOEs. Thus, the Guangzhou Municipal Asset Management Office, which came under the joint control of the Guangdong provincial SAMB and the Guangzhou municipal government, controlled four state asset investment management companies, each of which, in turn, controlled a total of 1,515 firms (including 424 industrial firms) valued at Y40.66 billion.[37] Although the bulk of its holdings were in state-owned companies, the office and its

subordinate companies also controlled state assets that had been leased to non-state companies. State-owned enterprises in China are thus generally owned not by a unitary "state" but rather by a complex combination of central and local bureaucratic entities (state asset management bureaus), holding companies owned by these bureaus, other state-owned companies, and, in the case of listed firms, private investors.

Analysis and conclusions

Given the highly complex ownership structure of corporations such as China Southern Glass, Hubei Sanonda, and Shenzhen Properties and Resources Development Group, it would be difficult to say that the state truly owns and controls these corporations. In such cases, corporatization has clearly not only transformed SOEs into legal and independent entities and shifted control from state bureaucrats to enterprise managers, but it has also greatly attenuated the state's ownership claims. Whereas in the pre-reform period an enterprise "belonged" to a specific state agency, which directed its activities and siphoned off its profits, by the 1990s a substantial number of SOEs were under the control of other state-owned corporations, state-owned holding companies, or state asset management bureaus acting as agents of the nominal state owners. Because they exercise ownership rights in the name of "the state," it is the managers of these intermediaries, not bureaucrats, who sit on corporate boards, select the managers of state-owned operating companies, approve corporate plans, and determine the allocation of profits between investment and dividends. Many of these managers are, of course, former bureaucrats and so the division between this new class of managers and the bureaucracy is far from absolute. Nevertheless, the delegation of ownership rights to financial intermediaries means that the state's grip on "its" enterprises becomes more remote.

The sheer complexity of the corporate webs linking a SOE to the state and the number of information asymmetries between the state and its economic agents, moreover, create ample opportunities for managers to shirk or shave profits.[38] How accurately, for example, can local authorities in Shenzhen measure the profitability of SPRDG and its subsidiaries?[39] Even if they have an idea of the group's profits, can they be sure that SCIH faithfully and reasonably divides gross profits between reinvestment in SPRDG, reinvestment in SCIH itself, investments in SPRDG and its subsidiaries, and dividends paid to the state? More importantly, who cares if state holding companies faithfully fulfill their fiduciary responsibilities? After all, the state scrapes off the lion's share of its income from the state sector not in profits, but in taxes which flow into the central treasury, not into the coffers of individual state agencies. If

most profits disappear into the tax system or remain hidden behind an opaque web of interlocking corporate relationships, why should state agencies exert time and effort to monitor "their" companies?

Here we confront the reality that by attenuating the ownership relationship, corporatization reduces the nominal owner's incentive to discipline management. As Berle and Means argued, if an owner cannot exert direct leverage over management and cannot effectively monitor it, then the owner must assume a passive role, collecting dividends in good times and dumping stocks in bad times. But herein lies a major difference between the coupon-clipping investor in an advanced capitalist economy (and the individual Chinese investor, for that matter) and the Chinese state. Unlike the individual investor, the state investor cannot sell its shares. In theory, it can transfer them, but in reality it can only transfer them to another state investor. Selling shares to non-state investors requires political approval and necessarily represents a form of privatization, a move that until recently the leadership has shied away from and has viewed as an absolute last resort rather than a routine means of disciplining management. Corporatization thus not only transforms the state from an active owner-proprietor into an absentee owner, it also makes the state a captive owner, one who is effectively held hostage to the actions of its agent-managers because its shares cannot be sold. Restrictions on the state's right to sell its stock also prevent it from cashing in if profits push the price of A shares higher. The state, therefore, must suffer through the bad times without enjoying the fruits of the good times.

Corporatization and the emergence of complex corporate webs have, moreover, limited the state's ability to monitor and discipline its agents. Although it can dismiss managers if it deems them dishonest, untrustworthy, unreliable, or incompetent, when faced with weak earnings or losses, the state faces considerable difficulty determining the causes of poor performance because the managers of operating companies are often second- or third-order agents. That is, they are agents not of a particular state agency but rather of other state-owned firms and holding companies. Attenuated ownership thus creates a situation analogous to that which Hamilton (2000) found in the United States in the 1980s and 1990s. That is, state-owned firms, although *de jure* owned by the Chinese state, are *de facto* owned by financial intermediaries. As is true in advanced industrial economies, these financial intermediaries own large blocks of stock that enable them to dominate corporate boards, but yet they too are under the control of managers, not owners. Thus the managers of one firm, not its owners, select and monitor the managers of other firms, who in many cases select the managers of their wholly owned subsidiaries and other companies in which they have major investments.

Limits on owner's leverage, multiple information asymmetries, and interdependent relationships between the managers of state-owned financial intermediaries, enterprise managers, and the managers of subsidiary enterprises create ample opportunities for those in control of state assets to divert profits, to inflate managers' compensation, and to strip away the most valuable and profitable assets. In many cases, managers maintain multiple sets of books, each cooked in a particular way to fool different outsiders (including not only the state owners, but also tax authorities, the banks, local governments, potential investors, and independent auditors) seeking to claim a share of enterprise profits (Lewis 1999). Embezzlement and misappropriation of funds are thus commonplace as managers strip-off profits and even productive assets instead of handing them over to the firm's absentee owners (see Smyth 2000).

Ironically, weak ownership not only encourages managers to loot their enterprises, it also gives owners incentives to plunder them. Unable to effectively supervise and monitor state assets and ensure that managers deploy them in a profitable manner and unlikely to capture a significant share of whatever profits "their" enterprises might earn, state agencies have strong incentives to engage in predatory extraction by stripping off money and assets instead of waiting for dividends. Predatory extractions have, in fact, increased substantially as corporatization has deepened. In 1990, for example, the central government reported that it had ordered government agencies and local governments in 28 provinces to stop collecting a maze of different fees and charges from enterprises, a move that allegedly reduced their financial burdens by Y2.3 billion. The government's 1990 action followed similar efforts during the previous two years that had reduced irregular charges against enterprises by Y3.6 billion in 1988 and Y3.1 billion in 1989 (*Zhongguo Qiye Guanli Nianjian* 1991: 327–8).[40] Nine years later in 1999, however, the central government claimed to have eliminated 10,501 improper charges against enterprises during the past year and thereby reduced their burden by Y42.4 billion. In addition, government prosecutors investigated 12,000 cases involving illegal charges and had ordered 1,637 officials to be disciplined. In all, the central government claimed to have cut enterprises' burdens by Y140.9 billion since 1991 (*Zhongguo Qiye Guanli Nianjian* 2000: 261). In other words, the central government's 1990 claims of success notwithstanding, the data suggest that state agencies and local governments extracted over ten times as much money from business enterprises in 1999 as they had eleven years earlier.

In conclusion, 20 years of reform have corporatized a significant part of China's state sector. Enterprises that were essentially "production bureaus" have become legally autonomous business enterprises. Control rights have been shifted from the state agencies to enterprise managers.

In many cases, ownership rights have been shifted from state administrative agencies to state asset management bureaus and state-owned holding companies. The state thus still owns a substantial part of China's economy, but its grip on individual SOEs has been attenuated and weakened.

In many ways, the corporate revolution in China replicates the corporate revolution that occurred in the West during the late nineteenth century. In both cases, corporatization weakened owners and gave rise next to a new class of managers and then spawned a system of ownership by financial intermediaries and interlocking corporate ownership. Although the corporate revolution in China remains ongoing, the evidence suggests that the state sector is apt to evolve along the lines of the Japanese *keiretsu* system, with the major difference being that Chinese firms are likely to be owned by a complex set of state-owned holding companies and other state-owned companies rather than private companies as is the case in Japan. The state may continue to nominally own many companies but, as is true in Japan and other advanced industrial economies, enterprise managers, not state owners, are apt to be better positioned to control production and the allocation of profits.

If Chinese SOEs have become more like corporations in the West, does this mean that they have become capitalist or that the Chinese economy has become capitalist? If we define capitalism as an economic system in which capital is privately owned, the answer is obviously no. So long as the Chinese state continues to own the lion's share of capital, "Capitalism with Chinese Characteristics" cannot exist. But as Berle and Means argued, a simple definition of capitalism as private ownership is at best a crude description of capitalism as it has existed in the advanced industrial economies of the West since the late nineteenth century. Although most capital in these economies may be privately owned, most invested capital has been invested in corporations which are controlled by their managers and corporate boards that are frequently dominated by corporate insiders. The Chinese corporate revolution is similar to the Western corporate revolution because it too has shifted power away from the owners of capital (the state) and into the hands of a new class of managers. The Chinese economy has thus become more like Western economies in that managers actually control the deployment of capital rather than the actual owners of capital doing so. Corporatization has thus blurred the differences between capitalist corporations and China's state-owned corporations, even though the Chinese leadership continues to reject large-scale privatization and the state still "owns" a significant part of China's industrial economy.

Notes

1 See also Walder (1995) and Nee (1992).
2 See also Duckett (1996, 2001).
3 For an earlier argument on this concept, see Blecher (1991).
4 It is widely argued, for example, that the leadership viewed the creation of securities markets less as a means of imposing market discipline than as a way of soaking up the excess liquidity created by high savings rates. By transforming SOEs into joint stock companies, the leadership hoped to pull excess "mattress money" into the capital-short state sector, thus reducing its drain on the state treasury and the state-owned banks. If this was the government's primary motive, then its efforts fell short of the mark. One of the hallmarks of China's A share market has been too much money, chasing too few stocks. In the resulting speculative environment, stock prices bear little relationship to enterprise earnings and performance, and rise and fall based on consumer confidence in the likelihood that somebody else will be willing to pay even more for stocks in the future. The Chinese stock market has thus suffered from high volatility. This being the case, the government has erred by continuing to restrict the number of publicly listed companies and could have not only soaked up more of the public's idle cash by increasing the number of shares, but could have also reduced market instability. On the government's purported motives for establishing securities markets, see Johns (1995), Nikkel (1995), Art and Gu (1995), Bersani (1993), and Qian (1993).
5 This is true even when managers own a stake in the firm because cheating the other owners allows them to siphon off a disproportionate share of the gross profits. Managers also have incentives to shirk and slack off, in which case they cheat the owners out of potential profits without necessarily diverting a share of real profits into their own pockets.
6 See also Bainbridge (1995: 671–735).
7 Institutional investors were more common in the German case, where almost from the beginning corporations relied on bank loans to finance their growth.
8 In American corporations it is common, of course, to pay managers part of their salaries in stocks and to give them stock options. American executives are also generally quite well paid. Many thus end up with considerable wealth, part of which they are likely to convert into capital and hence many, if not most, American executives end up being capitalists. But they become capitalists as a result of their role as managers, rather than starting off as capitalists.
9 "Civil Law of the People's Republic of China," adopted by the National People's Congress, April 12, 1986, effective January 1, 1987.
10 Chapters 1 and 2, Company Law of the People's Republic of China, adopted by the National People's Congress Dec. 29, 1993, effective July 1, 1994 available at http://www.moftec.gov.cn/moftec/official/html/laws_and_regulations/trade29.html
11 Article 58, Company Law of the PRC.
12 Article 64, Company Law of the PRC.
13 Article 69, Company Law of the PRC.
14 Articles 84 and 85, Company Law of the PRC.
15 The restriction on the sale of state stocks, as Wong (1996) points out, reduces a state owner's incentives to pressure management to maximize profits because the state cannot gain from the appreciation of the stock.
16 Article 72, Company Law of the PRC.

17 A black market for national treasury bonds had developed during the mid-1980s after the cash-strapped central government forced local governments and SOEs to buy treasury bonds. Finding themselves short of cash as a result of having to buy treasury bonds, these units turned around and passed the bonds on to workers in lieu of cash wages. Because treasury bonds frequently paid interest rates less than the rate of inflation and had long maturities, workers frequently sold them at less than face value to speculators who sought profits by arbitraging between local black markets (Zhang 1997).

18 Both exchanges also handle stock and bonds, including government bonds.

19 The demand for stock became so acute that riots occurred in Shenzhen when potential investors believed that they had been cheated out of the opportunity to buy stocks by corrupt officials and corporate insiders.

20 Determining the number of joint stock companies is difficult because the available data are incomplete and contradictory. There are no systematic data, for example, on the total number of joint stock and limited liability companies. Most sources list the number of joint stock limited corporations (*gufen youxian gongsi*) but do not list the number of limited liability companies (*youxian zeren gongsi*). Moreover, most sources omit rural enterprises and thus leave out large numbers of stockholding companies. Thus, for example, while the *China Economic Yearbook* gives the number of joint stock companies as over 40,000 in 1999, the *Chinese Enterprise Management Yearbook* lists the number of joint stock firms at 810,000, with an additional 236,000 joint stock cooperatives. Combined, these sectors accounted for 14 percent of all enterprises. In 1995, according to this same source, these two sectors had 227,000 and 140,000 enterprises respectively and accounted for just 5.2 percent of all enterprises (*Zhongguo Qiye Guanli Nianjian* 2000: 780).

21 The NABSP was set up in 1988 but has functioned primarily as an auditing agency (see Simon 1996).

22 Two types of group exist: informal groups linked together by "particularistic ties" (*guanxi*) and more formal "business groups" (*qiye jituan*). The former type is found most commonly in the private sector and functions on a largely *ad hoc* basis. The latter form is more common in the state sector and has formal legal standing. According to regulations, groups must register with the appropriate state bureaus. Groups do not, however, assume the same legal status as a corporation and hence did not issue stock or own property. Membership rules were relatively loose and firms can join or leave groups pretty much at will, subject, of course, to possible debt-dependence ties binding them to the group's finance company (Keister 2000: 72).

23 Whereas Japanese *keiretsu* typically links independent firms and are centered on a core bank, South Korean *chaebol* are typically family-owned, vertically integrated, and horizontally diversified conglomerates. See Hiroshi (2000) and Steers, Yoo, and Ungson (1989).

24 The state sector had been piling up losses for many years. At first, losses were concentrated among non-industrial SOEs (e.g., commercial enterprises engaged in the resale of subsidized agricultural commodities). During the 1989–1990 recession losses began to spread into the industrial sector. As a result, total losses rose from Y18.02 billion in 1989 to Y64.00 billion in 1995 and then to Y79.10 billion in 1996. Profits meanwhile dropped from Y74.30 billion in 1989 to Y66.51 billion in 1995 and then Y41.26 billion in 1996. As SOIE losses increased and profits decreased, net profits fell. According to the *China Statistical Yearbook*, whereas the SOIE sector turned a net profit of

Y56.28 billion in 1989, by 1995 net profits had fallen to a scant Y2.61 billion. The following year, losses exceeded profits and the state sector experienced a net loss of Y37.84 billion. The *China Financial Yearbook* provides a different set of data on SOIE loss which show total losses increasing from Y12.8 billion in 1989 to Y36.48 billion in 1995 and then Y50.14 billion in 1996. Although these data show a similar decline in net profits, they show the SOIE sector as earning net profits of Y30.03 billion in 1994, whereas the *China Statistical Yearbook* data indicate total profits of Y2.51 billion. The following year, the *Financial Yearbook* data show a net loss of Y8.84 billion, versus a net loss of Y37.84 billion according to the *Statistical Yearbook*. As profits fell and losses mounted, the number of money losing SOIEs increased from a low of 9.6 percent in 1985, to 30.3 percent in 1990, 37.5 percent in 1996, and 43.9 percent in 1997 (see *Zhongguo Caizheng Nianjian* 1998 and *Zhongguo Tongji Nianjian*, various years).

25 Small SOEs, which accounted for 82 percent of all SOEs in 1996, accounted for 93 percent of the reduction as of 1998.

26 Reliable data on bad debt are not available. According to Lardy (1998: 119), SOE bad debt totaled between Y860 billion and Y1 trillion as of 1994–5. Naughton (1997) cites estimates totaling Y1.06 trillion in 1995. Steinfeld (1998: 20–1) puts the total at Y1.27 trillion in 1995–6. See also Gao and Schaffer (1998).

27 See also *Muzi* March 9, 1999, http://news.muzi.com/ll/english/21055.shtml.

28 China Cinda Asset Management Corp, "8.5 Billion Yuan Reclaimed by Four AMCs in 2000," available at http://www.cinda.com.cn/upload/48/48/huishou85en.htm.

29 B shares are denominated in Renminbi but must be purchased with foreign exchange. Prior to 2001, foreigners could not purchase A shares.

30 The sample included 237 companies listed as of July 2001, slightly less than half the total number of companies listed. The sample was non-random and included all companies with stock codes between 0001 and 0657, plus codes 0700 through 0707. All data on these companies was obtained through the Shenzhen Stock Exchange website (http://www.szse.com.cn/). Information on individual companies, including annual reports for 1999 and 2000, can be accessed by stock code number at http://www.cninfo.com.cn/gszx/gszx.htm. Listed companies must file reports from independent auditors. Nevertheless, all data must be viewed cautiously because cases of fraudulent reporting have been reported.

31 SPRDG *Annual Report* available at http://www.cninfo.com.cn/info/.

32 Shenzhen Construction Investment Holdings was itself spun off from Shenzhen Investment Holdings Co. in 1996. See Hirschler (1998).

33 China Ping An Insurance (HK) Co. Ltd., *Company Profile* available at http://www.cpaihk.com/.

34 China Merchants Holdings (International) Company Limited, *Annual Report*.

35 Hubei Sanonda was, in fact, one of the first large state-owned enterprises to be converted into a publicly traded joint stock company.

36 Data from http://www.shenzhentrade.com.cn and http://news.hkstock.hk.

37 The Shenzhen State Asset Management Bureau did not come under the Guangdong provincial SAMB but was directly under the national SAMB in Beijing.

38 Nearly half of the firms that reported profits between 1997 and 2000 did not pay dividends. (The percentage of profitable firms not paying dividends was 47.9 in 1997, 48.4 in 1998, 57.7 in 1999, and 44.0 in 2000.) State-owned and

state-dominated firms were, however, no more likely than other types of firms to not pay dividends even when they reported profits. Thus, in 1997, while 47.9 percent of profitable firms paid no dividends, among firms with 25 percent or more state ownership 45.9 percent failed to pay dividends. The following year, 48.4 percent of profitable firms paid no dividends while 56.3 percent of state-dominated firms failed to do so. In 1999, the respective percentages were 57.7 and 60.8. In 2000, they were 44.0 and 42.07.

39 Please note that herein I use SPRDG as a hypothetical example. I have no reason to believe or assume that SPRDG's managers have misallocated funds.

40 Herein "enterprises" refers to both state and non-state enterprises.

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4

INTRA-ETHNIC COOPERATION IN TRANSNATIONAL PERSPECTIVE

Malaysian Chinese investments in the United Kingdom

Edmund Terence Gomez

Introduction

When it was reported in 1998 that Britain's annual growth rate of 3.3 percent was among the highest recorded among countries in the European Union (EU), this was attributed primarily to foreign investments that this economy had managed to draw. In that year, Britain had captured 40 percent of all Asian and American investment in the EU, partly because the government had made it easy for foreigners to buy assets in the country (see *Far Eastern Economic Review* 18/6/98). Among the Asian firms that had invested in the economy, a number had originated from Taiwan, Hong Kong, and China as well as from Southeast Asian countries with a large ethnic Chinese population, that is, Malaysia, Singapore, and Indonesia. Transnational companies (TNCs) owned by ethnic Chinese from East and Southeast Asia, including state-owned enterprises from China, had been acquiring large firms in Britain, making inroads into various economic sectors, and were heavily involved in international trade.

This chapter assesses the means by which TNCs owned by ethnic Chinese from Asia invest in Britain. To help problematize the theoretical discussion on transnationalism, I intend to determine the importance of common ethnic identity in the business ventures established by these ethnic Chinese-owned TNCs in the UK. The key issue here is to analyze the method of enterprise development by an ethnic minority community in a home and foreign environment; by "home" I mean country of origin. In order to provide cohesion to the research, my study concentrates on the investments by Malaysian Chinese-owned enterprises in the UK. How

do enterprises owned by ethnic Chinese, a minority community in Malaysia, undertake business ventures in a foreign environment, i.e., when they begin to function as a TNC in the UK? Is there any cooperation among these Malaysian Chinese-owned TNCs as they go about developing their enterprise in the British economy? Do Malaysian Chinese TNCs seek out other ethnic Chinese from Asia or British Chinese in order to develop their enterprise?

These questions on ethnic Chinese TNC investment in the UK are asked as a means to examine more closely the concept of transnationalism, while my focus on Malaysian Chinese investments in Britain helps to draw attention to key issues such as ethnic and national identity, in an age where ethnic capital is said to function in a transnational manner. This study of TNC enterprises in cross-national perspective draws greater attention to current debates on the mode of development of capital owned by diasporic communities.

Literature review: Transnationalism, identity, and rights

In the literature on Chinese business, both from a local and global perspective, it is widely argued that intra-ethnic business linkages play a significant role in the development of its enterprise. The rise of some of the largest enterprises owned by ethnic Chinese in East and Southeast Asia was apparently due to intra-ethnic business linkages that also helped promote cross-border investments.

Firms owned by ethnic Chinese from East and Southeast Asia undoubtedly have huge investments in a number of countries worldwide. The Salim Group, owned by Indonesia's Liem Sioe Leong and reputedly the largest ethnic Chinese-owned enterprise in Asia, has an interest in companies in Singapore, Hong Kong, China, Australia, the Netherlands, and the UK. Similarly, Chinese capitalists from Malaysia, Singapore, and Hong Kong have acquired or incorporated companies in Latin America, Europe, Australia, and the United States. Firms from Taiwan have established subsidiaries in most countries in Southeast Asia, made extensive inroads into China, and have been establishing numerous manufacturing enterprises in Europe, including in the UK. The growing number of cross-border ventures by ethnic Chinese has been attributed to networks, created on the basis of a common ethnic identity, to facilitate the flow of investments (see, for example, Kotkin 1993; East Asian Analytical Unit 1995; Weidenbaum and Hughes 1996). This view gained currency when government leaders from mainland China and Singapore began propagating the need for ethnic Chinese worldwide to cooperate in business. There has, however, been little analysis of the extent to which co-ethnic collaborative ties have been forged by Chinese-owned TNCs when they invest abroad.

Along with the development of this idea of co-ethnic business cooperation has evolved the concept of "transnationalism." In its currently accepted definition, a transnational community is a social formation best exemplified by ethnic diasporas. It relates in the manner of a triad to its globally dispersed self, the states it inhabits, and its ancestral homeland (see, for example, Portes, Guarnizo, and Landolt 1999). Its medium is the network, dynamized by new technologies. Multiple identifications and a sense of cultural fluidity, represented as creolized or hybrid, mark its "consciousness." Economic transnationalism is chiefly the province of global corporations, but ethnic groups are also players in the world economy, by virtue of their remittances to and investments in the homelands. Governments, realizing the worth of this inward flow, play on the ethnic loyalty of "nationals" abroad to gain access to their capital. Economic resources flow through diasporic networks as well as to the homeland. As technology speeds the globalization of politics, diasporas become politically more vocal, at both ends of the migration process.

The transnational concept, thus defined, however, comes dangerously close to essentializing ethnicity when applied to ethnic capitalism. This definition of transnationalism is based on the idea of a sense of cohesiveness among individuals of a particular ethnic group acting in concert, usually for the economic progress of the community as well as of the "homeland," that is, not the country of their birth, but the country of origin of their ancestors. This definition of transnationalism neither correctly reflects the basis on which entrepreneurs undertake business ventures nor of how capitalist enterprises are developed. In fact, the definition tends to glorify the way such networks do business, in the process leading, unintentionally, to problems among ethnic communities struggling for a new understanding of national identity. In other words, the promotion of this definition of transnationalism can influence the outcome of struggles by minority ethnic groups against the marginality they experience within their own countries. Transnationalism, thus defined, can have a bearing on how state leaders and indigenous communities view ethnic minorities. By suggesting that ethnics identify with their ancestral "homeland" rather than with their country of birth, the common definition of transnationalism threatens to divert attention away from the sense of marginality that these ethnic minority communities often feel. Minority ethnic groups stress the issue of multiplicity of identities and contend that the ethnic label reinforces the assumption that ethnic communities do not belong "here," that they belong "elsewhere." This dichotomy between "indigenous" and "non-indigenous" tends to influence the issue of rights accorded to minority communities within a nation state.

Other interpretations of the term "transnationalism" draw attention to the complexity of the concept of migrant "belonging." Basch, Schiller, and Blanc (1995), for example, writing about Caribbean and Filipino migrants to the United States, argue that the term "transnationalism" as previously employed by social scientists lacked specificity and failed to recognize that immigrant groups develop ideologies, lifestyles, and networks that span homeland and host society. Defining transnationalism as "the processes by which immigrants forge and sustain multi-stranded social relations that link together their societies of origin and settlement", they assert that immigrants tend to "develop and maintain multiple relationships – familial, economic, social, organizational, religious and political – that span borders" (Basch, Schiller, and Blanc 1995: 7). These authors focus on the rights of individuals within nation states in an age of growing cross-border movement by corporations and people, though the stress of their study is on migrant communities rather than long-settled communities with several generations of descendants.

On the issue of capital and transnationalism, Miyoshi (1993) has drawn attention to the evolution of "multi*national*" corporations (MNCs) into "*trans*national" corporations (TNCs), which were able, through their web of investment networks in numerous countries, to shift their operations across national borders. In drawing the distinction, Miyoshi (1993) argues that a TNC, unlike an MNC, "might no longer be tied to its nation of origin but is adrift and mobile, ready to settle anywhere and to exploit any state including its own, as long as the affiliation serves its own interests."

With the onset of the East Asian currency crisis in 1997, Miyoshi's contention has taken on a more interesting dimension given the increase in the number of large Chinese enterprises in East Asia[1] that have developed cross-border investments. When this currency crisis subsequently developed into economic and political crises in a number of East Asian countries, it had a serious impact on ethnic Chinese communities in Southeast Asia, particularly in Indonesia, with strong reverberations in Malaysia. One key issue that arose during the political crisis was the question of "belonging" to a nation state by ethnic minorities whose ancestors had migrated to the region.

Networks and identity

The term "network," the premise on which ethnic groups supposedly emerge as key players in the global economy, seems plausible given the dynamism of Chinese-owned enterprises. In-depth studies of Chinese enterprise in the UK and in Malaysia, however, indicate that the facts do not concur with the assumption that intra-ethnic networks facilitate business transactions encouraging the rise of "Chinese capital," either at

global or national level (see Gomez 1998 and 1999). I would argue that the term "network" is used liberally and somewhat uncritically in some of the new literature on transnationalism. In fact, the key flaw in most of these studies is the unquestioning assumption of the existence of intra-ethnic networks that serves as the premise on which their arguments are developed (see, for example, Ong and Nonini 1994; Lever-Tracy, Ip, and Tracy 1996; Vertovec 1999).

Researchers claim that the networks that typify transnational communities work at the level of the diaspora as a whole as well as in its separate "homelands" (ancestral and adopted), and that new technologies connect the triad "with increasing speed and efficiency" (Vertovec 1999: 447). Many studies assume that institutionalized ethnic networks permit diasporic co-ethnics to move capital across national boundaries. Examples can be found in the triumphalist discourses of Chinese capitalism, which argue that the creation of intra-ethnic business networks based on a sense of group cohesion facilitates the movement of funds across borders and the mutually beneficial pooling of resources in enterprise development.

This attribution of the dynamism of enterprises owned by ethnic minorities in Asia and Europe to intra-ethnic business networks reflects a poor understanding of the evolution of Chinese enterprise. Southeast Asian history indicates that in the early stages after the migration of the Chinese to the region, it was common sub-ethnicity – rather than common ethnicity – that had been a key factor in enabling Chinese to work together (see Skinner 1957; Purcell 1965). The main sub-ethnic Chinese communities, the Hokkien, Cantonese, Hakka, Teochew, and Hainanese, have historically shown little inclination in going beyond their sub-ethnic community to act as one community in any country in Southeast Asia. The establishment and role of clan-based organizations were then important, and functioned effectively in bringing together sub-ethnic communities. Sub-ethnic groups came to dominate particular economic sectors. The Hokkiens in Malaysia and Singapore, for instance, had control of the domestic banking sector, the Teochews in Thailand had a long history of domination of the rice trade industry, while the Hokchias in Indonesia had a long history of control over petty trade in rural areas on the island of Java. Sub-ethnic Chinese control of these sectors has now diminished significantly, and while many of these sub-ethnic clan-based organizations still exist, their importance has declined appreciably in Southeast Asia.

The historical profile of ethnic Chinese in Southeast Asia suggests that common definitions of transnationalism, involving its triad nature, are applicable only to migrants, although there is growing evidence that even this assertion can be challenged. Even the identities of some longer-settled members of the migrant cohort undergo a profound

reconfiguration, with the adoption a different understanding of national identity and allegiance. This is reflected in the rising number of cases of ethnic minorities seeking and securing political office in Australia, Canada, the US, and the UK.

The Southeast Asian case provides an interesting study of the complexity of the issue of ethnic and national identity, as it indicates how identity evolves over time, how its reconfigurations are conditioned by political and economic changes, and how the sense of cohesion of the migrant generation dies away. This diminished sense of ethnic cohesion is, in fact, evidenced in the manner of corporate development of ethnic Chinese-owned TNCs in a foreign setting, in this case the UK. In other words, the disunity of ethnic Chinese populations (and other ethnic minorities) belies the widespread assumption that there is a sense of diasporic solidarity. This lack of co-ethnic feeling can set in early: research on British Chinese communities suggests that ideas like homeland, host society, and globally dispersed self are of doubtful relevance even to the first generation of British-born Chinese (Benton and Gomez 2001). As for corporate entities, although ethnic Chinese networks are at first important, they become progressively irrelevant for accumulating wealth.

The emergence of new forms of identification among diasporic groups and their descendants raises important questions about the claim that ethnic Chinese (and other minorities) function as key players in the world economy by virtue of the flow of resources through ethnically based networks. It also casts doubt on another fashionable theory, that ethnic Chinese channel funds into China because of the "pull of the homeland."

This suggests that the normative definition of transnationalism fails to capture the identity transformations that occur as diasporic generations deepen. The manner in which transnationalism is sometimes defined tends to repeat old discourses of fixed origins assumed to bind diasporic communities into cohesive wholes. Writings on the subject extrapolate from the experience of the migrant cohort to the group as a whole, fail to incorporate the experience either of the migrants who strike roots or (more importantly) of the locally born generations, neglect differences of class and sub-ethnic affiliation, ignore other differences that undermine group unity, generally exaggerate the coherence of diasporic groups, and elide the rich diversity and ambivalence as well as the divergent cultural histories of rooted diasporic communities.

I argue here that the notion of a proliferation of powerful networks has little more basis in fact than the idea of a single world of Chinese capital. To support this contention, I provide a detailed analysis of investments in the UK by ethnic Chinese from East and Southeast Asia, with specific focus on the activities of Malaysian Chinese enterprises in the country. Since a number of British Chinese in business were

originally from East or Southeast Asia, the case study will also determine whether – and how – enterprises owned by British Chinese deal with ethnic Chinese investors from East and Southeast Asia.

I define "networks" here as tangible cooperative business ties between co-ethnics of the diaspora. A network with the economic clout of a "global tribe" would need interlocking stock-ownership ties, a sharing of resources, and cooperation to the point of merger. An assessment will also be made of interlocking directorate links among Chinese-owned companies. The evidence from the manner of operations of ethnic Chinese capital from East and Southeast Asia in the UK will be used to advance an argument about the heterogeneity of Chinese capitalism.

Ethnic Chinese investments in Britain

There are four main types of British Chinese in the UK. First, Hong Kong Chinese migrants, comprising mainly those who moved to the UK in the immediate post-World War II period, many of whom ventured into food catering as well as food wholesaling and retailing. Second, those who can loosely be termed "twice migrants," i.e., mainly Southeast Asian Chinese who arrived during the late 1960s and 1970s, of a middle-class background and usually professionally trained, a number of whom have ventured into business, including the catering sector. Third, the more recent Chinese migrants who arrived during the 1980s, for example, those from Taiwan and Hong Kong, who are mainly involved in sectors such as technology and manufacturing. Finally, the new generation of British-born Chinese, a number of whom are well-qualified, involved in high-tech industries, and more inclined to establish enterprises with other ethnic communities (see Chan and Chan 1997; Gomez 1998). None of these Chinese groups has managed to make an impact on the British economy.

Another reason why ethnic Chinese have not made a major impact in Europe is that the big Chinese capitalists from East and Southeast Asia have not yet found it necessary to invest in this region. The opportunities for expansion in Asia had been huge during the late 1980s, particularly after a severe recession in the region in the mid-1980s that was overcome through numerous economic liberalization initiatives to draw investments. Moreover, most governments in Western Europe had not provided sufficient incentives to draw investments from rapidly emerging companies from East and Southeast Asia; this was an issue that the European governments had only begun to deal with since the mid-1990s. While a number of companies from Taiwan had begun investing in the manufacturing sector, particularly in the computer-related industry, since the 1980s, ethnic Chinese companies from East and Southeast Asia have been on the acquisition trail since the early 1990s,

purchasing a number of companies in the retailing, hotels, and property sectors.

Table 4.1 provides a breakdown of the number of firms from East and Southeast Asia with investments in the UK; a large number of these companies are owned by ethnic Chinese. According to this list in Table 4.1,[2] a total of 275 companies from East and Southeast Asia have invested in the UK, of which approximately 41 percent are from Hong Kong, about 25 percent from Singapore, and roughly 21 percent from Malaysia. Approximately 6 percent of these companies are from mainland China, while about 13 percent are from Taiwan. The companies from China are state-owned, as are some of the enterprises from Singapore and Malaysia. It is, however, worth noting that state-owned Singaporean companies have been used by the government to encourage intra-Chinese business cooperation. Table 4.2 provides a sample of companies from these countries, identified as being owned by ethnic Chinese, with investments in Britain.

The list in Table 4.2 indicates the involvement of a number of major companies from East and Southeast Asia owned by ethnic Chinese in the British economy. Among the most prominent names are Hong Kong's Li Ka-shing, Dickson Poon, and the Fang and Jack Chia families, Taiwan's Tatung Group, Indonesia's Oei Hong Leong and Liem Sioe Leong, Singapore's Hong Leong Group owned by the Kwek family and Ong Beng Seng, and a number of major state-owned enterprises from China, including China National Chemicals Import & Export Corp (Sinochem). The number of ethnic Chinese enterprises from Malaysia investing in the UK is, however, quite large and they include Quek Leng Chan (of the Hong Leong Group), Vincent Tan Chee Yioun (Berjaya Group), Khoo Kay Peng (MUI Group), and the family of the late Lee Loy Seng (KL-Kepong Group). To review the extent to which there is intra-ethnic

Table 4.1 Companies from East Asia which own firms in Britain

Country	*Number*
Hong Kong	114
Singapore	68*
Malaysia	59*
China	17
Taiwan	10
Thailand	5*
Philippines	2*

Note: * Not all companies are owned by ethnic Chinese.

business cooperation, or networks, among Chinese enterprises from Asia, we review the operations and ownership patterns of most of the companies from Asia listed in Table 4.2 before undertaking a case study of Chinese firms from Malaysia.

China

The major investors in the UK from China are large national foreign trade corporations controlled by the government in the mainland. Among the most prominent firms which have interests in the UK are China National Cereals, Oils & Foodstuffs Corp, China National Arts & Crafts Import & Export Corp, China National Chemicals Import & Export Corp, and China National Metals & Mines Import & Export Corp (see Chen 1995: 252–3). All the companies established in the UK by enterprises from China were incorporated after 1985.

Among the largest Chinese trading companies, in terms of volume of turnover, are those involved in the petroleum trade; none of these companies, however, employs a large number of the people. For example, China National Chemicals Import & Export Corp, also known as Sinochem, owns the petroleum trader, Sinochem (UK) Ltd, which registered a significantly large turnover of £203.755 million, but has only nine employees. Sinochem also owns Tylong International Ltd, another chemical petroleum trader, which has a turnover of £55.634 million, but has only two employees.[3] Sinochem is the state-owned company responsible for handling products produced by the mainland government's Ministry of Chemical Industry (Chen 1995: 252–3).

The only other trading company from China which has registered a high turnover is Top Glory (London) Ltd, a cereals, oils, and foodstuff trader owned by another Chinese state-owned trading company, China National Cereals, Oils & Foodstuffs Corp. Top Glory has a reputation for consistently posting the highest turnover among the trading companies, but has only nine employees. The only Chinese company with more than ten employees is Kimet International Ltd, a metal products importer and distributor which has 23 employees; this company, owned by the state enterprise, China National Metals & Mines Import & Export Corp, however, has a turnover of about £2.584 million. All the companies involved in international trade, with the exception of Kimet International, are based in the vicinity of London which has the largest concentration of ethnic Chinese in the UK as well as firms owned by this community.

Table 4.2 Ethnic Chinese-owned companies from East Asia investing in Britain

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
China							
Trading (import–export)							
Yuan Mei International (UK) Ltd (29/7/93)	Industrial raw material trader	Middlesex	2	5,725,143	3,278	n.a	China Tunshu Guangdong Tea Import & Export Corp
Hunan (UK) (1/7/88)	Importers and exporters	Surrey	1,000	3,020,204	189,907	2	Hunan Trading Co. Ltd
Sinochem (UK) Ltd (19/5/86)	Petroleum products trader	London	510,000	203,755,000	1,246,000	9	Xiao Yuan Shi Ji Mao Jiao
Tylong International Ltd (31/8/93)	Chemical petroleum trader	London	74,000	55,634,000	-75,000	2	China National Chemicals Import & Export Corp (Sinochem)
Top Glory (London) Ltd (17/11/86)	Cereals, oils, and foodstuff trader	London	800,000	37,164,000	-39,400	9	China National Cereals, Oils & Foodstuffs Corp
Kimet International Ltd (31/12/85)	Import and distribution of metal products	Warwick	100,000	2,584,170	-1,036,963	23	China National Metals & Mines Import & Export Corp
Douglun Ltd (9/2/89)	Pharmaceutical raw materials trader	London	100	2,172,717	16,979	n.a	Northeast Pharm Corp
China Waren Ltd (6/1/88)	Import and sale of Chinese art work	Wimbledon	30,000	629,424	103,389	4	China National Arts & Crafts Import & Export Corp

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Professional services							
The Scottish Lion Insurance Co. Ltd (22/11/47)	Marine, aviation, transit insurance	Edinburgh	47,000,000	n.a.	-9,881,000	21	China Merchants Holdings Co. Ltd
Houlder Insurance Services Ltd (18/12/13)	Insurance and reinsurance	London	2,600,000	2,242,000	89,000	30	China Merchants Holdings Co. Ltd
CIC Holdings Ltd (22/2/93)	General insurance and reinsurance	London	17,208,000	n.a	1,059,000	40	People's Insurance Company of China
General services							
Cosco (UK) Ltd (2/2/88)	Shipping agent	Essex	200,000	16,341,000	-696,000	306	China Ocean Shipping Co.
Crystal Logistics Ltd (6/12/91)	Freight agency	Essex	60,000	11,546,000	-449,000	23	China Ocean Shipping Co.
Taiwan							
Computer							
Protac International Ltd (1/6/94)	Distribution of computer products	London	100,000	24,755,000	237,000	30	EXCEL Corp

Table 4.2 continues

Table 4.2 continued

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Longshine Technology Ltd (26/4/90)	Distributor of computer products, software consultancy	London	200,000	1,176,906	3,002	4	Longshine Electronics Corp
CTX Europe Ltd (13/1/94)	Sale of VDU monitors	Herts.	3,678,000	84,148,000	-553,000	75	Chuntex Electronic Corp
Elitegroup Computer Systems (UK) Ltd (19/8/89)	Marketing of computer products	London	100,000	7,896,024	-23,550	18	Elitegroup Computer Systems
Wyse Technology (UK) Ltd (9/9/85)	Marketing computers	Twyford	2	2,155,172	24,962	22	Channel Overseas Corp Ltd
Mitac Europe Ltd (1/11/88)	Supply and maintenance of electronic and data processing equipment	Telford	3,000,000	131,211,000	-230,000	314	Mitac International Corp
Manufacturing							
Europa Magnetics Corp Ltd (4/6/93)	Manufacture of magnetic floppy discs	Cramlington	18,750,000	22,293,000	1,349,000	323	CMC Corporation

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Tatung (UK) Ltd (28/7/80)	Manufacturer of televisions, computers and computer components	Telford	22,633,000	102,968,000	-2,466,000	550	Tatung Co.
Trading (import–export)							
China General (Europe) Ltd (2/8/71)	Import agents	Manchester	1,000	2,833,731	242,515	5	China General Plastics Corp
Pro-Kennex (UK) Ltd (31/1/83)	Distributor of sports equipment	Nottingham	500,000	2,688,714	-236,452	13	Kunnan Enterprises Ltd
Malaysia							
Wholesaling and retailing							
Ramus Tile Co. Ltd (18/7/24)	Wholesaler of British and imported ceramic wall tiles	Cheshire	24,000	20,808,000	-1,426,000	121	Hong Leong Co. (Malaysia) Bhd
Crabtree & Evelyn Holdings Ltd (29/2/96)	Distribution and retailing of toiletries and cosmetics	London	50,000	72,490,000	-1,892,000	1,879	Kuala Lumpur Kepong Bhd

Table 4.2 continues

Table 4.2 continued

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Intrapac (UK) Ltd (31/3/95)	Sale of parts and equipment	Fife	1,750,000	4,210,162	120,260	80	Intra-Muda Holdings Sdn Bhd
Laura Ashley Holdings plc (n.a.)	Garment retailing	London	11,900,000	344,900,000	-49,300,000	3,657	Malayan United Industries
William Jacks plc (26/7/26)	Sale of cars	Ascot	4,980,000	109,292,000	1,206,000	367	Johan Holdings Bhd
Services							
Third Millennium Studios Ltd (16/9/94)	Business consultancy	London	100	1,279,047	45,724	2	George Town Holdings Bhd
Pengkalen (UK) Ltd (25/9/59)	Investment holding company	London	7,905,000	37,326,000	-10,166,000	145	Pengkalen Holdings Bhd
Mclean & Gibson (International) Ltd (15/1/81)	Engineering services	Fife	1,002,500	240,000	62,421	64	Intra-Muda Holdings Sdn Bhd
Banking and finance							
Benchmark Group plc (28/8/69)	Holding company for companies involved in banking, finance, and property development	London	30,140,000	8,483,000	4,218,000	n.a	Hong Leong Co. (Malaysia) Bhd

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Manufacturing							
Yule Catto & Co. plc (16/8/08)	Manufacture of rubber products	Essex	13,624,000	367,170,000	38,050,000	3,384	Kuala-Lumpur Kepong (KLK) Bhd
Beel Industrial Boilers Ltd (11/1/88)	Manufacture and marketing of industrial boilers	Lincoln	1,219,000	7,431,000	-74,000	154	Mechmar Corp (Malaysia) Bhd
AAF Ltd (31/3/66)	Manufacture and marketing of mechanical products	Cramlington	125,000	44,871,000	2,786,000	392	Hong Leong Co. (Malaysia) Bhd (& AAF Mcquay Int. Inc (USA)
Singapore							
Services							
Millennium & Copthorne Hotels plc	Ownership and management of hotels	London	43,500,000	202,600,000	50,200,000	3,464	Hong Leong Investment Holdings plc
STA Travel Ltd	Travel agents	London	305,000	114,713,000	274,000	353	STA Travel (Holdings) Pte Ltd
Property							
Validhill Ltd	Real estate agent	London	10,000	474,569	91,531	4	Parkway Holdings Ltd

Table 4.2 continues

Table 4.2 continued

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Nuptine Properties Ltd (26/8/87)	Property agent	London	n.a.	n.a.	n.a.	n.a.	Parkway Holdings Ltd
Hazeldean Ltd	Property investment	London	n.a.	n.a.	n.a.	n.a.	Times Publishing Ltd
Wholesaling and retailing							
N.C.H. Edible Oils (UK) Ltd	Sale of edible oils and tin products	Birmingham	600,000	1,892,050	-219,678	3	Ngo Chew Hong (Holdings) Pte
Wearnes Computer Systems Europe Ltd (30/3/90)	Sale of personal computers	London	100,000	2,678,000	33,000	7	Wearnes Technology Pte
IPC Corporation (UK) Ltd (4/5/84)	Importer and distributor of EPOS network system	London	1,182,738	11,081,000	2,509,000	60	IPC Corporation Ltd
Manufacturing							
Wearnes Hollingsworth Ltd (14/9/61)	Manufacture of electronic components	Castleton	2,800,586	5,383,898	326,788	124	Wearnes Technology Pte
TPL Printers (UK) Ltd (3/11/76)	Manufacture and printing of binders	Hartlebury	5,415,000	15,618,000	299,000	181	Times Publishing Ltd

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Igel International Ltd (12/1/79)	Manufacturer and sale of contact lenses	London	n.a.	1,776,426	202,775	49	Alliance Technology & Development Ltd
Hong Kong							
Services							
Sing Tao (UK) Ltd (1/2/88)	Publication of Chinese daily newspaper	London	100	2,391,949	-83,865	37	Sing Tao Ltd
Port of Felixstowe Ltd (8/3/91)	Operation of Port of Felixstowe	Felixstowe	100,000	128,391,000	37,163	1,924	Hutchison Whampoa Ltd
Orange plc (5/10/95)	Tele-communications operator	London	n.a.	931,700,000	n.a.	4,939	Hutchison Whampoa Ltd
Thamesport (London) Ltd (11/11/87)	Operator of international containers	London	n.a	14,133,000	1,097,000	225	Hutchison Whampoa Ltd
Tumble Tots (UK) Ltd (22/3/83)	Operation of active physical programs for children	Halesowen	1,800,000	1,087,000	128,000	15	Jack Chia Holdings (Hong Kong) Ltd

Table 4.2 continues

Table 4.2 continued

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
R.S. Stokvis & Sons Ltd (27/1/60)	Construction specialists	Surrey	250,000	11,108,000	696,000	77	First Pacific Co. Ltd
Hutchison Whampoa (Europe) Ltd (17/6/85)	Consultancy and information services	London	1,000	n.a	115,645	15	Hutchison Whampoa Ltd
AHK Air Hong Kong (UK) Ltd (6/2/91)	Air freight services	Middlesex	100	8,202,255	-127,393	10	AHK Hong Kong Ltd
Tileman Engineering Ltd (24/4/89)	Civil engineering	London	1,000,000	22,061,000	402,000	11	Hopewell Holdings Ltd
Hecny Freight (21/3/51)	Freight forwarding agents	London	785,164	1,002,639	-170,119	7	Hecny Transportation Ltd
Wholesaling and retailing							
Trendairo Ltd (28/1/88)	Import and distribution of garments	Manchester	100	7,268,124	13,883	86	Yangtzekiang Garment Manufacturing Co. Ltd
GP Batteries (UK) Ltd (28/4/93)	Distribution of batteries	Somerset	40,000	1,987,216,000	48,968,000	6	GP Battery Technology (Hong Kong) Ltd
Fang Brothers (UK) Ltd (28/4/92)	Textile wholesalers	London	2	n.a	87,477	10	SC Fang & Sons (Holdings) Ltd, Kenneth Fang
QDI Computer (UK) Ltd (17/3/92)	Sale of computer components	Slough	50,000	13,127,000	-333,000	14	Newford International Ltd

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Unmix (UK) Ltd (6/4/87)	Textile merchanting	London	200,000	26,270,000	103,000	76	Unmix Ltd
Stokvis Tapes (UK) Ltd (24/10/73)	Distribution of adhesive tapes	Herts	100,000	2,875,733	186,165	17	First Pacific Co. Ltd
Newey & Eyre Group Ltd* (8/5/47)	Distribution of electrical products	Birmingham	38,280,000	437,518,000	9,564,000	2,797	First Pacific Co. Ltd
Halina Marketing (UK) Ltd (4/6/90)	Distributing photographic equipment	Herts	300,000	7,580,688	-46,087	27	W. Haking Enterprises Ltd
Temenos Systems (UK) Ltd (19/12/85)	Development and marketing of Globus, an integrated banking system	London	2,198,844	5,741,275	980,852	47	CTW Ltd
Stelux Watch (UK) Ltd (16/6/44)	Import, assembly and distribution of watches	Lichfield	3,042,000	13,519,000	3,264,000	51	Stelux Holdings Ltd
Harvey Nichols & Co. Ltd (1/12/83)	Retailing of high-quality clothes, accessories, household items	London	11,000,000	110,006,000	12,018,000	726	Dickson Concepts (Int.) Ltd
Property and hotels							
Grandcrest Projects Ltd (4/3/94)	Property development	London	2	5,372,900	815,475	n.a	Sincere Company Ltd

Table 4.2 continues

Table 4.2 continued

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Combe Grove Manor Hotel & Country Club Ltd (13/1/86)	Developing and running a country club and sports complex	Bath	4,350,000	2,226,400	635,012	95	Jack Chia Holdings (Hong Kong) Ltd
Hotel Property Investors (UK) Ltd (9/10/80)	Holding company, hotels and restaurants	Middlesex	18,730,000	31,050,000	4,418,000	699	New World Developments Co. Ltd
Manufacturing							
Herrburger Brooks plc (30/4/20)	Manufacture of piano keyboards	Hereford	1,885,740	5,372,487	-446,830	225	Harmony Piano Co. Ltd
Rogers International (UK) Ltd	Manufacture and distribution of electric components	London	500,000	2,765,224	-916,534	42	Wo Kee Hong (Holdings) Ltd
Lion Mark Holdings Ltd (8/9/83)	Holding company for group engaged in food manufacturing, processing and distribution	Cheshire	1,571,000	43,881,000	687,000	405	Chinney Holdings Ltd

Company (Incorporation)	*Activity*	*Location*	*Paid-up capital*	*Turnover*	*Pre-tax profit/loss*	*No. of employees*	*Ultimate holding company*
Blue Bird Confectionery Ltd (12/12/79)	Manufacture and distribution of sugar baded confectionery	Halesowen	5,000,000	29,386,000	620,000	391	Jack Chia Holdings (Hong Kong) Ltd
Financial services							
Swire Pacific I B Ltd (31/10/90)	Investment holding company	London	n.a.	18,382,000	-1,582,000	356	Swire Pacific Ltd
Sun Hung Kai Securities (UK) Ltd (30/11/73)	Administrative and other financial intermediation, business services	London	605,000	1,310,464	107,236	11	Sun Hung Kai Securities Ltd

Note: The list of Singapore companies does not include those that are state-owned.
n.a. = not available.

*Newey & Eyre Group Ltd is wholly owned by Hagemeyer (UK) Holdings Ltd, which was specifically established to hold the equity of the Newey & Eyre Group.

Of the two companies involved in shipping and freight services, Cosco (UK) Ltd and Crystal Logistics Ltd, both operate out of Essex and are owned by China Ocean Shipping Co. another state enterprise from the mainland. Cosco (UK), incorporated in February 1988, has 306 employees, while Crystal Logistics, incorporated in December 1991, has only 23 employees.

Firms from the mainland have also invested in the insurance sector. The China Merchants Holdings Co. Ltd has acquired a large interest in two insurance companies, The Scottish Lion Insurance Co. Ltd, a group involved primarily in marine and aviation insurance incorporated in 1947, and Houlder Insurance Services Ltd, a general insurance and reinsurance company incorporated in December 1913. CIC Holdings Ltd, also a general insurance and reinsurance company incorporated only in 1993, was established by the People's Insurance Company of China.

None of the companies from China investing in the UK has ventured into manufacturing, remaining primarily in the services and trading sectors. Despite the involvement of the companies from China in trading, shipping, and insurance services, there is little evidence of significant joint activities with firms owned by ethnic Chinese from Asia. Company records of all these corporations reveal that even firms involved in food-related products have not established major business linkages with British Chinese companies.

Taiwan

Of the ten companies from Taiwan in this sample, all but two are involved in the computer industry. Six of the eight companies in the computer industry are involved in the distribution and maintenance of computer products, while the remaining two have established companies to manufacture computer-related products. Two of these ten companies, China General (Europe) Ltd and Pro-Kennex (UK) Ltd, are involved in international trading, of plastic products and sports equipment respectively. All but one of these ten companies were established after 1980; seven of these nine companies were incorporated after the mid-1980s, a trend similar to the companies from mainland China investing in the UK. However, unlike some enterprises from China, none of the companies from Taiwan has acquired an interest in a major British company. Nor is there any evidence that Taiwanese firms are involved in finance, insurance, banking, or in the property sector.

One of Taiwan's leading enterprises with investments in the UK is the Tatung Group. This conglomerate is a home electric appliances manufacturer that has diversified into electronics, communications, construction, building materials, and publishing. The Group's UK

subsidiary, Tatung (UK) Ltd, incorporated in 1980, is involved in the manufacture of electrical products, including televisions and computers, and also produces computer components. Employing about 550 personnel, Tatung (UK) is a major foreign enterprise, capitalized at about £22.633 million and registering a turnover of £102.968 million.

Another major Taiwanese company involved in the electronics sector with more than 300 staff, a capital investment of £3.678 million, and a turnover of more than £100 million is Mitac Europe Ltd, controlled by the Mitac International Corporation. Taiwan's CMC Corp has a floppy disk-manufacturing subsidiary, Europa Magnetics Corp Ltd, which has a paid-up capital of £18.750 million and employs 323 people. Another large company, in terms of turnover and number of employees, is CTX Europe Ltd, controlled by Chuntex Electronic Corporation; this company has a paid-up capital of £3 million and employs about 75 people (see Table 4.2).

There are other major companies from Taiwan, which are not in this sample, which have invested, or are planning to invest, in the manufacturing sector in the UK. The Acer Group, which emerged as the seventh largest maker of personal computers in the world in 1997, had, by early 1998, begun construction of a factory in Cardiff and was expected to invest £200 million in this new venture to produce computer monitors (*Asia, Inc*. June 1997; *The Sunday Times* 15/3/98). By 1998, 80 percent of Taiwanese investments in Europe were in the UK; by this year, a total of £330 million had been invested in Britain by Taiwanese firms, and 17 companies were involved in manufacturing (*The Sunday Times* 15/3/98).

Unlike the companies from China which are situated primarily in the vicinity of the London area, Taiwanese-owned companies are situated throughout the UK, with a number located in Telford, at the border of Wales and England. In spite of the proximity of Taiwanese enterprises to each other in the UK, company records do not indicate any evidence of significant inter-company dealings. Nor is there any evidence that any of these Taiwanese companies work closely with other companies owned by ethnic Chinese from Asia or in the UK. There is, however, some evidence that Taiwanese enterprises employ the services of professionals, such as accountants, lawyers, and auditors, who are ethnic Chinese and based in the UK.

Hong Kong

Economic sectors in the UK in which Hong Kong firms have investments are diverse and include manufacturing, financial services, wholesaling and retailing, services, property, and hotels. Hong Kong's Li Ka-shing, through his main holding company, Hutchison Whampoa Ltd, probably

has the largest amount of investments in the UK among the ethnic Chinese investors from East Asia. Indonesia's Liem Sioe Leong, reputedly the second richest man in Asia after the Sultan of Brunei, has investments in the UK through his main publicly listed holding company in Hong Kong, First Pacific Co. Ltd.

Li's two most important enterprises in the UK are Port of Felixstowe Ltd and Orange plc. Port of Felixstowe, a company incorporated in March 1991, manages the Felixstowe dockyard, the largest container port in the UK; this company had a massive turnover of £128.391 million, with a total of 1,924 employees. Hutchison Whampoa also operates another international container company, Thamesport (London) Ltd, a company incorporated in 1987, and which, according to company reports filed in 1997, registered a turnover of £14.133 million with a pre-tax profit of £1.097 million; this company has 225 employees.

Hutchison Whampoa has a 50 percent stake in Orange plc, a company incorporated on 5 October 1995 and involved in the mobile telephone industry. This was a second attempt by Li to move into the UK telecommunications sector after an earlier attempt to promote Hutchison Whampoa's Rabbit cordless telephones failed to make an impact, eventually closing down in 1993 (see *Far Eastern Economic Review* 15/8/96). Orange, in which Hutchison Whampoa invested £752 million, is a joint-venture with British Aerospace. Although Orange ran up huge losses in its first three years of operation, by 1996 it had managed to attract such a large number of subscribers to its network that it had emerged, after Cellnet and Vodafone, as Britain's third largest cellular telephone company; the company was expected to secure at least 25 percent of Britain's cellular telephone market by the year 2000 (Chan 1996: 215; *Asia, Inc.* December 1996).[4] Orange, which has 18 subsidiaries involved in a range of related activities, was listed on the London Stock Exchange in March 1996 (*Far Eastern Economic Review* 15/8/96; *Newsweek* 10/11/97).[5] Hutchison Whampoa also owns a consultancy and information company, Hutchison Whampoa (Europe) Ltd, which is based in London.

Liem Sioe Leong's First Pacific[6] has control over a number of major companies in the UK including R.S. Stokvis & Sons Ltd, a firm of construction specialists incorporated in 1960 and located in Surrey; Stokvis Tapes (UK) Ltd, a distributor of adhesive tapes incorporated in 1973; and Newey & Eyre Group Ltd, which is, in turn, wholly owned by the Hagemeyer (UK) Holdings Ltd, which was specifically established to hold the equity of the former. Of these three companies, the Newey & Eyre Group, which is a distributor of electrical products, has the largest turnover, a massive £437.518 million, and employs almost 2,800 people. First Pacific has control over Hagemeyer, the electrical products manufacturer from the Netherlands, which has enabled it to make an impact in this sector in the UK. Of the other companies controlled by

First Pacific in the UK, R.S. Stokvis has 77 employees, while Stokvis Tapes has only about 17 employees.

Another major company from Hong Kong with a number of investments in the UK is Jack Chia Holdings (Hong Kong) Ltd. This holding company has an interest in three companies: Tumble Tots (UK) Ltd, a company incorporated in 1983 which runs active physical programs for children; Combe Grove Manor Hotel & Country Club Ltd, incorporated in 1986, which manages a country club and sports complex; and Blue Bird Confectionery Ltd, a company incorporated in 1979 which is involved in the manufacture and distribution of sugar-based confectionery. Blue Bird Confectionery, the largest of these three companies, has a paid-up capital of £5 million and employs 391 workers. Combe Grove Manor Hotel & Country Club's paid-up capital is £4.350 million and the company has 95 employees. Tumble Tots' capitalization is £1.8 million with 15 employees.

Jack Chia Holdings (Hong Kong), an investment holding company, is a well-diversified group, involved in a varied number of activities, with investments, apart from the UK, in France, Australia, Taiwan, Malaysia, Singapore, Thailand, Indonesia, and the Philippines. The companies in the Jack Chia Holdings Group are involved in the manufacture of pharmaceuticals, confectionery, and trades machine tools; the import, wholesale, and retail of books, magazines, and stationery; the publishing of books and magazines; and investments in property and hotels. In the UK, apart from the three companies mentioned above, the Jack Chia (Holdings) Group also has an interest in public-listed Boustead plc.

A number of other companies from Hong Kong have huge investments in the UK, notably in the manufacturing sector. For example, Lion Mark Holdings Ltd, incorporated in 1983, based in Cheshire and owned by Chinney Holdings Ltd, is a holding company for a group of companies engaged in food manufacturing, processing, and distribution. Lion Mark, capitalized at £1.571 million, has 405 employees. Herrburger Brooks plc, a piano keyboard manufacturing company incorporated in 1920, is owned by the Harmony Piano Co. Ltd and has 225 employees. Rogers International (UK) Ltd, owned by Wo Kee Hong (Holdings) Ltd, manufactures and distributes electric components.

A large number of companies from Hong Kong are involved in wholesaling, retailing, and distribution, involving a diverse range of products. Among these firms is Fang Brothers (UK) Ltd, owned by S.C. Fang & Sons (Holdings), linked to one of the two famous Fang brothers – the other was S.H. Fang. The Fang brothers were refugees from Shanghai who had managed to develop a global textile business with interests in North America, Panama, and a number of Southeast Asian countries. Another prominent firm is Stelux Watch (UK) Ltd, a company involved in the import, assembly, and distribution of watches. Stelux

Watch is owned by Stelux Holdings, which is, in turn, owned by Mongkol Kanjanapas – he is also known as Wong Chue Meng – who has a number of investments in Hong Kong (Hiscock 1997: 271). Unlike the companies from Taiwan, only one company in this sample of companies from Hong Kong is involved in the sale of computer components, QDI Computer (UK) Ltd. Incorporated in 1992, QDI Computer has a paid-up capital of £50,000 and has only 14 employees.

The most prominent British company controlled by an ethnic Chinese from Hong Kong is probably Harvey Nichols & Co. Ltd, an upmarket retailer of clothes, accessories, and household items. This prominent retailing outlet is wholly owned by publicly listed Harvey Nichols Group plc, of which Dickson Concepts Ltd owns a controlling 50.1 percent stake. Dickson Concepts, one of the largest dealers of luxury goods in Hong Kong, is owned by Dickson Poon. The Harvey Nichols Group also wholly owns Harvey Nichols Restaurants Ltd, which operates London's Oxo Tower restaurants (*The Times* 23/6/98). Since its takeover by Dickson Concepts, Harvey Nichols has begun expanding its operations outside London, opening a branch in Leeds, with plans to open outlets in Manchester or Newcastle and in either Edinburgh or Glasgow (see *The Times* 23/6/98). The Harvey Nichols Group's turnover has also increased appreciably since its takeover by Dickson, increasing almost three-fold between 1994 and 1998, from £50.607 million to £128.540 million; during the same period, there has also been a more than ten-fold increase in pre-tax profits, from £1.345 million to £14.067 million, while the number of employees in the Group has increased from 768 to 1,307.

Hotel Property Investors (UK) Ltd, a holding company of firms in the hotels and restaurant industries with a paid-up capital of £18.730 million, is owned by New World Developments Co. Ltd, a company controlled by Cheng Yu-teng, one of the largest property owners in Hong Kong; Hotel Property Investors (UK) has around 700 employees. Cheng also owns an interest in a number of major hotels in the United States as well as in China and a number of Southeast Asian countries. Sing Tao (UK) Ltd is prominent in the UK among ethnic Chinese as it is the publisher of a Chinese daily newspaper; with a paid-up capital of £100, the company is controlled by Sing Tao Ltd and has 37 employees. Tileman Engineering Ltd, a company incorporated in 1989 and with a paid-up capital of £1 million and 11 employees, is controlled by Hopewell Holdings Ltd, owned by the prominent Hong Kong businessman, Gordon Wu, who is heavily involved in infrastructure engineering and power supply in Asia. Another investor from Hong Kong is David Li Fook-wo who has control of the Bank of East Asia, which announced in January 1998 its intention to buy the Asian equities and corporate finance operations of National Westminster Bank; these operations were controlled through NatWest

Markets, the UK bank's investment banking arm (*Financial Times* 27/1/98).

Singapore

The 11 companies in the sample in Table 4.2 owned by ethnic Chinese from Singapore are involved in a wide range of activities, including hotels, manufacturing, property, and trading. Singaporean companies have, however, a conspicuous presence in the British hotels sector. From the mid-1990s, the hotels sector began registering an exceptional rise in turnover, attracting takeover bids by companies from East Asia. In 1997, *The Guardian* (9 June) reported the results of a survey of the hotels sector as such: "hotels are enjoying an average 3 percent rise in occupancy rates to nearly 73 percent, and have managed to increase room prices by an average 9.6 percent."

The largest British enterprise owned by a Singaporean firm is Millennium & Capthorne Hotels plc, a major hotel chain, with nearly 3,500 employees, and a paid-up capital of £43.5 million. The Millennium & Capthorne Group is the largest company, in terms of turnover and number of employees, owned by an ethnic Chinese from Singapore in this sample. The Millennium & Capthorne Group is controlled by the Hong Leong Investment Holdings Group, owned by the members of the Kwek family who are developing their own corporate base independently of the Malaysian-based Hong Leong Group headed by their cousin, Quek Leng Chan. The Singapore-based Hong Leong Investment Holdings Group, through CDL Hotels International, has a 55 percent stake in Millennium & Capthorne Hotels, whose chairman is Kwek Leng Beng; the CDL Group also reportedly owns the Gloucester Hotel, the Chelsea, and the Bailey (see *Financial Times* 9/6/95). The Millennium & Capthorne Hotels Group also has 27 subsidiaries, most of which operate hotels throughout the UK; by 1998, this Group also owned or managed 21 hotels in Europe (*Financial Times* 3/3/98). Between 1995 and 1997, company records indicate that the Millennium & Capthorne Hotels Group recorded a significant four-fold increase in turnover, from £47.549 million to £202.600 million, while its pre-tax profit increased almost eight-fold, from £6.363 million to £50.200 million; during the same period, the number of employees in the Group rose from 850 to 3,464.

Other Singaporean hoteliers – which are not in this sample base – own a number of other hotels in London. For example, the Raffles Group, which runs a luxury hotel in Singapore, acquired the prestigious Brown's Hotel in London from the Granada Group in June 1997 (*The Guardian* 9/6/97). Between 1992 and 1995, it was estimated that the value of Singaporean investments in London hotels was about £300 million (see

Financial Times 9/6/95). The leading Singaporean investor in the British hotels sector is probably Ong Beng Seng who, through his Singapore-based publicly listed Hotels Properties Ltd, owns The Inn on the Park, the Metropolitan Hotel, The Halkin, and the Four Seasons Hotel (all in London) as well as a 30 percent interest in the Canary Riverside Hotel. Ong, with his wife Christina Ong, also acquired an 11 percent stake in Virgin Cinemas, controlled by Richard Branson, and owns the promotion company Lushington Entertainments Ltd (*Malaysian Business* 1/8/96; *The Observer* 23/2/97). Apart from this, Christina Ong owns the UK franchise for Armani, Prada, Guess, and Donna Karan brand products (*The Times* 2/6/98). In 1997, Christina Ong, then reputedly the ninth richest woman in the UK, acquired shop lots in London's Bond Street, Sloane Street, and Brompton Road, as well as in Manchester and Glasgow, which served as outlets for her various range of designer products (see *The Observer* 23/2/97). Ong and Christina also have an interest in the Hard Rock and Planet Hollywood franchises in Asia and own the Haagen-Daz franchise for Southeast Asia (*The Observer* 23/2/97).

Investments by Singaporeans in the British property market, particularly in the London area, have been increasing since the early 1990s. This has been attributed to "good capital gains, high rental yields, no restrictions on foreign buyers, a favourable tax regime, and an open and established residential property market" (*Financial Times* 7/6/97). Singapore-based companies, such as Scotts Holdings Ltd, run several serviced apartments in the City, while the Noel Group owns 12 apartments at Lancaster Gate, Ho Bee Development Ltd has acquired flats in Euston and near the Strand, and Liang Court Ltd has development projects in Kensington and Hampstead (*Financial Times* 7/6/97). Parkway Holdings Ltd, which has an interest in two companies involved in the property sector, is owned by the Malaysian Chinese businessman, Vincent Tan Chee Yioun of the Berjaya Group, though it operates out of Singapore; these two property companies, Validhill Ltd and Nuptine Properties Ltd, are both based in London. Oei Hong Leong, the Indonesian tycoon whose family controls the Sinar Mas Group, the second largest business empire in Indonesia, and who operates out of Singapore and Hong Kong through his publicly listed investment holding company, China Strategic Holdings Ltd, acquired in 1995 a controlling stake in publicly listed Bolton Group (*Financial Times* 23/3/95). Another shareholder of China Strategic Holdings, with almost 10 percent of the company's equity, is Li Ka-shing's Hutchison Whampoa Ltd (Hiscock 1997: 57–8). In 1996, it was also reported that Albert Reynolds, the former Irish Prime Minister, had joined the board of directors of China Strategic Holdings (see *Financial Times* 6/2/96); Reynolds had, however, been involved in business before venturing into politics.

Another leading company controlled by Singaporean Chinese is STA Travel Ltd, one of the UK's leading travel agencies, which employs around 350 people. One Singaporean company controlled by ethnic Chinese with a large number of investments in the UK is the Oversea-Chinese Banking Corporation (OCBC) Group. OCBC's investments in the UK are held through Times Publishing Ltd and Wearnes Technology Pte Ltd. Times Publishing has an interest in TPL Printers (UK) Ltd, a manufacturer and printer of binders, which employs around 180 people, while Wearnes Technology owns Wearnes Hollingsworth Ltd, a company with 124 employees incorporated in 1961 and involved in the manufacture of electronic components. Wearnes Technology also has an interest in Wearnes Computer Systems Europe Ltd, a distributor of personal computers.

Singaporean interests in the UK have been secured primarily through acquisitions. There is, however, evidence of Singaporean Chinese investing in manufacturing by establishing new enterprises or subsidiaries; TPL Printers (UK) Ltd, for example, is a binders manufacturer.

Intra-ethnic networking?

Although there has been much overlap in areas of investment by leading Chinese capitalists from East Asia, there is evidence of only one interlocking stock ownership tie among these businessmen in the UK. This involves Oei Hong Leong, the Indonesian tycoon who, through his holding company, China Strategic Holdings Ltd, has a controlling stake in public-listed Bolton Group. Li Ka-shing's Hutchison Whampoa Ltd owns about 10 percent of Bolton's equity, but it does not appear that he plays an active part in the management of this Group. There is also no evidence of any interlocking directorships among any of the ethnic Chinese capitalists from East Asia investing in the UK.

Although Li is reputed to have established intra-ethnic business linkages through investments outside Hong Kong, and although he has significant interests in the UK, there is no evidence of any business cooperation between him and other leading Chinese entrepreneurs or companies. Rather, Li has shown a preference to work with non-Chinese companies or businessmen, as evident in Li's choice of partner for his venture into telecommunications, i.e., British Aerospace. The former Irish Prime Minister, Albert Reynolds, is a director of China Strategic Holdings, in which Li also has an interest. Similarly, Singapore's Ong family has interlocking ownership ties in a company owned by Richard Branson.

The sample indicates that enterprises owned by some of the wealthiest businessmen in Hong Kong, including Li Ka-shing, Cheng Yu-teng,

Gordon Wu, and Dickson Poon, have a larger volume of investments in the UK than ethnic Chinese from the rest of Asia. Interestingly, in spite of the numerous investments by leading Hong Kong entrepreneurs in the UK, there is no evidence of any interlocking business ties between any of these businessmen to promote their interests in a foreign environment.

This sample of ethnic Chinese companies from East and Southeast Asia also indicates that even though investments in the UK by ethnic Chinese from this region have been growing, there is no indication of endeavors by them to establish intra-ethnic business ties with British Chinese in business. There is, for example, no evidence that the Chinese from different regions have forged joint-ventures, nor is there any evidence that British Chinese have benefited in the form of sub-contracts or serve as suppliers to Chinese investors from Asia.

Chinese enterprises in Hong Kong have a reputation in the garment industry, which has also been established abroad, for example in the US. In the UK, although there are three Hong Kong companies involved in textile distribution, including the well-known Fang Brothers (UK), there is little evidence that they have established ties with British Chinese businessmen who were originally from Hong Kong; nor is there any evidence from their company accounts that there is significant global textile trade with other Chinese businessmen, even though Fang Brothers has established subsidiaries worldwide. All three of these Hong Kong companies have remained relatively small enterprises and do not appear to have been able, based on their turnovers, to make much of an impact in the UK textile sector. The case of Fang Brothers also brings to question the existence of interlocking business ties among ethnic Chinese.

British Chinese have long been a prominent presence in the food catering, wholesaling, and retailing sector and since the early 1980s have begun to make inroads into the high-tech computer sector (Gomez 1998). Many of these British Chinese in these sectors were originally from Hong Kong, Taiwan, and Southeast Asia. Investors from these countries have begun to make a presence in the computer sector (especially those from Taiwan), while others have been involved in food trading (for example from China) and retailing; yet, there is no evidence of any intra-ethnic business cooperation among these businessmen in the UK.

From the pattern of investments by ethnic Chinese from East and Southeast Asia, it is obvious that the inflow of capital by these capitalists into the UK began to increase appreciably after the late 1980s. Chinese businessmen from different countries in the Asian region also seem to have a different pattern of investment. While Taiwanese companies have ventured primarily into manufacturing and distribution of computer products, the enterprises from China are involved principally in

international trade. Key areas of investment by companies from Singapore are in hotels and the property sectors, though a group of companies have also invested in manufacturing but on a much smaller scale than the companies from Taiwan. The capitalists from Hong Kong and Singapore have acquired publicly quoted companies, which would probably enable them to use the London Stock Exchange to raise capital for corporate expansion. There is, however, no evidence of any ethnic Chinese from Taiwan or mainland China who have acquired an interest in a quoted company; nor have they listed any of their firms which have invested in the UK on the local stock exchange. In their home countries, the Chinese from Hong Kong and Singapore have shown a greater proclivity to use the stock exchange as a source of funding, an option that is not as frequently used by Chinese businessmen from Taiwan.

Although the sample in Table 4.2 indicates a growing presence by ethnic Chinese capitalists from East Asia in the UK economy, there is little evidence to support the argument that when ethnic Chinese groups cross borders for investment purposes, common ethnic identity has served as an important mechanism for promoting joint business cooperation. Even capitalists from the same country have shown no proclivity for conducting joint business ventures in a foreign environment. The following detailed case study of investments in the UK by Malaysian Chinese will test further the hypothesis of intra-ethnic business cooperation in a foreign country by a minority ethnic community affected by positive discrimination favoring the indigenous community in their home country.

Case study: Malaysian Chinese investments in the UK

Table 4.2 indicates that the companies from Malaysia owned by ethnic Chinese are involved in a range of activities, including retailing, finance, manufacturing, and services. A major investment in the UK by Malayan United Industries (MUI), a once well-diversified group of companies but now concentrating primarily on property development, hotels, and retailing owned by Khoo Kay Peng, is its acquisition of a 40 percent interest in Laura Ashley Holdings plc, a major retailing outlet. Laura Ashley, which had an issued capital of £11.900 million and employed almost 4,700 people in 1994, is also involved in the designing and manufacturing of garments, accessories, and home furnishings. The MUI Group's acquisition into Laura Ashley, making it the company's largest single shareholder, was seen as a "bail-out" by the Malaysian firm (*The Times* 18/4/98). By the early 1990s, Laura Ashley, which had been founded by Laura and Bernard Ashley,[7] was still the ninth largest garment retailer group in the UK, with 178 branches (Thomas 1998: 69). Laura Ashley also had outlets in 34 countries including the US, Australia,

Canada, and major Asian cities (*The Star* [Malaysia] 17/4/98). In 1998, although Laura Ashley registered a turnover of £344.9 million, the company also registered a loss of £49.3 million (see Table 4.3). In 1999, as Laura Ashley continued to register poor sales, Pat Robertson, a reportedly close associate of Khoo, and the US Republican presidential candidate in 1988, was appointed to the company's board of directors. Robertson then had an interest in the garment retailing sector in the UK as well as a 2 percent stake in Laura Ashley (see *The Times* 22/1/99).

The well-diversified Hong Leong Group, controlled by Quek Leng Chan, is the Malaysian company that probably has the most diverse range of interests in the UK. In 1993, the Hong Leong Group acquired a 57.5 percent stake in Ramus Holdings plc which owns the Ramus Tile Co. Ltd, a long-established wholesaler of ceramic material and self-assembly kitchen furniture. In 1995, the Hong Leong Group's wholly owned American company, McQuay International Inc, acquired AAF Ltd, a company involved in the manufacture and marketing of air-conditioning, refrigeration, and freezer systems and products. McQuay International Inc, through AAF-McQuay (UK) Ltd, owns AAF Ltd which, in turn, has a number of subsidiaries involved in related business, including the sale of air filtration products. AAF, incorporated in 1966, has 392 employees, and company accounts for the year 1997 indicate that it had a pre-tax profit of £2.786 million on a turnover of £44.871 million (see Table 4.3). The Hong Leong Group also acquired Benchmark Bank plc, renaming it Dao Heng Bank (London) plc; this was an attempt by the Hong Leong Group to develop its banking and finance operations abroad. Dao Heng Bank (London) was to be part of the Hong Leong Group's attempt to build up its Hong Kong-based Dao Heng Bank Group, which had been enlarged rapidly through a series of acquisitions and mergers since the mid-1980s, enabling the Hong Leong Group to create the fifth largest bank network in the territory.[8] In early 1998, the Benchmark Group was also used to acquire a large number of properties in London, primarily office space from which it expected to secure rental income (*The Star* [Malaysia] 6/3/98). According to latest available company accounts, although the Benchmark Group registered a turnover of about £8.483 million, its pre-tax profit was extremely high – £4.218 million – the second largest in this sample of companies from Malaysia with investments in the UK.

The Kuala Lumpur Kepong (KLK) Group, involved primarily in plantations and property development and owned by the Lee family, acquired in 1996 a controlling stake in the major toiletries and cosmetics company, Crabtree & Evelyn Ltd. Established in 1972 by two Englishmen, George Crabtree and John Evelyn, Crabtree & Evelyn has its headquarters in the US, but has outlets throughout Asia, as well as in

Table 4.3 Company performance of Malaysian Chinese-controlled British companies

Laura Ashley Holdings plc (Malayan United Industries (MUI) Bhd Group – Khoo Kay Peng)

Year	*1994*	*1995*	*1996*	*1997*	*1998*
Turnover	300,387,000	322,600,000	336,600,000	327,600,000	344,900,000
Pre-tax profit	3,028,000	-30,600,000	10,300,000	6,200,000	-49,300,000
Issued capital	11,745,000	11,700,000	11,800,000	11,900,000	11,900,000
No. of employees	4,697	4,430	4,173	4,104	3,657

AAF Ltd (Hong Leong Group – Quek Leng Chan)

Year	*1993*	*1994*	*1995*	*1996*	*1997*
Turnover	38,100,000	34,074,000	21,767,000	49,372,000	44,871,000
Pre-tax profit	704,000	-3,019,000	908,000	4,404,000	2,786,000
Issued capital	125,000	125,000	125,000	125,000	125,000
No. of employees	431	432	401	372	392

Australia and New Zealand (*The Star* [Malaysia] 6/7/98). The Crabtree & Evelyn Group employs about 1,900 people, and though it registered a turnover of £72.490 million in 1997, it also recorded a loss of £1.892 million. The KLK Group also has a 29 percent stake in Yule Catto & Co. plc, a publicly listed manufacturer of rubber threads and latex examination gloves. Yule Catto & Co, incorporated in 1908, employs about 3,400 people and its latest accounts indicate a significant turnover of £367.170 million with a pre-tax profit of £38.050 million, by far the largest pre-tax profit recorded by a company controlled by a Malaysian company. While Yule Catto & Co. is involved in an industry that is related to the KLK Group's mainstay activity in Malaysia, i.e., rubber production, the latter's acquisition of Crabtree & Evelyn indicates a new trend, since the mid-1990s, by the KLK Group, to diversify its activities (see Gomez 1999).

The Johan Holdings Group, controlled by Tan Kay Hock and involved primarily in the trading of engineering products and the manufacture of brass products, has a 59 percent stake in William Jacks plc, also a company quoted on the London Stock Exchange. William Jacks, incorporated in 1926, is an investment holding company, its subsidiaries involved primarily in the sale of motor vehicles. William Jacks has almost 400 employees and has a commendable turnover of £109.292 million with a pre-tax profit of £1.206 million.

A number of other Malaysian Chinese-owned enterprises have investments in the UK. The Pengkalen Holdings Group, controlled by the Tan family, has a UK-based subsidiary, Pengkalen (UK) Ltd, an investment holding company which employs 145 people and whose latest accounts indicate that it registered a turnover of £37.326 million. Pengkalen (UK) has a long list of subsidiaries some of which, including Central Cocoa Pte Ltd, Meltis Holdings Ltd, and Network Foods Australia Ltd, are involved in the manufacture and trading of cocoa products. George Town Holdings Bhd, the retailing company in which T.T. Phua has a joint controlling interest, has a stake in the British company, Millennium Group Ltd, which owns Third Millennium Studios Ltd and Super Millennium (UK) Ltd. Mega First, another company owned by a Malaysian Chinese, bought in 1995 Bloxwich Engineering Ltd, a British company which produces door closure systems (*Financial Times* 9/6/95).

Companies including the Benchmark Group, Ramus Tile, AAF, William Jacks, and Laura Ashley are long-established British enterprises now under the control of ethnic Chinese from Malaysia, all acquired through a spate of acquisitions between the late 1980s and the mid-1990s. This review of Malaysian Chinese investment in the UK indicates that these businessmen have not invested in new subsidiaries involved in manufacturing, though they have acquired an interest in companies in

this sector. In other words, there is no evidence that any Malaysian company has established a new enterprise in Britain, particularly in the manufacturing sector as evident among Taiwanese companies.[9] The trend emerging from this study of Malaysian companies in the UK indicates a proclivity for acquiring well-established, usually public-listed British companies involved in retailing, finance, manufacturing, and services.

As in the case of other East Asian companies owned by ethnic Chinese investing in the UK, there is no evidence that Malaysian Chinese businessmen have been forging intra-ethnic business ties. The evidence does suggest that Malaysian Chinese have cooperated with non-Chinese businessmen and enterprises, for example Khoo Kay Peng's involvement of Pat Robertson in Laura Ashley. There is no indication that Malaysian Chinese businessmen have sought out or worked with British Chinese with investments in similar areas of business.

There is little evidence from this study of investments in the UK by ethnic Chinese from East Asia to suggest that the creation of co-ethnic business networks that will enable ethnic Chinese capital to emerge as Asia's business dynamo and as a major force in terms of its asset base. There is also no evidence that any big ethnic Chinese companies have instituted interlocking stock ownership and directorate links of any significance with other Chinese-owned companies, when they cross borders.

Ethnicity, identity, and business development

Previous research on Chinese enterprise in Malaysia has indicated there is very little intra-ethnic business cooperation or joint ownership of firms by leading Malaysian Chinese entrepreneurs (see Gomez 1999). In a situation of Malay hegemony over the state, particularly through control over the state by one party, the United Malays' National Organization (UMNO), which gave Malay politicians significant influence over the corporate sector, it was more expedient for Chinese businessmen to forge ties with the Malay elite. By accommodating the state or Malay elite, Chinese businessmen had greater access to state patronage to facilitate the development of their enterprise. In this chapter, I have posited the hypothesis that in a foreign country, for example the UK, the idea of "retribalization," involving business cooperation with co-ethnics of the diaspora or even with other Malaysian Chinese, would prove expedient to develop their enterprises. Since, in this transnational context, there is no hegemonic state that would frown upon such intra-ethnic cooperative ties, business collusion forged on common ethnic identity should, by natural progression of the argument, thrive. Moreover, Malaysian Prime Minister Mahathir Mohamad has been a vocal supporter of Malaysian

Chinese tapping into transnational Chinese "networks" to develop their corporate base. The manner of operation of Malaysian Chinese capital, in both local and foreign contexts, indicates that businessmen generally see their interests in terms of individual or family concerns.

The basis on which the concept of transnationalism rests is the belief that there exists a pan-ethnic unity among ethnic Chinese in different countries which facilitates the development of Chinese enterprise in a global perspective. Transnational networks, said to explain the phenomenal strength of ethnic Chinese capitalism, are often attributed to the emergence of new means of communication. However, as I have suggested, this does not seem to influence in any appreciable manner the way ethnic groups do business with co-ethnics in other countries. This study of Malaysian Chinese investments in the UK provides no evidence to support the argument that co-ethnics of the diaspora, particularly those from minority communities in a country, work together to promote their investments. Nor is there any evidence of intra-ethnic business cooperation among ethnic Chinese from Taiwan and Hong Kong, territories dominated by the Chinese.

This would suggest that the issue of common ethnic identity is of little importance in transnational business transactions undertaken by ethnic Chinese from East Asia. Ethnicity is a political construct that has been used to justify state policies and endeavors (in a national perspective) and to promote or enhance economic pursuits (in an international perspective). At both levels, however, there is little evidence that common ethnicity promotes economic pursuits as well as helping unify a community. The case study suggests that though individual businessmen could tap into or use these political constructs when it suits their business interests since some state leaders promote this idea of greater cross-border intra-ethnic business cooperation, there is little indication that their ethnic identity has served as an important tool to facilitate business deals. The fact that there is little business cooperation among Malaysian Chinese businessmen in the UK is not surprising given that even within Malaysia, where these businessmen face much discrimination from the state, they have found little benefit from promoting close intra-ethnic business collaboration.[10] There is also no evidence that in Malaysia the promotion of a common ethnic identity is of any importance to leading Chinese businessmen in the development of their enterprises.

This suggests that the concept of transnationalism not only provides little insight into the diversity in the forms of corporate development of Chinese business groups when they cross borders, it presents a false idea, i.e., that ethnicity, based on common cultural formulations, functions as an important unifying factor. The extent of intra-ethnic cooperation among Chinese entrepreneurs is not as significant as the concept suggests and the capacity of Chinese capital to coalesce and emerge as a major

force in the global economy due to the networks consolidated by their common ethnicity is untrue.

Notes

1 The term "East Asia" includes Southeast Asian countries unless otherwise stated.
2 The number of companies from East and Southeast Asia investing in the UK, listed in Table 4.1, was adopted from the Financial Analysis Made Easy (FAME) CD-ROM program. Based on my own research, the number of companies from Taiwan and Hong Kong investing in the UK is considerably greater than that listed in Table 4.1.
3 However, while Sinochem has registered a pre-tax profit of £1.246 million, Tylong International registered a loss of £75,000.
4 Between 1995 and 1997, Orange's turnover increased almost 13-fold, from £72 million to £913.7 million, while its employees more than doubled, from 2,409 to 4,939. By early 1999, although Orange had yet to register a profit, the value of the company had quadrupled, with an estimated worth of £11 billion (*The Times* 22/1/99).
5 Hutchison Whampoa has emerged as the vehicle for Li to move further into the telecommunications industry in other parts of Europe and North America. Apart from his investments in Hong Kong and the UK, Li Ka-shing, through Hutchison Whampoa and his other major holding company, Cheung Kong Holdings Ltd, has investments in Canada, where it has a significant interest in the property sector, the oil industry through Huskey Oil Ltd, and the banking sector, through the Canadian Imperial Bank of Commerce. In China, Li's companies are involved in a diverse range of activities and also have control of a number of ports, particularly in the southern part of the country. It is, however, in the UK that Hutchison Whampoa appears to be making significant inroads in the port container business and has been developing its interests in the telecommunications industry.
6 First Pacific, which is controlled by Liem Sioe Leong's son, Anthony, has substantial business interests in the Philippines, and is run by a professional management team.
7 The Laura Ashley takeover was implemented when MUI injected £43 million into the company, leading to an increase in the company's paid-up capital. Following the MUI takeover, Bernard Ashley's stake in Laura Ashley was reduced from 35 percent to 21 percent. Another shareholder then of Laura Ashley was the Japanese retailer, Jusco, whose stake in the company was reduced from 15 percent to 9 percent (*The Times* 18/4/98). Bernard Ashley subsequently lost management control of the company (see *The Times* 22/1/99).
8 In Malaysia, the Hong Leong Group has a major presence in the financial sector, with ownership of a major bank, Hong Leong Bank, and a finance company, Hong Leong Finance. The Hong Leong Group had long been keen on developing a global banking network.
9 Lotus Ltd, the sports car and automotive company, was another major British company bought by a Malaysian investor; the Malaysian company, the car-maker, Proton, is, however, not owned by an ethnic Chinese. Proton acquired an 80 percent stake in Lotus for £51 million in October 1996 (*Financial Times* 19/5/97).

10 For an analysis of the development of the MUI, Hong Leong, and KLK groups in Malaysia, see Gomez (1999). Of these three groups, only Khoo Kay Peng's MUI group has attempted to forge a merger with other Chinese business groups. The proposed merger failed to materialize and led to a bitter public corporate dispute between the businessmen involved.

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Part II

CHINESE ENTERPRISE IN TRANSNATIONAL AND NATIONAL PERSPECTIVES

5

NETWORKING STRATEGIES OF TAIWANESE FIRMS IN SOUTHEAST ASIA AND CHINA

Chen Tain-Jy and Ku Ying-Hua

Introduction

A distinctive feature of foreign direct investment (FDI) patterns adopted by Taiwanese firms is the important role of network relationships. Traditional theory asserts that FDI is an attempt by large and powerful firms to exploit economic rent in a foreign market (Caves 1971). In Taiwan, however, relatively small firms defy traditional theory by investing abroad without any apparent firm-specific advantage to generate economic rent, since their investment is governed by a desire to preserve, exploit, and expand the network relationships with their buyers and suppliers (Chen and Chen 1998). They take advantage of network resources to overcome their shortage of internationalization assets, maintaining access to Taiwan's local networks to support their overseas operations, and seeking to establish linkages with domestic networks in the host nation to enhance production efficiency and to improve their position in the international markets.

Taiwanese firms differ from the Western multinational companies in that they invest in order to gain a competitive advantage, rather than to exploit their existing advantages. Their globalization strategy is conditioned by the network relationships that they embrace before pursuing FDI, and by their ability to mobilize network resources to aid their internationalization efforts. They invariably place themselves in a position from which network support can be secured from the home base so that their network-based operations can be run smoothly in the host nations, and their investment patterns are characterized by some of the common and distinctive features of networking.

The purpose of this chapter is to study the investment strategies of Taiwanese firms in Southeast Asia and China, from a network perspective. In the next section, we elaborate on the networking

strategies of Taiwanese investors, focusing on their supplier and buyer relationships. We then move on to present an overview of the globalization process of Taiwanese firms, and in the following section we describe Taiwanese FDI in Southeast Asia and China and their networking activities in the host nations, focusing on their interactions with domestic firms and with other Taiwanese investors. In the penultimate section, we compare the roles of Taiwanese firms in Southeast Asia and China in the configuration of global production systems. Some concluding remarks are provided in the final section.

Management of network relations

Networks consist of two or more interconnected business relationships (Anderson *et al.* 1994). In the Taiwanese context, when a firm makes foreign direct investments, it is forming new relationships in a foreign country, the success of which depends on the existing relationships forged in the home country. The establishment of new relationships may also alter existing relationships among Taiwanese firms. It is the interactions of these relationships that underscore the FDI strategies.

Most Taiwanese firms investing abroad are international subcontractors working for brand-name merchandisers or integrated device makers (IDM). The major advantage of Taiwanese firms as subcontractors lies with their low cost of production and great flexibility in changing production patterns, and when they invest abroad, their chief concern is to preserve these advantages. This concern manifests itself in two observable strategies: first, they maintain close connections with their networks in Taiwan, and second, they seek localization which is most likely to reduce production costs and to increase the scale of production. These two strategies together chart the course of the changing relationships between Taiwanese firms and their network partners.

Supplier relationship

With the exception of a few truly large firms, most Taiwanese firms have not been able to orchestrate and organize an overseas investment in tandem with their suppliers in Taiwan. This is because they are not big enough to provide the necessary scale economies to their suppliers through derived demand. In the initial stage of operations abroad, overseas subsidiaries often obtain materials and components from the original suppliers in Taiwan, these transactions being handled through the headquarters in most cases. Precisely for this reason, operations abroad have to maintain easy access to Taiwan's networks in terms of the flow of goods and information, and there is a tendency for Taiwanese

investors to cluster in the same overseas locations because of their common need for network connections. As a result, their aggregate production is soon able to create sufficient demand for upstream materials and parts, and this demand then serves to attract suppliers from Taiwan to establish local production. At this point, the skeleton of a local network begins to emerge, but this usually falls far short of the scale and intricacy of the networks in Taiwan. Some general-purpose products, such as packing materials, may be found locally and brought into the local networks, while some specialized products may be found in neighboring countries, such as Singapore, where multinational firms are well established. Local suppliers are seldom competent enough fully to replace Taiwan's networks because of the difference in terms of the stage of industrialization.

Some key components are difficult to duplicate in overseas locations because they entail a higher level of technological sophistication, and long-term learning is required to reach the quality standards that have been set; inevitably, these components have to be obtained from Taiwan. With regard to subcontractors for brand-name products, the essential materials to be used, or key components to be incorporated into production, usually need to be approved by the buyers. If procurement of such materials or components from Taiwan or third countries entails extra costs, the buyers will usually absorb these costs in the contracts.

In some cases, it is more efficient to procure a set of components and parts from Taiwan and ship them abroad for processing to ensure quality and prompt completion. As a major center of international subcontracting businesses, Taiwan provides a whole array of components and parts, whether produced locally or abroad. Package procurement from Taiwan and shipment to overseas locations ensures prompt production and timely delivery, which serves to maintain the core advantages of Taiwanese firms. Undue attempts to save costs by procuring locally may result in supply disruption or quality deficiency, leading to delays in production or substandard products, both of which are costly to international subcontractors. Thus, a certain mix of local and Taiwanese supplies, combined with low-cost labor, seems to be the winning formula for Taiwanese overseas investors.

New products developed in overseas locations may also create new demand for materials or parts from Taiwan's networks. Although at the initial stage, overseas production is usually based on transference from Taiwan, new products can be introduced later on through overseas innovations, connections to new buyers, or responses to local demand. In any event, new products are likely to be the result of resources synergy between local and Taiwanese networks, indicating certain roles to be played by Taiwan's suppliers.

Buyer relationship

As international subcontractors, the most critical network relationship in the Taiwanese firms' globalization process is their relationship with international buyers. FDI decisions by Taiwanese firms entail some tacit endorsement by international buyers, and with their consent, Taiwanese investors ensure that purchasing orders will be forthcoming once they are established abroad. The management priority of Taiwanese subsidiaries is always to produce a quality product up to the buyer's standards, even if this incurs extra costs. This is why in the initial stage of production, most materials and parts are obtained from Taiwan and production methods are transferred intact from there without adaptation to local factor conditions. The essence is to avoid too many uncertainty factors at one time and to concentrate the managerial effort on transferring the basic operational technologies, but once the quality of products is achieved, Taiwanese firms will start searching for methods to reduce production costs and to increase the production scale to lower the unit cost.

Through capacity expansion and cost reduction, Taiwanese firms are able to compete for large orders, and orders from more prestigious brand names. Since 1990, large American brand-name manufacturers have restructured their supply chains by releasing their production capacity to international subcontractors in Asia (Sturgeon 2000). As a result, the international demand for contract manufacturing has grown enormously. Those who are unable to mobilize low-cost labor and to provide large capacity of manufacturing are outstripped in this booming market. The most significant impact of this trend was felt by the small contract manufacturers who were unable either to pursue FDI or drastically to increase their production capacities.

Despite the effort to reconstruct the production networks in locations abroad, overseas production networks fall short of the refinement and depth of Taiwan's networks. Often, inevitably, the overseas production of Taiwanese firms is more vertically integrated than that in Taiwan. What is present in Taiwan, but usually missing in the overseas networks, is the most capital-intensive segment of production of the value chain, because such investment involves high risks. Independent operators in this segment are reluctant to invest abroad unless the investment is supported by a firm purchase commitment from downstream users, which is of course difficult to obtain. With no alternative, investors who seek local vertical integration have to invest in this segment of production by themselves, which effectively blocks small firms from competition.

The need for vertical integration reinforces the need for large scale, which serves to spread the heavy capital costs, and enlargement of production scale, in turn, enhances the bargaining power of investors *vis-*

à-vis their buyers. A large subcontractor serving more than one buyer may allocate its production capacity to favor its preferred buyer and alter the competitive status. Usually, larger production capacity also implies a greater commitment to the supplier–buyer relationship, which serves to solidify such relationships. These forces join to drive a campaign of capacity investment, propelling the FDI bandwagon once it gets started.

According to Porter (1991), several factors are essential to the competitiveness of an enterprise, including scale, accumulation of production experience, cooperative relationships with other firms, timing of investment, and so on. Most Taiwanese investors take these factors into account in their FDI decisions, which ultimately serves to improve their international competitiveness. In the mid-1980s, when Western multinationals invested in Southeast Asia in a big way, particularly in Malaysia and Thailand, Taiwanese firms which served as contract manufacturers for them also invested there. Between 1988 and 1995, Taiwanese electronics firms operating in Malaysia and Thailand saw their sales increase phenomenally. However, this cozy relationship with multinational firms hit a snag around 1995 when Western multinationals switched from Southeast Asia to China, but Taiwanese firms did not hesitate to follow suit.

In the globalization process, Taiwanese firms maintain close ties with their buyers despite changing production sites and the reconfiguration of production methods, but from a network perspective, any relationship will depreciate without reinvestment (Morgan and Hunt 1994). Taiwanese firms invest abroad to increase their production capacity, sources of supply, variety of products, and proximity to the markets, to better serve their clients. As a result of increased capacity of services, their clients are able to concentrate on the other segments of production, as well as standard setting, system integration, and software development to improve their position in the system as a whole (Borrus 1997). As a reward to Taiwanese firms, the increased capacity to serve their clients reduces the number of potential competitors in the networks, forging a closer and more lasting relationship among the remaining partners.

Although sealing the existing buyer relationship is their major concern, Taiwanese firms also establish new buyer relationships through FDI, something that is accomplished largely because of the advantage of proximity, and these new buyer relationships serve to take up the enlarged capacity and reduce their dependency on the original buyers.

The process of globalization

From a network perspective, globalization is a cumulative process in which firms gradually increase their assumption of risks, as they accumulate more and more knowledge on internationalization

(Johanson and Vahlne 1977, 1990). Since FDI risks are closely associated with the differences in culture, language, and norms of commercial practices between the source and host countries, it is an empirical regularity that firms start their globalization in the host countries that provide close cultural, linguistic, and commercial links; in this regard, Taiwanese firms are no exception. We may also refer to these factors as psychological distance. There is, however, a unique feature in the globalization process of Taiwanese firms: the conscious effort to maintain network connections. This is because the competitiveness of Taiwanese firms hinges on the support of a flexible and efficient production network in Taiwan. When Taiwanese firms go abroad, it is essential for them to maintain access to this network from which their resources are sourced, otherwise their competitiveness will be undermined (Ku 1999).

It is the psychological distance and network connections that determine the globalization process of Taiwanese firms; put differently, the locational choice of Taiwanese investors can largely be interpreted by these two factors. Large firms, which have more internationalization knowledge embodied in their staff or organizations, are more capable of overcoming psychological distance, and therefore are more able to invest in countries that are more "foreign" to Taiwan in terms of culture, language, and commercial norms. In comparison, small and medium enterprises (SMEs), which are usually short on internationalization knowledge, are more likely to be constrained by psychological barriers and only invest in "neighboring" countries (Buckley, Newbound, and Thurwell 1988). Their choice of location is therefore limited, and hence, FDI by SMEs shows a high degree of concentration in a few locations with cultural affinity to Taiwan.

When Taiwanese SMEs embarked on the course of FDI, Thailand and Malaysia were their first destinations largely because of psychological distance considerations. Thailand, a Buddhist country with harmonious racial relations between the Chinese and the indigenous population, has commercial norms and industrial structures similar to those of Taiwan, allowing for the easy immersion of Taiwanese firms. Malaysia, although clouded with a history of racial conflict, offers a sizable population of ethnic Chinese who speak common languages with the Taiwanese.

Although China offers a shorter psychological distance to Taiwan than Southeast Asia, the latter is superior in terms of network connections. This explains why Southeast Asia was more attractive than China before the 1990s, particularly among larger firms. Preserving or strengthening network relations through FDI is a critical consideration in globalization (Johanson and Mattson 1987), and for Taiwanese firms, the most important network relationships to be preserved were those with international buyers and domestic suppliers. Prior to 1990, most Western multinational firms were still wary of the policy uncertainty on the

mainland, and of China's capacity for becoming a reliable contract manufacturer in the world production system. For all these reasons, Western multinationals did not encourage Taiwanese firms, which serve as their major suppliers or subcontractors, to invest in China. Moreover, China lacked internal production systems or a foundation that would allow Taiwanese production networks to be transplanted to the mainland.

Added to these problems was the issue of policy interference by the Taiwanese government. Before 1991, the Taiwanese government prohibited FDI in China, and even at the time of writing, direct trade between China and Taiwan is disallowed. As a result, trade between the two sides has had to be conducted through Hong Kong, Korea, or Japan. This makes material support for overseas production in China more difficult than in Southeast Asia. In contrast, Western multinationals already had a long history of operations in Southeast Asia, including in Thailand and Malaysia. Critical supporting industries, nurtured by multinational firms, were well established, although falling far short of the degree of refinement and depth of Taiwan's production system. Moreover, trade between Taiwan and Southeast Asia was unimpeded. Although shipment from Taiwan to Southeast Asia takes longer, the supply lines are reliable and uninterrupted. Both local supplies and supplies from Taiwan's production networks can be accessed from Southeast Asia, making the re-configuration of a production system easier there than in China.

Proximity to local suppliers and networks in Taiwan is even more critical in the determination of plant locations, once a host country is identified. Foreign investors are keen to capitalize on the agglomeration effects of local networks (Audretsch and Feldman 1994; Wheeler and Mody 1992), which are not unique to Taiwanese investors, but Taiwanese firms are more dependent on local networks than their foreign counterparts because of their small size. Therefore, Penang and the Klang Valley were the favorite investment sites in Malaysia, as was Bangkok in Thailand. For Taiwanese firms investing in China, the Pearl River Delta was the favorite area. In the latter case, proximity to Hong Kong was the key advantage as it provided an easy connection to Taiwan's networks through indirect trade.

In the late 1980s, most of Taiwan's large firms started their FDI in Southeast Asia because of network considerations, whereas small firms' FDI in China was as a result of overwhelming concerns for psychological distance. But the network position of China has changed drastically since 1992, following former Chinese leader Deng Xiaoping's "southern excursion" to Guangdong, during which he reassured the world that China would rapidly impose its open-door policy. Encouraged by the proclaimed policy continuity, Western multinational firms began

undertaking serious investments in China, which in turn laid the foundation for the building of network connections by Taiwanese firms. Large Taiwanese firms, serving as contract manufacturers and suppliers for Western multinationals, embarked on a new wave of FDI in China, bringing with them suppliers and subcontractors. Hence, this wave was somewhat more coordinated in comparison to the spontaneous FDI made by small firms in their previous endeavors.

Generally speaking, for large Taiwanese firms, their initial FDI in Southeast Asia was largely "defensive" in nature, whereas their second wave of FDI in China was "expansionary." Their defensive FDI had sought to protect their export market position, which had been undermined by the adverse operational environment in Taiwan, whereas the expansionary FDI aimed at consolidating and expanding their market share through globalized production. This move from defensive to expansionary FDI is a natural evolutionary process of internationalization without any preconceived grand design. In fact, most Taiwanese firms had embarked upon the first wave of FDI with a sense of survival without really imagining what the next step would be. FDI, however, serves as more than just a survival kit; it broadens the resource bases of investors and enables them to globalize their production.

In their FDI in China, large firms usually made use of the resources that they had accumulated in Southeast Asia – for example, relocating some production to China from Southeast Asia – and sometimes this was accompanied by the relocation of experienced managers and technicians trained in Southeast Asia. Transplanting production methods from Southeast Asia to China is more practical than transplanting them from Taiwan because the production methods in Southeast Asia had been adapted to low skills and a less refined and shallower supplier network. In the initial stage of Chinese operations, in many cases, semi-finished products were shipped to China for further processing, in similar fashion to the mode of transplanting production from Taiwan to Southeast Asia in the earlier years. This practice reduced the dependency on local suppliers as the managers concentrated their effort on training workers to transfer the basic operating technologies. Only when local production – which contained little local content at that time – had been stabilized with satisfactory quality would the investors begin searching for, and training, local suppliers to bring them into the local production networks.

The cost of managing multinational operations increases exponentially with the number of investment sites (Ethier and Horn 1990). Multiple operations will be maintained only if they are justified by significant benefits in the division of labor, and only if the investors possess sufficient managerial resources to benefit from the economies of

common governance of assets (Dunning 1981). Taiwanese firms are usually short of managerial resources, but they are good at accumulating such resources in the process of internationalization. For example, local managers in Southeast Asia were trained and deployed to China, and vice versa. This reduces the need for Taiwanese expatriates, which would be much more expensive.

Following FDI in Southeast Asia and China, the third wave of FDI by Taiwanese firms was usually targeted at Mexico, albeit on a much smaller scale. FDI in Mexico only took place after 1995 and was prompted by the North American Free Trade Agreements (NAFTA) which aimed at integrating the US, Canada, and Mexico into a common market. Proximity to markets allows Taiwanese firms to respond better to consumer demand and the requirement for after-sales service, and investment in Mexico enabled Taiwanese firms to provide global logistics services to their buyers whose customers were concentrated in North America. Their operations in Mexico were service-oriented, as opposed to manufacturing, focusing on providing product differentiation and after-sales service to customers, although some of these operations took the form of processing semi-finished goods made in Southeast Asia and China. They were usually located close to the US–Mexico border with easy access to the US seaports on the west coast.

There are two common features in the internationalization process of Taiwanese firms. First, FDI always starts within the neighborhood of the original network in which the investor is embedded, where "neighborhood" refers to a distance within which network support, including materials, components, and parts, and technicians indispensable to production, can be accessed at reasonable cost. When Taiwanese firms first invested in Southeast Asia, they chose a location where network support from Taiwan was feasible. When they invested in China, they chose a location where network support from Taiwan and Southeast Asia was feasible. In short, Taiwan's network was the base for globalization. Once they had established a new network in an overseas location, the network linkages could be expanded from there and the "neighborhood" area increased. Hence, investors may travel the "network" distance, from the most neighboring areas to more remote places as their network linkages extend further, but they never invest in a region where they have to operate in isolation. As in the concern for psychological distance, Taiwanese firms carefully measure the "network" distance to reduce the risk of globalization to a bearable level.

Second, Taiwanese investors invariably choose a location which is itself rich in network resources; in other words, they prefer to be embedded in an existing network rather than creating a new one. For Taiwanese firms, FDI represents an effort to make connections between the Taiwanese network and some other overseas network. Connecting to an existing

network entails less resource cost than duplicating a network in an overseas location. Moreover, connecting to a local network enables them to acquire new resources to improve their position in the global network. For example, Taiwanese electronics firms preferred Penang when investing in Malaysia because of a cluster of electronics industries already established by multinational firms there. Likewise, when they invested in China, the Pearl River Delta, Suzhou, and Kunshan were their preferred locations.

Taiwanese FDI in Southeast Asia and China

Since the mid-1980s, Taiwanese firms, prompted by rising wages and favorable exchange rates, have engaged in large-scale FDI in Southeast Asia and China. The first wave of FDI was undertaken by SMEs; this was then followed by investment from the larger firms. In the initial course of FDI, Thailand and Malaysia were the popular destinations, but Taiwanese firms soon found China to be overwhelmingly attractive, thanks to its immense pool of labor.

Although the Taiwanese government did not officially legalize direct investment in China until 1991, SMEs had nevertheless established their operations in China long before, mostly in the form of consigned manufacturing. Figures on Taiwanese FDI in Southeast Asia and China are provided in Table 5.1.

It can be seen that Thailand and Malaysia had been the major recipients of Taiwanese investment until the Asian financial crisis hit the region in 1997, and that following the crisis, direct investment in these two countries had declined markedly in 1998 and 1999. The statistics show that Indonesia attracted an even greater amount of Taiwanese FDI, but investment there was dominated by a large paper pulp project that was so successful that capital was expanded periodically. Vietnam was not open to foreign investment until 1989, and Taiwanese investors quickly became the leading capital providers from the outset. Only the Philippines had been unable to attract prime investors from Taiwan, owing to its political instability and social turmoil. In sum, the "ASEAN five," of Thailand, Malaysia, Indonesia, Vietnam, and the Philippines, jointly attracted about the same amount of Taiwanese FDI as was invested by Taiwanese firms in China, but Taiwanese FDI in China had been more robust than that in any of the Southeast Asian countries.

The composition of investors differs, however, between Southeast Asia and China. The average amount of investment for each project in the "ASEAN five" is US$7.75 million (Chen *et al.* 2000) while in China the average is only US$0.98 million (Kao 2000: 139). Taiwan's SMEs have in fact concentrated their investments in China, and in most cases, operations in China are their only overseas operations. For large

Table 5.1 Taiwanese FDI in Southeast Asia and China, 1959–2000

(Unit: million US dollars)

Year	*Thailand*	*Malaysia*	*Philippines*	*Indonesia*	*Vietnam*	*Southeast Asia total*	*China*
1959–87	345.2	151.2	16.9	2,501.4	–	3,014.7	–
1988	859.9	306.1	109.9	913.0	–	2,188.9	–
1989	892.2	799.7	148.7	513.2	1.0	2,354.8	–
1990	782.7	2,347.8	140.7	618.3	251.0	4,140.5	–
1991	583.5	1,326.2	12.0	1,057.3	520.9	3,499.9	2,783
1992	289.9	574.7	9.1	563.3	561.6	1,998.6	5,543
1993	215.4	331.2	5.4	127.5	421.3	1,100.8	9,965
1994	477.5	1,122.8	267.8	2,487.6	518.6	4,874.2	5,395
1995	1,803.9	567.8	13.6	567.4	1,239.7	4,192.4	5,777
1996	2,785.2	310.3	7.4	534.6	534.3	4,171.9	5,141
1997	414.3	480.4	13.1	3,419.4	247.8	4,575.0	2,814
1998	253.6	263.4	5.4	165.5	440.6	1,128.4	2,982
1999	211.1	70.3	5.0	3,309.7	173.0	3,769.1	3,374
2000	437.4	241.1	1.0	116.3	280.1	1,075.9	4,042
Total	10,351.8	8,893.1	756.0	17,005.3	5,002.1	42,008.3	47,816

Note: All data shown on an approval basis.

Sources: The figures on Thailand were obtained from the Board of Investment; the Malaysian figures from the Malaysian Industrial Development Authority (MIDA); the Philippines figures from the Board of Investment; the Indonesian data from the BKPM; the Vietnam figures from the Ministry of Planning and Industry (MPI); and the China figures from the Ministry of Foreign Trade and Economic Cooperation.

Taiwanese firms, their operations in China are usually only a part, although probably the most important part, of their global operations, and as a result of the differences in investment conditions and industrial structures between China and Southeast Asia, large investors operate in both regions in order to gain the benefits of the division of labor.

Whether in China or in Southeast Asia, Taiwanese investors are export-oriented, but industry concentration varies across the host countries. In Thailand, for example, the textiles and electronics industries dominate the investment scene, while in Malaysia it is the electronics and metal industries that attract the largest amount of investment. In Indonesia, the paper-pulp, textiles, and footwear industries are most significant, and in both Vietnam and the Philippines the textiles industry stands out as the leading sector. Although investment in China is more diversified, the textiles and electronics sectors are still among those that attract the largest amount of investment. The industry distribution of Taiwanese FDI is closely associated with the host country's comparative advantage, which may or may not be reflected by that country's indigenous industries.

The nature of Taiwanese operations in China and Southeast Asia is labor-intensive, but increasingly we have encountered more and more capital-intensive investment projects that often follow in the steps of labor-intensive investments that had formed an industrial cluster in the host country. For example, producers of synthetic fibers followed on from the textiles and garments firms; producers of rubber and chemical materials tended to follow on from the footwear manufacturers, and producers of cathode ray tubes (CRT) followed the computer monitor assemblers. With this "following-on" pattern of upstream producers, the average proportion of local sales in China and Southeast Asia increased as the upstream producers continued to service their downstream assemblers at proximity, but the industry as a whole remained export-oriented.

Studying the patterns of Taiwanese investment in Southeast Asia and China, we found that it is mainly the structural factors such as cheap labor, government incentives, and local industry conditions, rather than the Chinese ethnicity, that govern the networking activities of Taiwanese firms. In the following subsections, we describe the networking activities of Taiwanese firms in Southeast Asia and China, respectively.

Networking in Southeast Asia

Local networks in Southeast Asia are dominated by Chinese merchants and Western multinationals. When Taiwanese firms first located in Southeast Asia, they naturally sought to work with local Chinese merchants, but the relationship did not develop smoothly because of the differences in business philosophy and commercial practices (Chen *et al.* 2000). There seems to be inherent distrust of Chinese merchants toward Taiwanese investors, who are perceived to be invading their turf. Chinese merchants rule the domestic markets in which they often possess monopoly power, whereas Taiwanese firms are used to service export markets in which competition is the norm. Since a mismatch is often found in terms of product quality and contracting practices, trading relations with local Chinese merchants are usually limited to products for which quality is not a major consideration. Where materials and components are essential to the quality of production, Taiwanese firms usually procure these either from multinational firms that produce locally or directly from the Taiwan networks.

Despite the problems with Chinese merchants, Taiwanese investors still benefit a great deal from the Chinese communities in the region. The benefits are derived from easy access to information flow and local talent. Access to information flow reduces the "foreignness" of Taiwanese investors and allows them to compete with local firms on a level playing field. Access to local talent, particularly skilled labor of Chinese ethnicity,

allows them to improve the efficiency in managing local labor, which gives Taiwanese firms a tremendous advantage over other multinational firms operating in the same area. There are many cases in which Taiwanese parts makers in Southeast Asia triumph over their peers from Japan and win supply contracts from Japanese assemblers who only source from non-*keiretsu* members in extraordinary circumstances. Access to information and local talent also explains why Taiwanese small investors are more prevalent in Southeast Asia than SMEs from other countries.

Replication of Taiwan's networks in Southeast Asia is not easy, however, although some suppliers have followed in the footsteps of the assemblers moving to the region to establish new network relationships. The number of these suppliers is limited, but when compared to the working relationship in Taiwan, the supplier relationship with Taiwanese subsidiaries in Southeast Asia is more stable because of the limited numbers. As a result of mutual dependency, there is more cooperation and less competition in overseas production networks than there is in Taiwan. In essence, co-relocation to the same host country strengthens the supplier relationships by eliminating the less committed actors in the network. Relocation also increases the bargaining power of parts suppliers. Relatively speaking, there are more assemblers and fewer parts producers in Southeast Asia compared to Taiwan, hence there are more opportunities for parts suppliers to establish local linkages than there are for assemblers. This enhances the bargaining position of parts suppliers as they develop new businesses outside the original supply-chain networks. Assemblers are therefore under pressure to provide a better offer in terms of the price or the stability of the order. They, of course, will fight back with their own efforts in making local linkages. In some cases, Taiwanese assemblers encourage their employees to establish new businesses and become a supplier for themselves, whereas in others, they sometimes create joint ventures with foreign suppliers of parts or materials to engage in local production in Southeast Asia. Such locally focused vertical integration enhances the competitiveness of foreign investors. It also reduces the dependency on the domestic network back home.

According to the Chen *et al.* (2000) survey on the network relationships sought by Taiwanese investors in Southeast Asia, local suppliers have become the dominant means for Taiwanese subsidiaries' supplier relationships. This implies that in Southeast Asia, getting connected to local networks takes precedence over bringing in new players from Taiwan to the local networks. In addition to seeking out new suppliers, Taiwanese investors also explore new buyers in overseas locations, and such development of a buyer relationship is particularly active among electronics parts makers. Because of proximity, many

electronics parts makers successfully break into the supply chain of multinational electronics firms making audio and video equipment and computers, and once connected to the multinational firms' local production in Southeast Asia, the relationship can be extended to their production networks in other parts of the world.

Networking in China

Although the networking strategy of Taiwanese firms in China is basically the same as that in Southeast Asia, there are some major differences. First, since FDI is a recent phenomenon in China, multinational firms are dispersed geographically and are mostly export-oriented. Supporting networks in China are primitive and Taiwanese firms' interactions with indigenous Chinese firms and local subsidiaries of multinational firms are rather limited.

Second, the Chinese government imposes a set of strict restrictions on local sales by multinational firms even if their products are eventually exported after processing. Multinational firms that are designated as exporters and afforded export incentives are required to report any domestic sales, while the recipients, in turn, are liable to severe tax burdens and penalties if such materials are not eventually exported after processing. The strict regulations and the associated "red tape" discourage export-designated multinationals from selling domestically. On the other hand, there are some 40,000 Taiwanese firms operating in China, mostly small and medium sized. Many of them are not obliged to export and can provide basic materials and parts for assembly operations. Compared to Taiwanese subsidiaries in Southeast Asia, those in China are more closely tied to the other Taiwanese subsidiaries, with fewer ties to local multinationals. Take, for example, Dongguan township of the Guangdong province where more than 3,000 Taiwanese subsidiaries are located, mainly in the electronics, footwear, and garment industries. According to some major electronics firms interviewed for this study, they were able to procure up to 90 percent of the materials and parts (in terms of the items purchased) from local suppliers, mostly Taiwanese subsidiaries (interview 8 April 2000). The transplantation of Taiwanese supplier networks to Dongguan was in fact almost complete, thanks to the short psychological distance that provides a cozy environment for small investors.

Taiwanese firms have established more extensive production networks in China than any other foreign multinationals. There was also an apparent pattern of suppliers following the assemblers to relocate in China. Unlike the networks in Southeast Asia where a mixture of Taiwanese subsidiaries, local Chinese merchants, and subsidiaries of other foreign multinationals interplay in the local networks, production

networks in China are almost distinctively Taiwanese. There is more duplication of Taiwan's networks than embeddedness in local networks, which were virtually non-existent before Taiwanese firms arrived.

Two reasons explain why Taiwanese investors in China choose to duplicate the supply-chain networks rather than immersing themselves into the local networks. One is the relative ease for small suppliers from Taiwan to invest in China owing to a short psychological distance, as previously mentioned; the other is the advantage of working together as a network as opposed to individual actions in the Chinese policy environment. A final assembler that exports its products can transfer its tax advantage, say, customs-duty exemption, to its upstream suppliers, which in turn, can also import raw materials free of duties. The ability to transfer this tax advantage affords the final assembler a better bargaining position against its suppliers. Dealing with fellow Taiwanese suppliers also allows the financial transactions to be settled outside the territory of China where foreign exchange is strictly controlled. There is also a disadvantage of dealing with local Chinese firms as they are backed by local authorities that can interpret laws and regulations in their favor, not to mention the differences in commercial and financial practices.

The role of China and Southeast Asia in Taiwan's globalization

Although China and Southeast Asia are similar in many respects, they nevertheless differ in certain important areas, making their roles in Taiwan's globalization process distinctive. In this section, we will compare the roles of these two regions from the perspective of investors, which will be classified into several types.

Export-oriented investors

In comparison to Southeast Asia, China has more abundant labor supply at lower cost, but China is inferior to Southeast Asia in terms of policy transparency and government efficiency, which when combined with its trade barriers, make the export business in China less competitive. Taiwanese firms interviewed for this study unanimously praised the quality of Chinese labor but were wary of the institutional weaknesses in China, particularly the taxation and customs procedures. For those who invested in both China and Southeast Asia, China was positioned as a manufacturing base for mass production, while Southeast Asia was selected as a base for more diverse products with smaller volume that required shorter response time. Their headquarters in Taiwan, meanwhile, serve as their base for research and development (R&D), sample production, new product trial runs, or rush orders. Under this

configuration, scale of production in China is usually larger than in Southeast Asia.

Between Southeast Asia and China, there is little difference in terms of quality, however. Some original equipment manufacturer (OEM) buyers also like to diversify their production bases by designating some products to be made in China and some in Southeast Asia. In fact, even within the same country, they often seek multiple sources of supply. Although China operations began with products transferred from Southeast Asia, the distinction disappears as the scale of production in China increases more rapidly and soon surpasses that of Southeast Asia. Only in a few cases did we observe a "flying geese" pattern of production shift from Southeast Asia to China. These were cases where the Southeast Asian subsidiaries had developed their own capabilities to introduce products that were distinctive from those of their headquarters, and this often happens when Southeast Asia is at a significant advantage of servicing certain important, local buyers, or when the subsidiary has acquired R&D capabilities to engage in product innovations.

In any event, large firms usually maintain production bases in both China and Southeast Asia for the purpose of risk diversification, where risk refers to production costs, exchange rate movements, political risks, and so on. Cost risk occurs when material costs change as a result of trade restrictions, foreign exchange rationing, or government-dictated pricing policy; exchange rate risk results from the fluctuations in the exchange rate; while political risk results from the precarious relationship between Taiwan and China. In fact, even OEM buyers encourage Taiwanese firms to diversify their investments from China or to invest in multiple locations in China given that policy regimes differ across Chinese provinces.

The need for risk diversification increases with the size of the investor, and with the number of buyers that the investor intends to serve. Risk diversification-motivated FDI takes place in countries that compete head-to-head with China. For example, Malaysia and Thailand are competing with China in the electronics industry; Thailand and Vietnam are competing with China in the textiles industry; Vietnam and Indonesia are competing with China in the footwear industry; and Vietnam is competing with China in the bicycle industry.

Local market-oriented investors

For products characterized by scale economies and significant transportation costs, proximity to the market is essential for competitiveness, but FDI in these product areas is often manipulated by government policies. Relevant firms may also invest to pre-empt their competitors from locating in the same region. Table 5.2 lists some

Table 5.2 Investment locations of local market-oriented investors

Firm	*Products*	*Investment locations*
Chunghwa Picture Tubes	Cathode ray tubes	Malaysia, China
Tungyuan	Cathode ray tubes	China
Tai-an	Motors, magnetic switches	Malaysia, Indonesia, China
China Motors	Commercial vehicles	China
President Foods	Instant noodles, animal feeds	China, Indonesia, Vietnam
Ching-feng	Motorcycles	Vietnam, China
Kwan-yang	Motorcycles	Indonesia, China
Tuntex	Textile fibers	Thailand
Hualon	Textile fibers	Malaysia
Far Eastern Textiles	Textile fibers	China

Source: Compiled by the authors.

investment cases that fall into this category. For example, FDI in Malaysia by Chunghwa Picture Tube, together with a major investment by Samsung of Korea, precluded any investment opportunities in Malaysia by competitors such as Tungyuan, forcing them to seek out China as an alternative location. Likewise, Tuntex's investment in Thailand, together with that of other Japanese producers of polyester materials, precluded investment by its competitors, such as Hualon, which in turn, invested in Malaysia. A relative latecomer to FDI, Far Eastern Textiles, then had to locate in China.

Small and medium investors

For small and medium investors, psychological distance dictates their location decisions. If there is more than one feasible location to choose from, they will usually select the one with the lowest labor cost. In any event, they are unable to maintain "multinational" operations, so their globalization pattern is normally "bi-national," consisting of Taiwan and one single overseas production site. They are intent on seeking inclusion in the local network, since they are unable to create a network of their own, and once they are established locally, they do not relocate easily because investment in local networks is already sunk. However, if they do not succeed in a foreign location within a fairly short time, they will quickly move to other locations.

There are some cases of SMEs relocating from Southeast Asia to China and vice versa. For those moving from Southeast Asia to China, wage increases or labor shortages have usually been the main driving force, whereas for those moving in the opposite direction, the major consideration has tended to be government policies such as taxation and

customs levies. As China attracts more and more foreign investment, big-time investors become the primary targets, so policy incentives are designed accordingly. Small investors start to find themselves being ignored, or even subject to discriminatory policies; clearly, China is no longer an FDI haven for small investors.

High-tech investors

High-tech firms, which have grown rapidly since the mid-1980s, were latecomers to Taiwan's FDI scene since they had been favored by Taiwan's domestic industrial policies. However, as the industry matures, firms begin to search for new competitive advantage in China, although their investment is not motivated by market defense, but rather by an aggressive action to break out of the doldrums of lock-horn competition. Most computer firms producing high-end products fall into this category.

China's large pool of labor, both skilled and unskilled, provides a good base for large-scale production, through which investors can pursue vertical integration into key components and parts, while also engaging in R&D projects that can only be justified by large-volume applications. In addition, they see a potential Chinese market waiting to be exploited. Some Taiwanese firms that serve as contract manufacturers for Western multinationals seek to establish their own brand names in China. For this type of investor, the locational choice is distinctly different from that of the export-oriented investors, which prefer the coastal areas with access to good exporting ports, such as Hong Kong. The high-tech firms choose the locations that can access China's young engineers, with the suburban areas of Shanghai, Tienjin, and Beijing, which host China's most prestigious universities, being the favorite places.

Conclusion

Networking is an essential component of the globalization process of Taiwanese firms that use their local networks as a springboard for overseas investments and strive to access resources in foreign networks to improve their competitive position. Although their major motivation for FDI is to utilize low-cost labor in the host country, labor cost is often inconsequential to their competitiveness once they have relocated abroad. Instead, it is the ability to rebuild an overseas network, or to become embedded in a local network, that determines the success of foreign investment. Successful networking not only preserves the export market position of the investor, but also improves its bargaining position in the industry.

In terms of the efficiency of labor, China is apparently superior to Southeast Asia; without language barriers, it is much easier for Taiwanese

firms to transfer technologies and to organize production in China. The incentive to work overtime is also stronger among Chinese workers, making the production scheduling more flexible in China. Abundant labor supply there also makes room for the expansion of the scale of production.

In terms of networking opportunities and networking costs, China is inferior to Southeast Asia in many respects, however. First, the lack of transparency in government policies and administrative procedures impedes networking in China; its exports and imports are often hampered by customs valuation procedures, duty assessment, examination and checking of documentation, and the like, with the delay in the customs-clearing process causing disruption to production schedules and postponement of delivery. The complicated customs duty rebate system and the irregularity in the assessment of value-added tax often perplex foreign firms operating in China, since the current tax system and the state monopoly over the distribution channels in China discriminate against foreign firms selling in the local market. All these institutional barriers make it difficult both to form local networks in China and to access Taiwan's networks from China. In comparison, institutional barriers in Malaysia and Thailand are lower, thanks to the long-term working relationships with Western multinationals. As a result of the institutional barriers in China, large Taiwanese firms usually maintain at least one manufacturing base outside of China.

Second, the language advantage of Chinese labor is neutralized when it comes to Western multinationals, which have invested heavily in Southeast Asia and will likely continue to do so in the future. The uninterrupted flow of capital from the US and Europe to Southeast Asia in the wake of the Asian financial crisis attests to this proposition. Since most Taiwanese investors are contract manufacturers for Western multinationals, Southeast Asia provides greater opportunities for networking with Western buyers and parts suppliers. These opportunities allow Taiwanese firms to accumulate location-specific resources and to build a capacity for product innovation, and these new resources and capacities enable the Taiwanese investors to extend new network linkages to other parts of the world.

Third, wage rates in the coastal areas of China have risen significantly in recent years, and in order to access lower-cost labor in China, investors need to move to inland locations which are remote from Taiwan. However, the inadequate infrastructures there make network support from Taiwan very difficult. In fact, even in the coastal areas, Taiwanese firms concentrate in only a few locations, including the Pearl River Delta, suburban Shanghai (mainly in Suzhou and Kunshan), and Shiamen. Within these areas, production networks consisting almost exclusively of Taiwanese subsidiaries support the local operations. Unless a new cluster

can be formed in the inland locations, transportation and administrative barriers will still hamper domestic trade in China.

Southeast Asia also differs from China in terms of the nature of local networks. Unlike the networks in China, which consist almost exclusively of Taiwanese subsidiaries, the networks in Southeast Asia are multilateral in nature, comprising indigenous firms, multinationals from other countries, and Taiwanese subsidiaries. The difference can be explained by psychological and historical factors. Indigenous Chinese firms either operate in segregated markets or lack the trust to build a working relationship with Taiwanese firms, but as China presents the shortest psychological distance to Taiwan's SMEs, small investors have set up a presence in China to form a foundation for local networks. Furthermore, the history of FDI in China is so short that foreign multinationals have not yet established a firm position there.

In addition to the differences in the composition of networks, Chinese production networks are also richer in the variety of components and parts, but poorer in the availability of key components and materials as compared to Southeast Asia. For example, key semiconductor components and petrochemical materials are in short supply within Chinese networks, while being abundant in Southeast Asia. On the other hand, China boasts the availability of a whole array of less valued components such as general-purpose electronics parts and plastic materials, thanks to the presence of numerous small Taiwanese investors.

In order to pursue backward integration, the future trade policy of China is likely to move toward protectionism despite its promise to open up the domestic markets following WTO accession. Small and export-oriented Taiwanese firms will find investment opportunities in China shrinking over time, while upstream producers will find China an increasingly attractive site for FDI. Southeast Asia, meanwhile, is likely to embrace freer trade policies in the face of Chinese competition, and small, export-oriented Taiwanese firms will find it increasingly attractive.

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6

INTERFIRM NETWORKING BY TAIWANESE ENTERPRISES IN MALAYSIA AND INDONESIA

*Chen Dung-Sheng, Jou Sue-Ching, and Hsin-Huang Michael Hsiao**

Introduction

In the early 1990s, Taiwanese businessmen increased their investments in Southeast Asia phenomenally and their production activities were subsequently moved abroad. These investments in this region have created a new pattern of division of production between Taiwan and countries in Southeast Asia. Foreign direct investments of this sort have also led to similar divisions of production between Taiwan and the United States as well as countries in Europe. Hence, the dynamics of intra-organizational production networks, as well as interfirm networks, across different countries have become important issues that require empirical – and theoretical – investigation. We have discussed elsewhere interfirm linkages between Taiwanese factories in Malaysia and their suppliers in Taiwan (see Chen and Ku 2000). In this chapter, we focus on different patterns of investment by Taiwanese firms in Malaysia and Indonesia and the dynamics of their interfirm networks in both countries. We will examine the importance of common ethnic identity in aiding the development of mutual help personal relationships that have apparently become the basis for the creation of production networks between Taiwanese investors and Chinese businessmen in Malaysia and Indonesia.

Most Taiwanese enterprises in Malaysia are located in the states of Penang and Selangor (see Table 6.1). While half of the Taiwanese enterprises in Penang are involved in the electronics sector, investment patterns by businessmen from Taiwan in Selangor are more varied, with an involvement in a number of industrial sectors. The number of Taiwanese enterprises located in the federal territory of Kuala Lumpur is relatively small, but some large electronics-based companies such as

Table 6.1 Distribution of Taiwanese enterprises in Malaysia

State	*Kedah*	*Kelantan*	*Kuala Lumpur*	*Johor*	*Melaka*	*Negeri Sembilan*	*Pahang*	*Perak*	*Perlis*	*Penang*	*Selangor*	*Teren-ganu*	*Sabah*	*Sarawak*	*Total*
Food manufacturing	–	–	–	–	–	–	1	1	–	–	–	–	–	–	2
Food, beverages, and tobacco	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Textiles and textile products	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Apparel	1	–	1	3	2	1	–	1	–	3	1	–	–	–	13
Leather and leather products	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Wood and wood products	2	–	1	3	14	2	1	–	–	–	11	–	26	–	70
Furniture and fixtures	1	–	–	1	1	–	–	5	–	1	2	–	–	–	11
Paper, printing and publishing	–	–	–	–	–	–	–	–	–	–	2	–	–	–	2
Chemicals and chemical products	–	–	4	2	–	–	–	1	–	1	11	–	4	–	23
Petroleum refineries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Rubber products	1	–	–	–	–	–	–	–	–	1	10	–	–	–	12
Plastic products	3	–	1	3	1	–	–	6	–	12	9	–	4	–	39
Non-metallic mineral products	1	–	–	2	1	–	–	2	–	1	1	–	2	–	10
Basic metal products	–	–	1	–	1	–	–	–	–	2	3	–	–	–	7
Fabricated metal products	10	–	–	7	7	1	1	4	–	17	9	–	4	–	39
Machinery manufacturing	–	–	2	–	4	–	–	2	–	–	4	–	–	–	12
Electrical and electronic products	14	–	3	4	2	–	–	13	–	50	16	–	–	–	102
Transport equipment	–	–	–	–	–	–	–	–	–	1	6	–	–	–	7
Optical and scientific instruments	1	–	1	–	1	–	–	2	–	1	3	–	–	–	9
Miscellaneous	2	–	1	2	2	–	–	3	–	1	3	–	–	1	15
Total	**36**	**–**	**15**	**27**	**36**	**4**	**3**	**40**	**–**	**91**	**91**	**–**	**46**	**1**	**390**

Source: Taipei Investors' Association in Malaysia *Membership Directory, 1998.*

Chunghwa Picture Tubes, Formosa Prosonic Technics, and ECMA Information Systems have established their factories there. Since our study on Malaysia focuses on firms involved in the electronics sector, we selected Penang and Selangor (including Kuala Lumpur) as the major research areas.

Taiwanese investments in Indonesia are concentrated in Jakarta, Bandung, and Surabaya (see Table 6.2). Large Taiwanese enterprises are primarily located in the Indonesian capital, Jakarta, and they are involved in various industries. Taiwanese textile factories, however, have mainly been established in Bandung, while shoe factories are concentrated in the Surabaya area. Due to a serious economic crisis in Indonesia in 2000, precipitated by the 1997 financial crisis, which badly affected companies involved in shoes-related industries, most owners of these Taiwanese enterprises in Surabaya declined our request for an interview. Our analysis of Taiwanese investment in Indonesia is thus restricted to companies operating out of Jakarta and Bandung.

This chapter is divided into four sections. In the first section, we review the literature on the characteristics and dynamics of business networks and develop the research question that is the concern of this study. In this chapter, we refer to business networks as basically production networks comprising a number of firms that are led by large companies to ensure efficient and flexible production. Most members within the production networks have maintained relatively long-term relationships with the lead company and they have usually engaged in information exchange, interdependent production collaboration, and other mutually beneficial activities. The second section outlines our research design and process of data collection. The third section, the major part of this chapter, provides an analysis of our data on the establishment and development of Taiwanese network organizations in Malaysia and Indonesia. In the conclusion, we discuss the implications of our research for the theoretical discussion on networks, ethnicity, and business development.

Literature review

Network organizations have been proposed as an efficient alternative to market and hierarchy for economic exchange, production, and technological innovation (Piore and Sabel 1984; Powell 1990; Axelsson and Easton 1992; Perrow 1992; Nohria and Eccles 1992; Grabher 1993; Powell and Smith-Doerr 1994; Ebers 1997; Parkhe 1997). In the study of network organizations, there are three major themes. First, a large volume of the literature focuses on the comparative advantages of

Table 6.2 Distribution of Taiwanese enterprises in Indonesia

	Jakarta	*Bandung*	*Surabaya*	*Total*
Footwear and plastics	14	6	26	46
Furniture, rattan and wood	26	7	17	50
Garments and textile	51	45	11	107
Paper and chemical	22	15	16	53
Food	11	2	4	17
Construction	12	2	3	17
Metal, hardware and machinery	31	13	32	76
Electrical and electronic products	14	0	4	18
Services industry	30	9	14	53
Finance	24	0	0	24
Miscellaneous	0	8	25	33
Total	**235**	**107**	**152**	**494**

Source: Indonesia Taiwan Business Club *CTCA Yearbook 1998*.

networks as opposed to market and hierarchy and outlines the particularities of the governance structures of different types of networks (Powell 1990; Uzzi 1996, 1997). Uzzi (1997) characterizes the network form as one based on embedded ties that forge a sense of mutual dependence among actors who subsequently develop norms such as reciprocity, tacit information exchange, and governance mechanisms of trust.

Second, some students of network organization investigate its structural determinants and institutional bases to establish this particular mode of economic transaction. The transformation from Fordism to post-Fordism, the rapid globalization of business, the variety of choices available to consumers, and intense international competition necessitate the implementation of flexible production processes accompanied by dramatic cost-cuts and quality improvement (Gereffi 1994). Moreover, different cultural patterns and social contexts might result in a varying degree of importance of network organizations. According to much of the literature on ethnic enterprise, particularism, nepotism, and familism still appear to be important cultural codes for Chinese entrepreneurs, which shape decision-making and form of business organization and corporate development. These codes are also apparently the basis for the emergence of collaborative production networks, especially among small and medium-sized enterprises (Hamilton and Kao 1990). In his study of "alliance capitalism," Gerlach (1992: 22) found that a series of policies implemented by the Japanese government to regulate the banking and securities activities, as well as the use of antitrust and corporate law, facilitated the formation and stability of networks by large enterprises.

The third important theme in the study of organizational networks is the structure of such ties. The focus of this approach is to describe the whole picture of a given network and to identify its structural characteristics, specifically its density and centrality.[1] Furthermore, actors occupying different positions in a network have a differing amount of social resources which can determine the way in which an organization establishes collaborative relationships.

In spite of the body of research on network organization, there has been little emphasis on the evolution of these networks over time. In their seminal review article, Powell and Smith-Doerr (1994: 392) point out that "even though the descriptive and formal literature on networks are replete with such terms as embeddedness, cohesion, and multiplex ties, little is actually known about network processes." Powell and Smith-Doerr (1994) argue that a study of network dynamics should make a contribution to our understanding of how different structural factors shape the setting up of a network, of how the interaction between actors influences network relationships, and of how the network is transformed or re-organized through different mechanisms. Powell and Smith-Doerr suggest that the best way to study network dynamics is to observe a given network from the time it was created, though they acknowledge that with limited research resources it might be difficult to identify an appropriate case and to observe its change over a very long period. Another possible, and suitable, way to study a network is to examine changes in an organizational network during a period of major transformation of economic, social, and political structures. Therefore, for this study, we have selected cases of Taiwanese enterprises in Malaysia and Indonesia and focused our analysis on the social bases and patterns of networks when they are formed, as well as the subsequent transformation of the ties that bind these networks. We argue here that significant structural changes within the Taiwanese economy forced many businessmen to venture abroad. Since the risks that came with the decision to invest in a foreign country were high, the need to seek cooperative and mutually beneficial business ties brought about the creation of new production networks or the transplantation of local networks to the host country. Structural factors within the host country have also shaped the way these networks have been created, developed, and, in many cases, reformed.

Most arguments about the formation of, and changes in, Chinese interfirm networks are found in the literature on *guanxi* (relationship) capitalism (see, for example, Redding 1990; Hamilton 1997; Yeung 1997). Taiwan is most commonly cited as one country where typical cases of *guanxi* capitalism are to be found. According to this literature, the basic structure of networks among Taiwanese enterprises is essentially one based on family ties; these families then extend their connections through non-family personal relationships (Hamilton 1997: 271–3). The

issue of trust in personal relationships is an important factor among members belonging to a particular production network. Uzzi (1997) contends that personal trust is a substitute for formal contracts and helps decrease the cost of transactions and increases the flexibility of the network. Personal connections also provide valuable information and knowledge, which can help members of the network enhance technology skills, develop marketing techniques, and inform decision-making on investment patterns. According to these analysts, the apparently legendary efficiency and flexibility of Taiwanese production networks are due to personal relationships among Taiwanese entrepreneurs.

Since family ties and personal relationships form the basis of interfirm linkages, the transplantation of Taiwanese production networks to overseas manufacturing sites naturally depends on the expansion of personal networks. Taiwanese enterprises tend to ask their long-term domestic collaborators to move with them when investing abroad. Consequently, foreign investments by Taiwanese business display a pattern of clustered movement.

According to this literature, since these firms from Taiwan need to develop collaborative relationships with business organizations and governments in the host country, Taiwanese businessmen will exploit their common ethnic identity with "overseas Chinese" to establish these ties. Moreover, since there already exist strong personal networks among ethnic Chinese businessmen all over the world, these ties provide the social infrastructure Taiwanese businessmen need to create personal relationships abroad. These personal relationships are the foundation on which trust-based ties are built, and help Taiwanese investors secure useful information and create connections with local politicians. These intra-ethnic ties help Taiwanese investors reduce investment risks as well as ensure the successful establishment of interfirm networks. It seems that these resourceful business networks aid the mobility of overseas investments as well as transform the structure of interfirm networks, making them more viable for the development of mutually beneficial business ventures. Yeung (1997), for example, in his study of Hong Kong firms operating in Southeast Asia, argues that business connections and personal relationships are necessary mechanisms for transnational business ventures.

There are serious limitations in applying the *guanxi*-oriented approach in an analysis of the formation and dynamics of Taiwanese interfirm networks in Southeast Asia. First, this approach neglects the issue of the huge costs involved in searching out trustworthy business partners and maintaining personal relations. In addition, the point about opportunism that prevails in personal networks is not addressed. Other more efficient means of doing business, such as the signing of formal contracts and the establishment of joint-ventures, as a means to create new organizational

linkages is not factored into the analysis. These methods might even be a more efficient form than personal networks to develop a business venture. The fact is that for an economic organization the maximization of profits is its priority, and this objective necessitates the choosing of the most efficient ways to establish interfirm networks. Undoubtedly, common cultural norms and practices in the host country tend to influence decision-making by Taiwanese investors in Southeast Asia as Kung (2001) has noted, but such factors are one of many that are taken into consideration before a final decision is made about an investment.

Second, personal networks, especially strong ones, tend to impede the expansion of an interfirm network. Close personal ties will eventually lead to overlapping information and may hinder the input of important messages from outside (Granovetter 1973; Burt 1992). A firm that relies extensively on strong personal relations has few channels to obtain useful information about new customers, new suppliers, new technology, or new economic regulations which are important for ensuring the survival and growth of the firm. This problem of over-embeddedness needs to be overcome by those firms that depend heavily on personal networks to create and maintain their enterprise.

Outward movement of Taiwanese enterprises and their collaborative ventures abroad naturally contributes to significant changes in their social relationships, institutional supports, and economic structures. Therefore, in this study, we investigate the extent to which Taiwanese firms rely on personal relationships to create interfirm networks. We examine also the degree to which their dependence on personal relationships is affected by industrial and organizational factors, and whether the choice of Chinese firms as collaborative partners in the host country is influenced by their common ethnicity.

Research method and data collection

During the three years when this research project on transnational production networks and the co-ethnic business relationships of Taiwanese enterprises in Southeast Asia was undertaken, the major method adopted for data collection was in-depth interviews, supplemented with secondary information from various sources. Before we interviewed high-ranking managers of Taiwanese enterprises, we systematically analyzed the background of these companies, including their organizational structure, production methods, and foreign investment strategies, including a historical study of their foreign investment patterns. This information was obtained from company reports as well as secondary sources, including newspaper reports. In

order to secure detailed information about the transnational activities of these companies, the selected interviewees were senior managerial staff who had the experience of being responsible for foreign investments or had been in charge of the operations of subsidiaries based abroad.

For those companies that kept their headquarters in Taiwan, we conducted interviews both in Taiwan and in the host countries, to crosscheck the information provided by the two different sources. The information on these companies' transnational strategies and intra-firm coordination arrangements was usually obtained from interviews conducted at their headquarters. The information on how these companies developed their factories and enterprise abroad was obtained from interviews with their executives based in Malaysia and Indonesia.

In 1999, according to the membership directory of the Taipei Investors Association in Malaysia (TIAM), 428 Taiwanese companies were operating in that country. The Indonesia Taiwan Business Club *Yearbook 1998* had a list of 494 Taiwanese companies. During our six-week field trip to Southeast Asia, we also interviewed government officials in the host country responsible for promoting and monitoring the activities of foreign investors. In Malaysia, we interviewed senior executives of 39 Taiwanese companies as well as representatives of the Malaysian Industrial Development Authorities (MIDA). In Indonesia, we interviewed managers from 36 Taiwanese firms.

The most fundamental requirement of network research is to have complete information about the participants in a network, but this criterion is very difficult to fulfill. In our study, we have selected different types of Taiwanese firms, and collected data on both the focal companies in the network and their collaborative suppliers. However, because of limited research resources, we were not able to interview all the executives and owners of companies in the production network we felt we needed to meet. Moreover, some focal companies were reluctant to provide a complete list of their suppliers for business reasons. To overcome this problem, we have systematically collected secondary data to secure the information we required.

Pattern of Taiwanese organizational networks in Malaysia and Indonesia

Networks in Penang and Kuala Lumpur

Our research indicates that the basic pattern of the Taiwanese industrial networks in Malaysia is as outlined in Figure 6.1.[2] In the analysis of the establishment and dynamics of the Taiwanese production networks in Malaysia, we were able to determine that at the beginning stage of the move abroad, large Taiwanese firms would provide their suppliers, who

accompanied them, with useful information and some help, but gave the latter no procurement guarantee. To protect their own interests, large Taiwanese firms would not share in any of the risks undertaken by their suppliers, even if the latter invested abroad on the encouragement of the former. Furthermore, these large firms would immediately ask their suppliers to pare down the price of their products and expected them to fulfill very tough requirements in terms of flexibility, i.e., the ability to change production processes rapidly to meet varying specification orders.

Our research also revealed that after having established their enterprises in the host country over a period of time, both large Taiwanese firms and their suppliers changed their pattern of interfirm linkages. Large firms began to incorporate into their production networks other Taiwanese suppliers with which they had no past ties, as well as local suppliers. Meanwhile, small or medium-sized suppliers

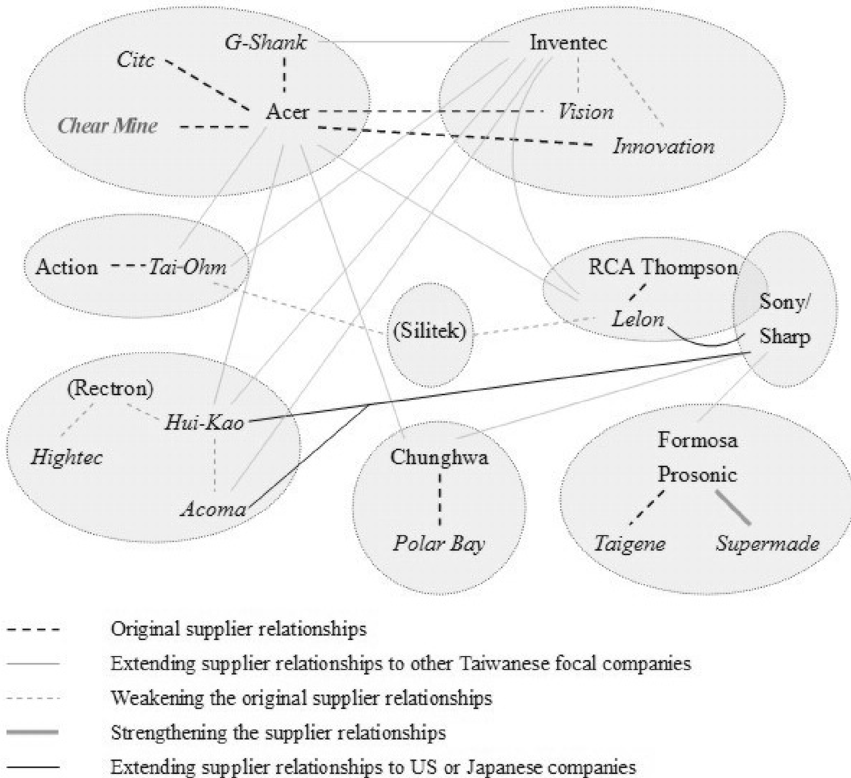


Figure 6.1 Selective inter-organizational networks of Taiwanese companies in Kuala Lumpur and Penang, Malaysia

would search out new long-term customers, including Japanese, Korean, or European firms operating in Malaysia. The different trajectories in the expansion of the interfirm networks by these two types of Taiwanese companies had essentially the aim of ensuring economic growth in the host country. Finally, large Taiwanese firms usually identified other Taiwanese or Malaysian Chinese suppliers when trying to develop their production networks. The criteria imposed by large Taiwanese firms when choosing their suppliers were based on competitive capabilities, that is the capacity to be flexible in production, to produce high-quality products, and to price these products at an affordable rate. Although common ethnic identity might have helped these Taiwanese or Malaysian Chinese suppliers become new subcontracting sources for large firms from Taiwan, this criterion was only important if these suppliers were able to fulfill tough efficiency and flexibility requirements.

According to Figure 6.1, most production networks are located in the Penang area, though Chunghwa and Formosa Prosonic are based in Kuala Lumpur. Both large Taiwanese companies (Inventec, Acer, etc.) and Japanese companies (Sony, Sharp, etc.) occupy the central positions in these networks. In addition, Figure 6.1 indicates the diverse number of small and medium-sized suppliers that large-scale companies have in their production network.

If we focus on collaborative networks of the Taiwanese large enterprises, we will note that the two major companies in Penang, Inventec and Acer, have shared five medium-size suppliers, Vision, Lelon, Tai-Ohm, Chear Mine, and G-Shank.[3] These second-tier companies have their own downstream suppliers, most of which are Taiwanese companies based in Malaysia. According to Table 6.3, the proportion of components and parts supplied by companies in the host countries to Taiwanese factories based in Malaysia is 66 percent. The three sources of supply parts and components to these Taiwanese factories are Taiwanese firms in Malaysia, other foreign companies, and domestic non-Taiwanese factories. Taiwanese firms based in Malaysia that supply parts and components to the other Taiwanese factories account for 25 percent, while local non-Taiwanese factories provide 35 percent of the input. These figures suggest that some firms based in Malaysia that are not shown in Figure 6.1 are included in the production networks, and they are mostly Malaysian Chinese companies.[4] These firms provide parts or materials that are not crucial for production. Therefore, they have a relatively peripheral status in the networks. The major reason for this arrangement is the lower flexibility and technological capabilities of non-Taiwanese companies compared to Taiwanese firms in Malaysia.[5]

Our figures indicate, for example, that Inventec's production network included seven companies.[6] Inventec had originally transplanted some of

Table 6.3 Sources of components and parts for Taiwanese factories based in Southeast Asia and China (%)

Year	*Area*	*Singapore*	*Malaysia*	*Indonesia*	*Thailand*	*Vietnam*	*The Philippines*	*China*
1996	Taiwan	40	38.46	47.59	41.13	73.64	64.58	53.04
	LTE*	0	22.69	10.45	12.42	11.36	2.37	18.56
	LNTE**	32	33.29	27.50	31.00	10.77	19.11	20.53
	Others	28	5.57	14.09	15.45	4.23	13.95	7.86
1997	Taiwan	40	34.03	47.17	39.08	70.60	61.84	47.99
	LTE*	0	25.11	9.78	12.63	11.40	3.16	22.06
	LNTE**	32	35.14	28.04	28.70	14.08	21.58	21.99
	Others	28	5.71	15.00	19.60	3.92	13.42	7.97

Notes: * Local Taiwanese enterprises;
** Local non-Taiwanese enterprises.

Source: Ministry of Economics, ROC 1997. *The Annual Report of Taiwanese Manufacturing Industries' Foreign Direct Investment Survey*.

its production networks from Taiwan to Malaysia, when it brought more than 40 suppliers with it when investing in Penang. Inventec held a majority interest in one of these seven firms, Innovation, when it first moved to Penang, but gradually decreased its shareholding to 5 percent.[7] Innovation is a long-term supplier to Inventec in Taiwan and its foreign investment was implemented in coordination with Inventec. The large Taiwanese enterprises were not, however, able to procure the required parts solely from their original partner. They needed a second or even a third source for parts supply.[8] Consequently, they had to increase the number of their local suppliers, and other Taiwanese firms were usually their first choice due to their high quality of production and efficiency in management. Acoma, which followed Rectron to Malaysia, was incorporated into Inventec's suppliers list. Tai-Ohm (with Action) and G-Shank (with Acer) have followed the same pattern, to be included in Inventec's network. Taiwanese suppliers that have moved abroad have emerged as very important suppliers to a number of large companies, expanding their own production network in the process.

In the case of Acer's production network, we observe a similar development pattern to that of Inventec's suppliers. Acer also had some original suppliers move with it to Malaysia. After Acer notified all of its suppliers in Taiwan about its plan to invest in Malaysia, Chear Mine decided to follow in Acer's footsteps. In order to reduce the risks that came with this investment, five of Acer's suppliers acquired an equal stake in Chear Mine;[9] this emerged as a strategy adopted by a number of first-time overseas investors. At this stage of Acer's network expansion when

venturing abroad, the company also included medium-sized companies that originally came with other large enterprises, such as Hui-Kao, Vision, Tai-Ohm, and Lelon, as its suppliers.

In the Kuala Lumpur area, the network of Formosa Prosonic includes both its original suppliers from Taiwan (i.e., Taigene and Supermade), while another Taiwanese supplier was subsequently incorporated into the production web.[10] Formosa Prosonic eventually bought a majority interest in Supermade, making the latter its subsidiary. Since Supermade did not have sufficient investment capital to replace its old production equipment and since the size of the market it had captured was rather small, it asked for financial help and enormous subcontracting support from the lead company of the production network, Formosa Prosonic.[11] This takeover was basically a friendly one, but the nature of the relationship between the buyer and the supplier had been changed fundamentally, from a relatively symmetrical one to a hierarchical one. Within the production network, there were now common shareholding patterns. In a number of other cases, small-scale suppliers are bought over by large enterprises for different reasons. In this particular case involving Supermade, the buyer responded to the request from the supplier to take up a majority shareholding to ensure the stable supply of its key components and probably to expand its business.

The other important case in the Kuala Lumpur area is the collaborative production network of Chunghwa Picture Tubes. In 1989, Chunghwa made its move to Malaysia, and by 1992 it was producing manufactured products. After one year, five of its original suppliers in Taiwan also made investments in Malaysia and began providing components to Chunghwa in Kuala Lumpur Shah Alam.[12] The case of Chunghwa is similar to that of other large Taiwanese enterprises in the Penang area.

The large Taiwanese companies in Malaysia had compelled some long-term suppliers to move abroad, but they did not give their suppliers any procurement guarantees.[13] These suppliers that have accompanied the large companies have only received some help in terms of information on investment opportunities, land purchase or rental, as well as avenues to secure contact with local governments and banks. Since most large Taiwanese firms were seldom able to meet the enlarging production capacities of their suppliers or were reluctant to secure their orders from only one supplier, these small or medium-sized Taiwanese factories tended to look for new upstream customers after they had achieved relatively stable sales.[14] For example, Hui-Kao began to contact Japanese companies in Malaysia and successfully became a Sony supplier.[15] The need to enlarge their customer base became a feature common among Taiwanese suppliers.

For the large companies, they usually required some heavy large components, such as plastic cases of monitors and packing materials, which had to be purchased locally. These low unit-price and peripheral parts were partly supplied by Malaysian companies, usually, though not necessarily always, firms owned by Malaysian Chinese. Most Taiwanese suppliers in Malaysia have tended to concentrate on the production of high-profit key components, while the few Taiwanese factories that have invested in plastics production or other low-end parts have eventually closed down their business.[16] As a result, Malaysian companies became major suppliers of these parts and they had the advantage of achieving economies of scale. However, the executives of large companies claim that Malaysian companies have been able to offer competitive prices and good-quality products but, compared to Taiwanese suppliers in Malaysia, possess limited production flexibility when required to respond swiftly to changing market demands.[17] The nature of production networks was shaped by the capacity of a firm to produce the parts required by the large Taiwanese firms, which formed the core of each production network.

The production networks of the Taiwanese enterprises in Malaysia were seldom complete. In most cases, crucial parts, components or materials had to be imported from Taiwan or other advanced economies.[18] In other words, the total transplantation of production networks from Taiwan into Malaysia by Taiwanese enterprises has been impossible to achieve. This issue has emerged as a major limitation of the transplantation of production networks abroad.

The evidence procured from our study indicates that the structure of the Taiwanese interfirm networks in Malaysia encompasses a core, occupied by a large company, with a variety of suppliers, on the periphery, comprising Taiwanese firms in Malaysia as well as other local foreign companies. Although these networks contain both domestic and foreign production firms, they have not been able to create advantages for Malaysian companies, in terms of upgrading their production capabilities or encouraging crucial technology transfer, by tapping into their local and global ties, as suggested by Chen (2000). For Malaysian companies, these interfirm networks did bring about awareness about technology development and helped improve industrial restructuring initiatives in the country (Ariff and Ng 1998: 156). Moreover, Malaysian firms benefitted from information about marketing and organizational practices. The limited transfer of technology, however, a key goal of the Malaysian government, has hindered the development of domestic entrepreneurship that could have enhanced the quality of industrial change in Malaysia and improved the quality of goods produced through these production networks created by Taiwanese companies. The limited amount of technology transfer also reflected the nature of the

relationship between Taiwanese investors and ethnic Chinese businessmen in Malaysia, in that it was not as mutually supportive as suggested in much of the literature on Chinese business in global perspective.

The case of Inventec, Acer, and Action[19] suggests that the path taken by Taiwanese production networks abroad can be seen as a business strategy adopted by some large firms. These firms, in collaboration with a number of small and medium-sized enterprises, grouped themselves in a particular location and established new production networks because it was mutually beneficial. These mutually beneficial ties are, however, only important when these production networks are first transplanted abroad, and are usually not sustained in the long term. As these large firms, as well as the small and medium-sized companies, become more accustomed to operating in the host country, they establish new business ties with enterprises outside this original network. New production networks are soon created, comprising firms from both the home and host countries, and the basis on which these ties are established is based solely on how they can contribute to enhancing profits and quality of the goods produced. In view of the relatively low level of technological competence of Malaysian companies, most of the domestic firms play only a peripheral role in the production network, usually being involved in the supply of non-core products. Put differently, the business ties that are established – that is, those firms that become a part of the production network – are based primarily on economic factors, not factors pertaining to common ethnic identity.

Taiwanese inter-organizational networks in Jakarta

According to Table 6.2, which provides a breakdown of the distribution of Taiwanese firms operating in Indonesia, almost half of these companies are located in Jakarta, followed by Surabaya and Bandung. These Taiwanese enterprises are involved in a diverse range of activities, though most companies are involved in the textile sector. In Jakarta, the range of size of these firms, in terms of number of employees, varies significantly, from a hundred to a couple of hundred thousand employees. Taiwanese companies trading on the Taiwanese stock exchange have established subsidiaries or have participated in ventures in the Indonesian capital. Our analysis here focuses on the production networks established by large Taiwanese companies.[20]

The pattern of network-building by these companies in Jakarta is similar to that of the large Taiwanese firms operating in Malaysia. These companies brought with them from Taiwan some of their long-term suppliers, but these suppliers had to shoulder the risk of their investment in Indonesia by themselves. These suppliers also had to ensure that they

continued to offer a competitive price for their products, produced high-quality goods, and demonstrated flexibility in production. Within a very short time of their original investment, the large companies began to diversify their subcontracting sources, while the small and medium-sized suppliers began to look enthusiastically for new upstream long-term customers, especially among other foreign companies in Indonesia. It was obvious that it was in the interests of both the large firms and their suppliers to enlarge their clientele and participate in different production networks. While these networks have become very heterogeneous in terms of the nationality of their business partners, this change was not brought about by personal relationships established by Taiwanese investors with Indonesian Chinese. Some Indonesian Chinese companies have become suppliers to Taiwanese investors, but the adoption of the former as a supplier was dependent solely on whether they could offer a competitive price and high-quality products.

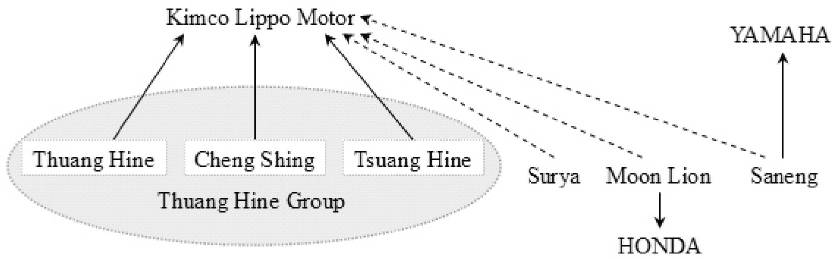
During our field study in the Jakarta area, we concentrated our interviews on the executives of large companies, especially those with equity traded on the Taiwanese stock market, and their collaborative producers. Among these companies were Teco Elektro, Kimco Lippo Motor, and Nikomas Gemilang, which were selected for an in-depth analysis of their inter-organizational networks. Teco Elektro is a leading air-conditioner maker, Kimco Lippo Motor is a motorcycle manufacturer, while Nikomas Gemilang is a sport shoes – ODM (original design manufacturing) – producer. As these three large enterprises found that there were few qualified parts suppliers with high flexibility in Indonesia, they had to bring with them from Taiwan their own subcontractors, which were part of their production network.[21] Although these three enterprises gradually began to increase their procurements from suppliers in Indonesia, their most important component suppliers were still their own Taiwanese subcontractors. This pattern of business development by these three companies was similar to the case of their counterparts in Malaysia.

In 1995, Teco began to survey the home electronics market in Southeast Asia and decided to set up a branch in Indonesia because of the relatively large size of the domestic market there; Indonesia's population in the mid-1990s was about 200 million. Having made this decision, Teco held a meeting with its long-term suppliers[22] in Taiwan in order to get them to invest in Indonesia, specifically to establish a high-quality and a highly flexible supply chain network. After much persuasion, four of Teco's subcontractors, which specialized in plastic ejection, piping, pounding, and electric control plate, established factories in Indonesia in 1996. These four factories supply about 75 percent of the parts required by Teco Elektro Indonesia.[23]

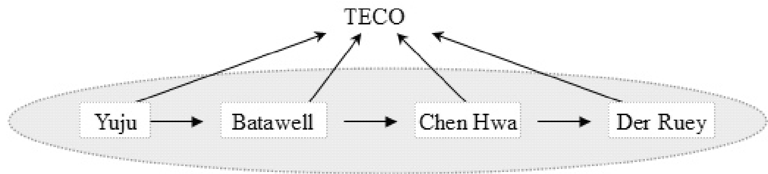
Following the successful transplantation of Teco's network to Indonesia, the mode of collaborative production between Teco and its subcontractors was re-engineered, from a one-to-one relationship to a chain-like process knitting together Teco and all its suppliers. This was because the re-location of these four companies in a foreign setting necessitated greater business cooperation between all these Taiwanese investors.[24] The plastic ejection factory, Yuju, sent its parts to the piping factory, Batawell, which then forwarded the reconstituted goods to the pounding factory, Chen Hwa, which transferred the made-over products to Der Ruey, the electronic control panel factory, which delivered the assembled parts to Teco (see Figure 6.2). This inter-organizational coordination saved Teco a lot of time and resources because, by following a sequential production process, the company did not waste time dealing separately with each of these subcontractors. Eventually, this practice resulted in great flexibility of the production output within this network and created a unique pattern of network coordination.

Teco did not provide order guarantees to any of its suppliers that followed it to Indonesia, but the company did offer them priority status for procurement of parts as well as some help in investing abroad, such as information on legal issues, land purchase, and so on.[25] Teco did, however, ask its subcontractors to cost down by 10 percent the price of the parts supplied in the first year and then reduce the price by 5 percent afterwards.[26] There were, undoubtedly, risks involved for the subcontractors by venturing abroad with Teco. The annual product cycle of the industry they were in was such that there were periods when there would be no demand for the work or products offered by Teco. Since the subcontractors knew that they would not receive any help from Teco during the off-season, it was necessary for them to find new customers in order to sustain their production capacities profitably.[27] The major reasons why the subcontractors were willing to take the risk of making this investment in Indonesia were limited growth opportunities in Taiwan because of massive foreign investments by large companies, increased cost of labor and industrial land which progressively reduced these subcontractors' competitive advantages, and the development of new business opportunities in markets abroad.

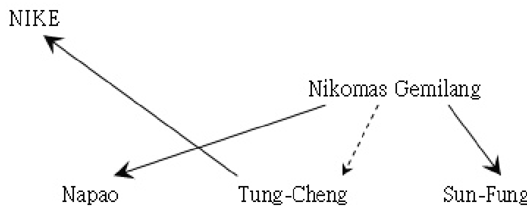
As in the case of Teco, when Kimco Lippo Motor decided to reproduce its Taiwan-based production network in Indonesia, it convinced 16 of its long-term suppliers to move overseas in 1996. The reproduction process was, however, seriously hampered by the 1997 Asian financial crisis, and most of Kimco's subcontractors withdrew their investments because of their growing concern over Indonesia's economic and political situation. Subsequently, only three companies belonging to the Thuang Hine Group, which were part of Kimco's production network, managed to successfully consolidate their operations with that of Kimco in



- The circle indicates that these companies belong to the same business group.
- ——→ : Original suppliers' relationships occurring in Taiwan.
- ----→ : Suppliers' relationships established in Indonesia.



- The circle indicates that these companies function as chain-like collaborative suppliers.
- ——→ : Original suppliers' relationships occurring in Taiwan.



- ——→ : Original suppliers' relationships occurring in Taiwan.
- ----→ : Suppliers' relationships established in Indonesia required by NIKE.

Figure 6.2 Selective inter-organizational networks of Taiwanese companies in Jakarta

Indonesia.[28] Since it was necessary for Kimco to secure some crucial parts which were not produced by the suppliers that had accompanied it to Indonesia, Kimco began to incorporate into its production network Taiwanese firms that were already operating in the country, for instance, Surya Shuenn Yueh, Saneng, and Moon Lion.[29]

The Thuang Hine group was able to expand its business in Indonesia partly because it could fall back on the abundant experiences it had

gained from its previous investments abroad; this group was also financially quite strong. Moreover, the Thuang Hine group's other foreign direct investments were still fairly active and the company considered market expansion into Indonesia a major goal. Although the Thuang Hine group had priority status with Kimco for procurement orders, it had in mind a well-organized plan of its own for market expansion in Indonesia when it agreed to Kimco's suggestion to invest in this country.[30] The Thuang Hine group had undertaken foreign investments in Thailand, South Africa, and China, before it decided to invest in Indonesia.[31] The case of the Thuang Hine group is, however, an exception to the rule, as very few medium-sized suppliers have investments in such a number of countries.

The biggest sport shoes ODM company in the world, Nikomas, which has 15 percent of the global market share, has investments in various countries, including Mexico, China, Vietnam, and Indonesia.[32] Nikomas' customary business strategy is one of vertical integration, in which it either has parts produced inside its own factory or it implements a joint-venture with skilled former suppliers in which it holds the majority share.[33] Nikomas has adopted this business strategy for two reasons. First, because of the low profit-margin in sport shoes ODM, Nikomas can keep profits within the group by integrating different production processes under the control of the holding company. When the scale of ODM orders is huge, this increases appreciably the total profit-margin registered by the group. Second, production processes of sport shoes are different from those of electronic products, in that they are not closely standardized and are subject to frequent change of style. The content of each ODM shoe order would also normally include orders for various sizes and styles, while on-time delivery of an order is imperative.[34] These issues make the internal monitoring and control of production crucial, to ensure efficiency and high-quality output. In other words, proper coordination of production networks is important. Nikomas' business strategy indicates that even though coordinated production networks help keep costs down for the parties involved, to maximize profits and ensure quality control, vertical integration is ultimately a cheaper and more efficient method of production. In Malaysia, we also found some evidence of large firms buying over their small and medium-sized subcontractors.

In the case of Nikomas' shoe production business, vertical integration is also a viable form of corporate expansion because, through takeover of its suppliers, the company gets to consolidate knowledge of production techniques in various stages of the production process. This knowledge, enhanced through research and development, allows Nikomas to generate much more innovative ideas, in terms of fashioning new designs

and finding means to cut cost of production and improve the quality of its products.[35]

Nikomas had, in fact, begun to adopt its vertical integration developmental plan in Taiwan, and it has, to some degree, implemented this strategy in all of the countries where it has set up production plants. In Jakarta, Nikomas constructed a large industrial park for in-house production, as well as for its joint-venture suppliers. There are, however, in Nikomas' supply chain a small number of suppliers that have some autonomy, in that they are not overly dependent on the lead company for their business. Tung-cheng, a Korean supplier of glue to Nikomas, has maintained production of high-quality products and has led research and development in industrial glues. This Korean company does not normally contact Nikomas for glue procurement, preferring to talk to Nikomas' main buyer, Nike. By dealing with Nike, Tung-cheng also gains access to the other factories that produce shoes for Nike.[36] The Nike–Tung-cheng link indicates that the ultimate buyer (in this case, Nike) has enormous power in terms of controlling collaborative production networks that have been established by some of its suppliers. Gereffi (1994) has characterized this feature, of the power situated in the hands of enterprises producing world-renowned brand products, as buyer-driven commodity chains.

Compared to Teco and Kimco, Nikomas has adopted a very different business strategy in its overseas operations, in terms of production style. In Indonesia, Nikomas has most of the production processes completed in-house, rather than depending on reproducing and sustaining collaborative production networks. When parts suppliers cannot be integrated immediately into the group, Nikomas tends to create joint-ventures, with the majority interests in this new firm held by them.

Taiwanese companies will choose some Indonesian Chinese firms or Indonesian enterprises as their local suppliers in order to reduce production costs and to enhance flexibility in response to market fluctuation. Since few Indonesian companies are involved in the manufacturing of key component parts required by Taiwanese investors, local firms tend to serve mainly as suppliers of low price or heavy items, such as paper cartons, large plastic cases, and the like. The different positions occupied by Taiwanese and Indonesian Chinese suppliers in production networks are mainly determined by their level of specialization in the production of goods required by the lead companies. According to some of our Taiwanese interviewees, since Indonesian Chinese companies and ethnic Indonesian firms adopt different styles in running their business, especially in terms of their ability to adjust quickly to market demand,[37] Taiwanese firms tend to view these local companies as low priority suppliers.

Taiwanese inter-organizational networks in Bandung

Most Taiwanese firms operating in Bandung are small or medium-sized enterprises and they have displayed a different pattern of network construction and transformation compared to the large Taiwanese firms in Jakarta and Malaysia. The characteristics of the inter-organizational networks of Taiwanese firms in Bandung are very similar to the networks of small and medium-sized companies in Taiwan. First, interfirm links are essentially personal relationships among the company owners and personal trust between these businessmen is the major mechanism of coordination. Intensive social interaction among members of relatively tight personal networks sustains information exchanges, flexible adjustment of output, quality control, and other necessary supports. Second, the process of establishing interfirm relationships is to some extent based upon the need to link up with former employees who have created new spin-offs. Usually, these new company owners continue to maintain both business and personal relationships with their former employers. Most start-up factories become subcontractors of their parent companies. Third, social and business relationships have ceaselessly reinforced each other. It has been observed that the business partners are also the cadre members of the Indonesia Taiwan Business Club, Bandung branch (ITBCB). The interfirm networks in Bandung have, however, shown a particularity not found in the networks of large companies. Most interfirm relationships had been established in Indonesia, and the Taiwanese investors rarely brought their production partners with them from Taiwan. Finally, since Indonesian Chinese companies have had a long history in the textile industry and controlled the sales channel of final products as well as access to upstream materials such as polyester, Taiwanese small or medium-sized factories have had to establish long-term collaborative relationships with these local firms.

Bandung had long since become a major location in Indonesia for the development of the textile industry because of its climate and the availability of high-quality water, suitable for dyeing and spinning.[38] In addition, there is an adequate supply of skilled staff. There are a number of factories involved in the production of yarn and other related goods in Bandung, which makes it easier for Taiwanese firms to meet orders that involve different production methods.[39] These factors were crucial in terms of attracting investments by Taiwanese textile operators and aided the formation of new production networks.

Figure 6.2 indicates that Taiwanese textile factories have connected themselves in a dense collaborative production network, which suggests an obvious pattern of vertical disintegration. Most Taiwanese textile factories concentrate on upstream production processes, such as spinning and dyeing, while they seldom engage in downstream clothes-

making or production of raw materials such as cotton and yarn. The major reasons for this type of division of labor are that the textile export market is mainly controlled by Indonesian Chinese and that capital investment in raw-material processing is huge.[40] In one production network, the Taiwanese firm How Are You has capacities in spinning, clothes-making, and garment finishing, while it distributes its subcontract orders to nine other Taiwanese companies.[41] As the lead company in the network, How Are You coordinates the operation of the whole network.

Since the Taiwanese textile factories in Bandung are either small or medium-sized enterprises, it is very difficult for these firms to transplant their production networks from Taiwan, though this is also probably not necessary. Taiwanese investors in Indonesia have developed their factories using two different methods. The first trajectory is the one where technicians or skillful workers leave to set up their own enterprises. Some Taiwanese engineers who used to be employed by Indonesian Chinese textile factories, especially those owned by the Song family, have gone on to build their own factories. Kampung Harapan Plastic and Jenshiang, whose founders, Mr Lin and Mr Lee, had worked for the Song family, are spin-offs from enterprises owned by this family.[42] The focal factory in the Taiwanese production network, How Are You, is another training ground for future entrepreneurs. For example, the owner of Jayaindo, Mr Wu, used to be employed as production manager at How Are You before he established his own knitting factory after raising enough capital.[43] Finally, the owner of Central Mulia Cita Nitindo, Mr Su, had worked for several local Taiwanese dyeing factories (MeWah and then Indo Buana Makmur) before he established his own factory.[44]

The second business development track is to exploit personal relationships with the owners of the major textile factories in Bandung to identify market niches and to secure subcontract orders. The owner of How Are You, Mr Liu, has played a crucial role in introducing other Taiwanese businessmen to investment opportunities in Bandung. Our research revealed that the investments of Les Enphants Indonesia and other knitting factories had been made with the help of Mr Liu.[45] How Are You had been an original equipment manufacturer (OEM) supplier to Les Enphants in Taiwan, and Mr Liu provided investment information on Indonesia to Les Enphants as well as urging it to establish a ready-made clothes factory. In the early 1990s, after the decision to invest had been made, Mr Liu became the land broker for Les Enphants. In 1992, the supplier–customer chain that had been established between Les Enphants and How Are You was successfully re-constructed in Indonesia.[46]

Our study of the operations of these four dyeing factories revealed, significantly, that they subcontracted work to each other when

appropriate.[47] In other words, they served as customers to each other (see Figure 6.3). In addition, the working relationship of these four factories had been further consolidated given the mobility of their technical staff. For example, Mr Su, who is a major stockholder and the manager of Central Mulia Cita Nitindo, began to work at Mewah and then was recruited by the other dyeing factory, Indo Buana Makmur, with an increase in salary.[48] This practice of job-hopping has not, however, created much hostility among the owners who frequently recruit managerial and technical staff from other companies. Strong personal networks and the demand for intensive interfirm cooperation have checked the emergence of hostility. The common understanding among these owners is that job-hopping among employees is permissible, and some employers still welcome back their former employees if they wish to return.[49] Lastly, each dyeing factory retained its major customers in different ways. By becoming a minority shareholder of Jayaindo (a knitting factory), Central Mulia Cita Nitindo emerged as the former's most important supplier.[50] Since 80 percent of Warna Indah's orders were from Indonesian Chinese firms, this Taiwanese company established very close connections with some local people as a means to gain access to other business in Bandung.[51] As in the case of Warna Indah, Mewah has also relied on personal relationships to maintain its business, but it also aggressively expanded its market from Indonesia to Singapore through an intensive advertisement campaign.[52]

The cultivation of personal relationships by Taiwanese businessmen appears to have been an important means for them to develop a business base in Bandung. These ties have been cultivated with other Taiwanese entrepreneurs as well as Indonesian businessmen. Interfirm networks are, in fact, inter-personal relationships among the owners of these enterprises and these personal ties have been enhanced through their active involvement in ITBCB.[53] The president of How Are You, Mr Liu, is the former president of the Taipei Investors Association in Malaysia, the Indonesia Taiwan Business Club, and the Taipei Investors Association in Asia, and he now serves as the vice-president of the Global Taipei Investors Association. As his company occupies the core position in Bandung's Taiwanese inter-organizational networks, Mr Liu locates himself as holding a leading position in the production network. Other owners of Taiwanese factories filled the major positions such as vice-president or secretary of ITBCB. Undoubtedly, these personal ties that have been established through their participation in these associations have helped these businessmen develop their corporate base in Bandung.

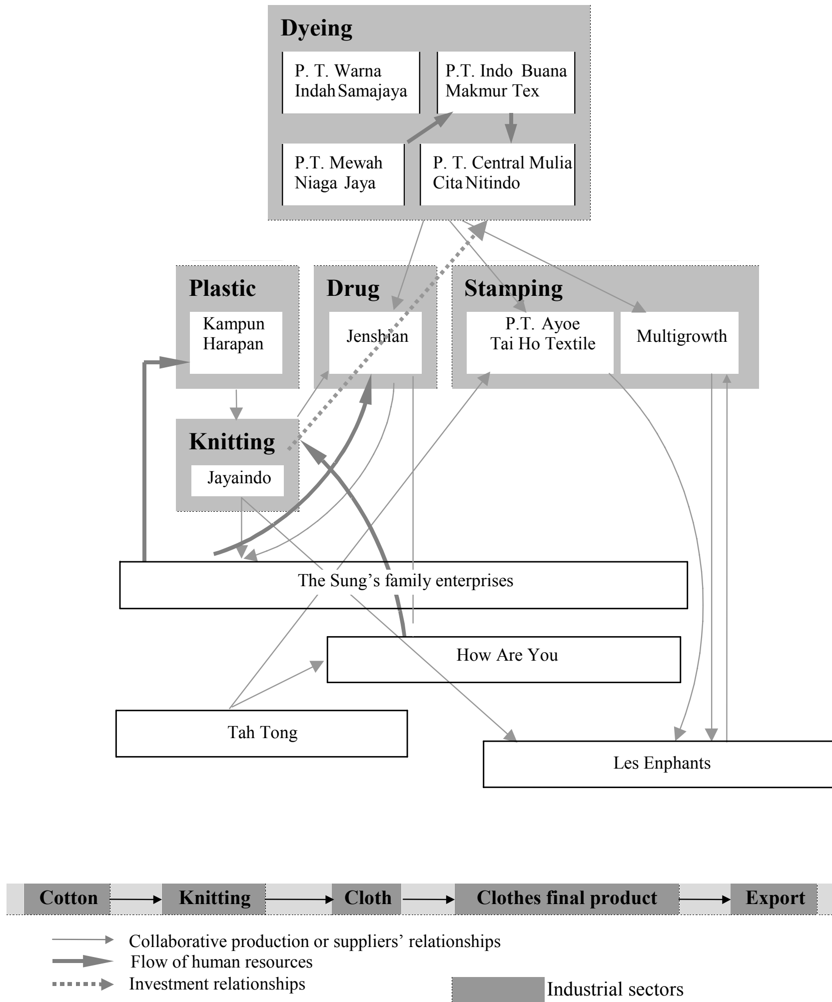


Figure 6.3 Selective inter-organizational networks of Taiwanese companies in Bandung

Conclusion

This comparative research of interfirm networks in Malaysia and Indonesia was undertaken to test the hypothesis that common ethnic identity helped Taiwanese investors transplant or create new production networks when they invested abroad. In order to test this hypothesis, we undertook a historical study of the creation of production networks in

four areas in these two countries. The research revealed that common ethnic identity was not a crucial factor to Taiwanese investors when choosing members to become a part of their production network. When investing in Malaysia and Indonesia, large Taiwanese companies selected their subcontractors primarily on the basis of their ability to efficiently produce and deliver the goods they required. Economic imperatives – specifically the desire to improve and develop production techniques, enhance quality of goods produced, and achieve organizational growth – were the criteria that influenced decision-making by these Taiwanese investors.

The pattern of development of production networks in Penang, Kuala Lumpur, Jakarta, and Bandung is fairly different, as is the dynamics of business cooperation. The major characteristics of the production networks in these four areas are summarized in Table 6.4. Whether Taiwanese enterprises will transfer their current collaborative networks from Taiwan partly depends on the degree of maturity of related industries and the scale of related enterprises in the host country. When the host country has been able to provide qualified parts suppliers, then small or medium-sized Taiwanese enterprises tend to develop network organizations locally. The Taiwanese companies in Bandung are typical examples. On the other hand, the size of the Taiwanese enterprises has been a factor in determining its capacity to mobilize their long-term suppliers in Taiwan to venture abroad at the same time. Company size has also been a factor in determining whether the main company has the capacity to provide the help necessary to facilitate its suppliers' foreign investments. Even most large companies have not been able to transplant their entire production network from Taiwan, thus necessitating the gradual incorporation of local suppliers into their networks in the host country. This pattern of business expansion has occurred mainly in Jakarta, Kuala Lumpur, and Penang. A few large enterprises in Jakarta and Kuala Lumpur have adopted a strategy of vertical integration, to overcome the problem of low margin of profit and non-standardized production processes.

Compared to large enterprises, small and medium-sized firms in Bandung have shown a unique pattern of network expansion, wherein start-up factories run by former black-hand employees usually become collaborative suppliers to their mother factories. This spin-off pattern of network enlargement is very similar to what has happened among small and medium-sized factories in Taiwan.

Most members of the Taiwanese production networks can utilize different means to expand their organizational connections, which include personal relationships as well as other formal channels, for example joint-ventures, strategic alliances, and the like. It is in the interest of all the networks' members to increase the scope and content

Table 6.4 Characteristics and patterns of inter-organizational networks in four areas in Southeast Asia

	Kuala Lumpur	*Penang*	*Jakarta*	*Bandung*
Degree of host region's industrial development	Medium	High	Medium	High
Size of Taiwanese enterprises	Mainly large	Large, mixed with small or medium-size	Mainly small	Small or medium
Patterns of network establishment	Incorporation of local companies and transplantation of Taiwanese networks	Transplant-ation of Taiwanese production networks (large); locally built (small-size)	Transplant-ation of Taiwanese production networks or vertical integration	Mainly locally built
Means of network expansion	Incorporation of Malaysian Chinese companies and Taiwanese companies	Incorporation of local Taiwanese and Malaysian Chinese companies	Incorporation of local Indonesian Chinese companies	Spin-offs from original Taiwanese or Indonesian Chinese companies; incorpor-ation of local Chinese companies
Degree of connection with Taiwanese collaborative producers	Low to medium	Medium to high	Low to medium	Low to medium

of their interfirm linkages as a means to expand their enterprise. The main purposes of cooperative relationships among these suppliers are to increase their production efficiency and flexibility and to enlarge their markets.

Moreover, the structure of production networks of large Taiwanese firms is rather hierarchical: large firms are located at the center, Taiwanese suppliers of key parts in the middle position, and local

suppliers from the host countries at the periphery. Common ethnic identity or close personal relationships are not the reasons why Taiwanese suppliers hold more important positions in the network hierarchy than the local suppliers. The position of the suppliers in the network hierarchy is dependent solely on their level of specialization in the production of products or services required by the lead firm. Although most of the local suppliers of Taiwanese firms in these two countries are ethnic Chinese, the criteria for determining their incorporation into the production networks were whether they could offer a competitive price, produce good-quality products, and demonstrate flexibility in production capabilities.

This research challenges another common assumption found in much of the literature of production networks created by ethnic Chinese, i.e., that the members of these networks work to serve each other's economic interests. In fact, the evidence reveals that the relationship between members was not necessarily one that could be mainly characterized as mutual help. Each member of the network entered this business arrangement mainly because it served his own business interests. There is much evidence of larger companies buying over smaller firms in the production network if this strategy helped the former increase their profit-margins or helped them ensure high standards of quality in production. The lead company carefully chose members of the network, depending on what they contribute to the making of a product. Members of the production network would exploit the contacts they made through their involvement in these networks to find new clients or gain access to more markets. Company employees would break away to form new firms that emerged as competitors. There is, in fact, as much evidence of competition and hostility among members of a production network as there is of cooperation and collaboration. This suggests that the features that characterize these production networks are quite universal, found in most subcontracting relationships and found in any country (see Gereffi 1994).

The reason Taiwanese investors tended to incorporate Malaysian Chinese or Indonesian Chinese firms in their production networks in these two countries is mainly because local businessmen involved in the related industries happened to be ethnic Chinese. A study of enterprise development and business ownership patterns in Malaysia and Indonesia would indicate that small and medium-sized firms owned by ethnic Chinese have a dominant presence in the manufacturing sector there. The choice of subcontractors and suppliers available to Taiwanese investors in Malaysia and Indonesia is very limited, and this is also a factor that has compelled them to transplant much of their production network in Taiwan to the host countries. Quite often, Taiwanese investors have had to resort to procuring parts from the home country,

expensive though this practice may have been. Eventually, some of these larger companies have resorted to taking over companies in the related industry and transplanting the factory to the host country, if this helped them trim costs in the long run. In this chapter, we have pointed out that structural characteristics of Taiwanese enterprises and the industrial conditions in the host country have strongly influenced investment patterns and the shape of networks established.

Most importantly, a comment must be made about the sustainability of these production networks. The evidence indicates that members of the production network are dropped as suppliers or subcontractors when the lead company finds a cheaper or better alternative. Members of a network do not appear to bear a sense of responsibility for each other, even if the lead company played a crucial role in getting their subcontractors to follow them to Malaysia and Indonesia. What seemed to be of importance was the need to find ways to share the risks involved in investing abroad. By jointly investing in one company when establishing an enterprise in the host country, for example, all parties involved reduced the risk of their investment. Even then, most Taiwanese businessmen who had forged this joint relationship would subsequently decide to go it alone once they had become accustomed to operating in the host country.

There is sufficient evidence in this study to challenge the hypothesis that common ethnic identity is the primary basis on which these production networks are created. Many of the misconceptions regarding the features of these networks have been created because few previous studies on network formation and development have adopted a historical perspective. These studies have also given little attention to structural factors in the host and home countries which shape the way these networks are developed.

Future studies can focus on how various local conditions facilitate foreign direct investments and how these investments contribute to local industrial transformation. Furthermore, the combination of intra-organizational networks and inter-organizational networks across different countries should be taken into subsequent discussion in order to understand the operation of Taiwanese transnational enterprises and the dynamics of their organizational networks.

Notes

* The authors want to thank Chun-Fu Lin and Chun-Min Kou for their enormous assistance.

1 According to Freeman (1979), there are three related measures of centrality: degree, closeness, and betweenness. The degree measure of centrality is calculated by counting the number of adjacent links to or from an actor. The

closeness measure of centrality includes both direct and indirect connections in showing how "close" a member within a network is to all other members. Finally, the measure of betweenness calculates the extent to which members fall between pairs of other members on the shortest paths linking them.

2 This picture is not quite complete. It does not include all the Taiwanese enterprises in Malaysia and all the collaborative relationships established by these firms. This limitation is due to the problem we had with data collection; not all the information on networking patterns that we required could be obtained. Since Taiwanese electronic companies have some inter-organizational connections in the Penang area and in Kuala Lumpur, we put several networks in these two areas together.

3 The parent companies of G-Shank, Lelon, and Tai-Ohm are listed on the Taiwan stock market.

4 Interview data: MKETIJ1: 6. In order to protect the privacy of our interviewees, every company is assigned a code. There are seven characters of the code. The first character indicates the country categories, the second character shows areas of field study in that country, the third character indicates industrial categories, the following three characters are an abbreviation of each company's name, and the numerical character indicates the number of interviews conducted.

5 Interview data: MGEINO1: 4; MGELLN1: 6.

6 Inventec has achieved 98 percent local sourcing in the year 1999 (MGEIVT1).

7 Interview data: MGEINO1: 1.

8 Interview data: FPEHKP2: 8.

9 Interview data: MGELLN1: 1.

10 Interview data: MLESPM1: 7; MKEFMS1: 5; MKEFMS2: 11.

11 Interview data: MLESPM1: 8; MKEFMS2: 11.

12 Interview data: MKECHH1: 10–12.

13 Interview data: FPEHKP1: 2; MGEIVT1: 10–11.

14 Interview data: MGEIVT1: 12.

15 Interview data: FPEHKP1: 4–6.

16 Interview data: MGEIVT1: 14.

17 Interview data: MGEACR1: 7.

18 Interview data: MGELLN1: 5; MGEINO1: 4.

19 These three are, in fact, the only Taiwanese focal companies in Penang that can be identified. Others, such as Rectron and the Lite-On Group, have ceased operations in Malaysia.

20 The companies operating in Jakarta include Teco Elektro, Nikomas Gemilang, and Kimco Lippo Motor. The total number of large companies trading on the Taiwanese stock exchange with investments in Indonesia is 15.

21 Interview data: IJETEK3: 5; IJOKMK1: 13; IJSNTM2: 11.

22 These subcontractors had then had a collaborative production relationship with Teco spanning more than 20 years (IJNCNW1: 1).

23 Interview data: IJETEK3: 5.

24 Interview data: IJNCNW1: 8.

25 Interview data: IJETEK3: 3.

26 Interview data: IJETEK3: 5–8.

27 Interview data: IJNCNW1: 4–6.

28 Interview data: IJNTHN1: 3.

29 Interview data: IJOKMK1: 3–7; IJOSAN1: 1.

30 Interview data: IJNTHN1: 3–5.

31 Interview data: IJNTHN1: 8.

32 Interview data: FPSPCN1.
33 Interview data: IJSNTM2: 4–5.
34 Our informant reported that the airfare to deliver delayed orders had to be paid by the suppliers, and the proportion of the fee of transportation by air is about 30 percent of the price of each ordered piece (IJSNTM2: 7).
35 Interview data: IJSNTM2: 6–7.
36 Interview data: IJSNTM2: 16.
37 Interview data: IJETEK3: 10.
38 Interview data: IBTHRU1: 2.
39 Interview data: IBPKPH1: 2; IBCNJS1: 2.
40 Interview data: IBUTHRU1: 6; IBCNJS1: 14.
41 Interview data: IBUTHRU1: 15–17;IBCNJS1: 5; IBCMNG1: 5; IBCWRN1: 3–4.
42 Interview data: IBPKPH1: 2; IBCNJS1: 1. According to the interviewees, they actually set up their production facilities in the Song factories and only later established their own companies.
43 Interview data: IBCNJS1: 17.
44 Interview data: IBCNJS1: 16.
45 Interview data: IBTHRU1: 19–20.
46 Interview data: IBTEFT1: 1.
47 Interview data: IBCMNG1: 4; IBTCMC1: 2.
48 Interview data: IBCNJS1: 16.
49 Interview data: IBTHRU1: 16. One interviewee reported that "after the failure of his former employee in the new company, he welcomed the employee's return and he also bought the production equipment left by the company."
50 Interview data: IBCNJS1: 16.
51 Interview data: IBCWRN1: 3.
52 Interview data: IBCMNG1: 4, 6, 13.
53 Interview data: IBTHRU1: 15; IBCWRN1: 15. Our interviews were arranged mainly by ITBCB. We noted that most owners of Taiwanese factories were members of ITBCB.

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7

ASIA IN LOS ANGELES

Ethnic Chinese banking in the age of globalization*

Maria W. L. Chee, Gary A. Dymski, and Wei Li

Introduction

Ethnic minority banking in southern California has a long history. Japanese immigrants established their own banking institutions in California at the turn of the twentieth century. African Americans, Latino Americans, Chinese Americans, and Korean Americans have all made their mark on the local banking scene. These ethnic banks have become a force in the Los Angeles banking industry. By the end of the century, their branches comprised 20 percent of the total for all banks. Among ethnic banks, the Chinese American sector had become the largest. As of December 1999, 23 Chinese American banks with 122 branches were headquartered in Los Angeles County, compared to eight Korean American banks with 38 branches, three African American banks with 14 branches, and four Latino American banks with ten branches (Dymski *et al.* 2000).[1]

This chapter argues that the large Chinese American banking sector has developed due to the sizeable convergence of a significant diasporic Chinese population from several countries including China and Taiwan.[2] We term it the diasporic convergence theory. Various aspects of this human migration facilitated the rise of a strong banking sector. First, this population was large enough to constitute a critical mass. Second, this population arrived in discrete time periods. Third, it was also heterogeneous in intra-ethnic and socioeconomic backgrounds. As one banker interviewed for this study poignantly remarked, “Koreans come from Korea, but the Chinese come here from all over the world.” The arrival of individuals with diverse levels of financial, social, and human capitals provided a ready supply of capital and labor for a banking infrastructure as well as a customer base. This population’s linkages with their countries of origin and other nations further fueled its development

within a favorable environment in a global economy, brought Asia to Los Angeles, and shaped the Chinese American banking industry of southern California.

In the sections that follow, we first define Chinese American banks and discuss their relationship to existing theoretical frameworks that explain immigrant entrepreneurship. Next, we discuss the diverse and segmented nature within the diasporic convergence of ethnic Chinese underlying this sector's development. We then consider the impact of changing macroscopic circumstances, including the Asian financial crisis, on the Chinese American banking sector in this region. We conclude by reflecting on the Chinese American banking industry and the Chinese diaspora in the age of globalization.

Chinese American banks in Los Angeles County: Definition and methodology

In this chapter, Chinese American banks refer to United States federal or state chartered commercial banks, savings banks, and savings and loan associations that offer insured deposits and are owned or controlled in whole or part, whether currently or previously, by Chinese Americans and by ethnic Chinese or their business ventures in other countries. We have included foreign-owned banks that provide insured deposits by their subsidiaries chartered in the United States (Li, Dymski, *et al.* 2002). We have excluded Edge Act offices which are facilities established by foreign banks to help conduct their banking and other business, but are regulated by foreign authorities and prohibited from taking deposits and making loans in the United States.

This chapter focuses on 23 of all such Chinese American depository institutions headquartered in Los Angeles as listed in Table 7.1.[3] It is based primarily on information obtained from executive officers of these banks after 27 face-to-face in-depth interviews conducted by co-authors Chee and Li. These interviews took place on the respective banks' premises in Mandarin, Cantonese, and/or English between June and October 1999. Some data from Chee's 1996 and 2000 fieldwork with banks, supermarkets, and large restaurants owned by ethnic Chinese in Monterey Park are also included.

Theoretical considerations

Ethnic Chinese banking in southern California emerged in the 1960s and matured in the 1980s among immigrant populations. As such, it can be considered an example of immigrant enterprise. The high rate of business ownership among immigrants generally, and among Chinese

Table 7.1 Chinese American banks headquartered in Los Angeles County (in descending order by asset size)

Bank name	*FDIC ID*	*HQ city*	*Total assets (million $)*	*Date opened**	*No. of offices*	*No. of employees*	*FDIC class*
East West Bank	31628	San Marino	2,150.3	1/1/72	32	368	NM**
Cathay Bank	18503	Los Angeles	1,995.9	4/19/62	21	481	NM
General Bank	23083	Los Angeles	1,738.5	3/18/80	18	333	NM
ChinaTrust Bank (U.S.A.)	19416	Torrance	1,305.9	4/27/65	17	291	NM
Far East National Bank	21851	Los Angeles	856.4	12/9/74	12	233	N
Standard Savings Bank	32111	Monterey Park	701.1	1/1/80	5	78	SB
Preferred Bank	33539	Los Angeles	496.6	12/23/91	6	89	NM
United National Bank	24526	San Marino	486.0	6/1/83	8	133	N
Universal Bank	30722	West Covina	359.5	11/17/54	8	112	SB
First Continental Bank	33340	Rosemead	270.6	3/12/91	3	71	NM
American Int'l Bank	22675	City of Industry	198.8	7/3/78	***	86	NM
Omni Bank	23086	Alhambra	189.7	2/12/80	6	66	N
Trust Bank, f.s.b.	32080	Monterey Park	185.6	1/1/77	3	43	SB
Pacific Business Bank	25069	Santa Fe Springs	176.9	4/2/84	8	93	NM
United Pacific Bank	23805	City of Industry	151.8	5/11/82	3	43	NM
Grand National Bank	24387	Alhambra	142.5	2/14/83	2	44	N
Int'l Bank of California	21034	Los Angeles	131.3	4/9/73	7	77	NM
FCB TAIWAN Calif. Bank	34496	Alhambra	129.3	5/20/97	2	37	NM
EverTrust Bank	34010	City of Industry	114.3	5/3/95	2	29	NM
Guaranty Bank of Calif.	22366	Los Angeles	106.6	11/15/76	4	63	NM
Golden Security Bank	26615	Alhambra	90.3	12/9/82	1	15	NM
Eastern Int'l Bank	32277	Los Angeles	73.5	2/26/85	2	32	NM
Asian Pacific Nat'l Bank	33013	San Gabriel	39.7	7/25/90	2	16	N
Total			**12,091.1**		**172**	**2,833**	

Notes: * Original open dates reported by FDIC or became Chinese American banks.
** NM: state chartered bank; N: federal chartered bank; SB: savings bank. *** acquired by East West Bank, January 2000. The Universal Bank, founded in 1954, became a Chinese American bank in 1990 when it was acquired by migrants from Taiwan.

Sources: Federal Deposit Insurance Corporation (FDIC) www.fdic.gov, accessed and extracted on 29/3/2000; The National Association of Chinese American Bankers 12th Convention 1999 publication.

and Japanese immigrants in particular, was attributed to cultural and/or racial attributes by early urban theorists such as Park *et al.* (1925). Ivan Light has shaped much of the contemporary social-scientific literature on immigrant entrepreneurship. Light (1979) advances an alternative explanation emphasizing immigrants' disadvantage. Immigrants concentrate in small business due to disadvantages experienced in their host country, such as language barriers, non-transferable human capital (for example, professional licenses and educational credentials not recognized in the host country), and discrimination, which handicap them in mainstream labor markets. Immigrants thus opt disproportionately for business ownership.

Disadvantage theory does not explain the variable rate of business entrepreneurship among different immigrant groups. For example, the Latino, Korean, and Chinese communities in southern California have all experienced a high influx of immigrants in recent decades; and arguably immigrants in these communities all face labor-market barriers. But the Chinese American banking sector has become far more robust than the Korean and Latino banking sectors. This is a paradox for disadvantage theory. Light himself (1984) proposes a way of accommodating this discrepancy, via his resource theory. In this refinement, different immigrant groups develop varied rates of entrepreneurship for two sets of reasons – first, their various disadvantages as discussed above; and second, their different levels of access to resources. These resources include human capital such as skills and education, social capital, financial capital, and cultural traditions; in sum, the class and ethnic resources which Borjas has referred to as constituting ethnic capital (1999).[4] The combination of disadvantages and resource differentials might explain why, say, Cubans have developed an enclave economy, why Koreans have focused on small business formation, and why Mexican immigrants have generally not established vibrant business sectors.

Some scholars have argued that this reformulation, focused as it is on resources, is insufficient in that it centers entirely on the "supply side" of the market for entrepreneurial enterprise. For example, Waldinger, Ward, and Aldrich (1985) offer an approach in which the demand for entrepreneurial enterprise interacts with supply. Waldinger (1986) contends that in addition to resources, opportunity structure also affects the extent of immigrant entrepreneurship. It is thus the interaction of both supply and demand – that is, of entrepreneurial resources and opportunity structures – that explains the rise or stagnation of immigrant business sectors. Tseng (1994) takes this line of thought further for the case of the Taiwanese ethnic economy in Los Angeles. She argues that it is affected both by the pace of economic development in the Los Angeles region and by the entrepreneurial resources possessed by Taiwanese

immigrants. These immigrants' success in entrepreneurial activities is due in part to their high overall level of educational achievement. Further, many of them have been executives, managers, and entrepreneurs prior to migration, so they are armed with business knowledge, skills, and connections which all facilitate business start-ups in their country of settlement.

The disadvantage and resource approaches ignore a factor that is crucial if ethnic banks are to be incorporated into this framework: the international and national political context of immigrant enterprise. In effect, the above considerations are micro in scope, attending to the local situations. Immigrant entrepreneurship also involves macro and globalized considerations. In the case of the United States, these include racialized ethnic relations, immigration policies, and geopolitical events in which the US figures centrally. An emphasis on this macro and globalized context has a parallel in the study of immigration itself. Demographers studying migration tend to focus on "push" and "pull" factors underlying human flows, as if these factors are isolated in time and space. But these push and pull factors can be viewed as outcomes of larger global and historical processes, with both synchronic and diachronic dimensions. For example, Asian immigration to Hawaii and the US in the nineteenth century was induced by the forces of imperialism, colonialism, and capitalism (see Cheng and Bonacich 1984). Such push and pull factors as poverty, famine, heavy taxation, and employment opportunities were epiphenomenal, associated with immediate local situations that resulted from historical circumstances. Analyses can be strengthened when these historical conditions are brought explicitly into discussion – whether the object of study is immigration per se or, in our case, the complex Chinese American banking sector that has developed in southern California. Our analysis of this banking sector identifies some of the historical elements that helped propel its growth.

Following the interactive model and Tseng as discussed above, we further argue that the growth and development of the Chinese American banking industry rests with the intra-ethnic, inter-ethnic, and international diasporic convergence of ethnic Chinese as well as non-Chinese capital source and market base. This convergence is segmented and diverse, with heterogeneous levels of social, financial, and human capitals.[5] The Chinese have a long history of dispersal, settling practically everywhere around the world. The convergence of this far-flung and long-established diasporic population in California is a historically significant event. This large, heterogeneous population with varied but compatible demands and resources has provided the critical mass required for a strong Chinese American banking sector.

The first wave: Chinese American banking industry in the 1960s and 1970s

Los Angeles Chinatown underwent a major growth and development in the 1960s and 1970s, the decades in which the Chinese American banking industry emerged in southern California. In 1960, fewer than 1,000 Chinese lived in Chinatown out of the 20,000 Chinese in Los Angeles County. However, a population had clustered by the 1970s. In these early years, Chinese Americans did not own any formal financial institution, and racial discrimination made it difficult for them to obtain financing from mainstream banks (Wang 1994; Li, Dymski, *et al.* 2002).

After several failed attempts to obtain a bank charter, Cathay Bank became the first Chinese American bank in southern California on April 19, 1962 with only US$550,000 start-up capital and seven employees in Los Angeles Chinatown (Interview #2C). At times the early bankers made "character loans" to applicants who were integral members of the Chinatown community, much like the early Cuban banking practice in Miami (Portes and Bach 1985). Durkheimian collective sentiments acted as social sanction to enforce loan repayment. While this practice became less frequent over time as the Chinese American population grew larger and more heterogeneous, it greatly facilitated loan-making in the early days of Cathay Bank's operations.

Also augmenting Cathay Bank's growth – and in turn facilitated by that growth – was the increasing concentration of ethnic Chinese in Chinatown. By 1970, the number of Chinese residents in Chinatown had risen to 4,218 (Hirata 1975: 81). This increase was fed by shifts in immigration policy, and by local as well as national political developments. With the expansion of population in concentrated areas of Los Angeles, more banking institutions came into being. In 1972, a charter was issued to East-West Federal Savings and Loan Association that later became the East West Bank. Other charters soon followed: International Bank of California (1973), Far East National Bank (1974), and First Public Savings (1979) (Wang 1994; Lai 1995; Li *et al.* 2000). The founders of these early banks included established or educated Chinese Americans who had long resided in the US and associated with the Chinatown community, together with their Euro American friends or business associates. Although some were fluent in English, these old-timer Chinese were mostly Cantonese-speaking immigrants who originated from the Guangdong province of southern China.

As Light's ideas suggest, the rise of the Chinese American banking industry represents a collective response by a group with substantial human and social capitals to a situation of financial disadvantage. These capitals were bolstered by class solidarity: Chinese Americans with financial resources could enhance the effective power of those resources

by pooling their human and financial capitals in formal financial institutions. Further, class solidarity transcended racialized boundaries at a personal level, when ethnic Chinese joined force with Euro Americans for a profit-driven business endeavor, as well as a maneuver to counter exclusions. The bankers were well cognizant of the advantage from this purposeful business strategy. According to one of the bankers, the Euro Americans were included to combat possible discrimination in their application for a bank charter.

Diasporic convergence: Ethnobank development in the 1980s and 1990s

US immigration policies have profoundly affected Asian immigration to the US (Hing 1993; Ong and Liu 1994), and consequently Chinese American banking in southern California. In October 1965, the US Congress passed the Immigration and Nationality Act. This Act shaped the future of Chinese America, and that of the Chinese American banking industry. It abolished the previous quota system that had denied entry to practically all Asians, and established a preference system that favored family reunification, professionals, as well as skilled labor. Immigration from China (including Hong Kong and Taiwan) rose from approximately 110,000 in the 1960s to 390,000 in the 1980s. Because of the preference system, Chinese immigrants were largely of two types (Liu and Cheng 1994): highly educated, skilled professionals who originated primarily from Taiwan; and people with little human or financial capital who were family members of former manual laborers. The latter came mainly from Hong Kong, and from China as well after 1979. Most of them in the early period were adults who were expected to join the labor force. They, in turn, sponsored their family members for immigration including their parents, children, and siblings. These individuals could then sponsor their other family members after acquiring permanent residency or citizenship. This "chain migration" gathered force in the 1970s, and often required a decade for completion. Nonetheless, it increased the critical mass of ethnic Chinese in southern California, and provided some of the leadership for the first wave of Chinese American banks as well as an expanded market for these banks.

Adding to this immigrant flow, and contributing further to the expansion of Chinese American banking, were Sino-Vietnamese (and ethnic Chinese from elsewhere in Southeast Asia) who arrived as refugees after 1975. The Chinese had been in Vietnam for generations, a minority in a society dominated by ethnic Vietnamese. Many Sino-Vietnamese engaged there in entrepreneurial enterprises, especially in trading and business.[6] Many Vietnamese, including a large number of Sino-Vietnamese, left Vietnam for the United States as refugees after Saigon

fell to the Viet Cong in 1975. Vietnamese Americans became the fastest growing Asian Pacific population in the US (Hing 1993: 132).[7] According to the 1990 Census, approximately 45 percent of all Vietnamese Americans concentrated in California. The largest population clustered in southern California: approximately 70,000 lived in the Anaheim–Santa Ana area of Orange County, and about 62,000 in Los Angeles–Long Beach of the contiguous Los Angeles County.

Building on the business expertise gained in their country of origin, drawing on financial resources often accumulated through long hours of labor in the US, many Sino-Vietnamese became entrepreneurs in their southern California communities.[8] They started wholesale trade, import/export, manufacturing, and real estate development businesses, especially in the Los Angeles Chinatown area, in Little Saigon located in Orange County, and in West San Gabriel Valley of Los Angeles County (Gold 1994). For example, the development of Little Saigon was largely attributable to a Sino-Vietnamese real estate developer named Frank Jao who built such prominent landmarks as the Asia Garden Mall. Little Saigon started to boom in the late 1980s. This growing Sino-Vietnamese community contributed to the market base for the Chinese American banking sector, and some of the Chinese ethnobanks established branches in Little Saigon: Cathay Bank and East West Bank both in June 1988, while Guaranty Bank of California had already established its branch there in June 1983 prior to its Chinese Indonesian ownership. United Pacific Bank once had a branch office there as well. It was closed after 1996 due to the Bank's restructuring. Many of the Chinese American banks have employees who also speak Vietnamese. A banker at one of the four largest Chinese American banks stated that their current government-backed Small Business Administration Loan customers included many Sino-Vietnamese (Interview #1).

The influx of ethnic Chinese not only ensured Chinese American banks' prosperity, it also ultimately transformed Chinese American settlement and commercial patterns as well as Chinese American banking itself. Some 106,900 Taiwanese immigrants were residing in California by 1991 (Tseng 1995: 38). Many of these immigrants moved to Los Angeles County's San Gabriel Valley between 1983 and 1990 (Horton 1995: 23). A large number of these had been business-owners in Taiwan, and "Taiwanese immigrants to the United States were disproportionately drawn from the bourgeoisie class" (Tseng 1995: 44).

This fast-growing population was increasingly living not in Chinatown, but in concentrated areas in southern California – initially the San Gabriel Valley. As Evans (1989) has suggested, a large ethnic group whose members are linguistically isolated from mainstream society provides a favorable environment for immigrant entrepreneurship. Indeed, the self-employment rate among Taiwanese immigrants has

been estimated at 20 percent, and that for immigrants from Hong Kong at 10 percent (Tseng 1995: 41), both higher than that in the average American population. Further, Kaplan (1998) argues that residential clustering correlates with business concentration. As Sanders and Nee (1996: 246) point out, "a concentration of small ethnic firms may be critical to generating an institutional environment that promotes ethnic enterprise and provide ecological conditions favorable to the growth of larger and more profitable firms."

The large-scale flows of ethnic Chinese from Taiwan, Hong Kong, and Southeast Asia, augmented by chain migration, led to a proliferation of small businesses. This, together with the concentrated commercial and residential growth, created high demand for the services of Chinese American (as well as mainstream) banks. Recent Taiwanese immigrants have primarily been well-to-do with substantial financial resources. For example, according to one estimate, at least $1.5 billion were deposited with Chinese American banks in Monterey Park in 1985 (Tanzer 1985: 68–9). According to the 1990 Comprehensive Annual Financial Report issued by the Monterey Park Management Services Department, "by 1989 the combined deposits in Monterey Park ... had swelled to over $1.9 billion … roughly $30,000 for every man, woman, and child in town" (Fong 1994: 49). The Chinese American banks' own financing activities, in turn, supported further growth and clustering in what Li (1998) has called the ethnoburbs of southern California.

Intra-ethnic diversity: Chinese immigration, businesses, and banking

The synergistic concentration of Chinese American residents, businesses, and banks is aptly illustrated by the transformation of Monterey Park. Located approximately ten miles via highway east of downtown Los Angeles, this suburban city has been termed Little Taipei as well as the First Suburban Chinatown. First incorporated in 1916, Euro American residents constituted 85 percent of its population in 1960, Latino Americans 12 percent, Asian Americans 3 percent, and African Americans just 0.1 percent. By 1970, Monterey Park's population had grown to 49,200. Its Latino American portion shrank to 5 percent, while Asian Americans climbed to 15 percent with mostly Japanese Americans (Fong 1994: 22–6).

According to Wong (1989: 117), when newly arrived immigrants from Taiwan attempted to launch businesses in Chinatown, its old-timers resisted the newcomers' efforts. These Taiwanese subsequently found opportunities for real estate and commercial development in the nearby city of Monterey Park. This confrontation between newer and older populations reflects the segmented and diverse character of the Chinese

diaspora. Immigrants from Taiwan mostly speak Mandarin and a Minnan dialect of the Fujian province of China. On the other hand, the old-timers of Chinatown have come from the Guangdong province. They are Cantonese-speakers (and Taishanese which is a dialect of Cantonese). These languages/dialects are mutually unintelligible, and Cantonese often consider Mandarin-speakers as outsiders.

So, while Cantonese might cooperate with other Cantonese in business dealings as in the case of Chinatown, and Taiwanese with other Taiwanese, in this case the Cantonese and Taiwanese developed a rivalry and the two groups separated due to linguistic differences and places of origin. This situation illustrates the complexity of the Chinese diaspora: even when there is an overarching Chinese identity, intra-ethnic diversity often segregates people into subgroups. Early Chinese immigrants to Southeast Asia also divided on the basis of linguistic discrepancies. One's ancestral language or dialect continues to be an intra-ethnic identity signifier.

At the same time, the business incentive of profit maximization sometimes serves to traverse ethnic or even racialized demarcations. When more diasporic Chinese converged on southern California, the ethnic Chinese population turned increasingly heterogeneous, and their businesses became more globalized (like the world economy as a whole). Population heterogeneity and the profit imperative interfaced with the boundaries discussed above. Sometimes these tensions co-existed in varying degrees, often these once-divisive borders evaporated into thin air. Businesses served both co-ethnics and others when there was money to be made. In these cases business motivations took precedence over ethnic distinction. It can be anticipated that in time the label "ethnic business" will become less meaningful. The collage of the presence, co-existence, and dissolution of boundaries is demonstrated by the development of the Chinese American banking industry in Southern California, and the business ownership and growth of Monterey Park.

While Chinatown's modest growth continued into the 1970s, Monterey Park surpassed it during this decade as a population and commercial hub for ethnic Chinese. It was being promoted as a destination of choice for Chinese immigrants, hailing Monterey Park as the "Chinese Beverly Hills" (Tanzer 1985). In the 1970s, Monterey Park experienced a large influx of ethnic Chinese, primarily from Taiwan and then from Hong Kong. Attracted by the suburban life style, active real estate promotion, and chain migration, the more affluent immigrants began leapfrogging over Chinatown to Monterey Park.[9]

The "Chinese Beverly Hills" catered to the new Taiwanese and Hong Kong immigrants, offering restaurants, markets, and stores attending to Asian tastes. In a chain reaction, this increased population stimulated the growth of more businesses serving co-ethnics, and more businesses

provided additional convenience for local residents. This, in turn, attracted more home-buyers and renters and encouraged Chinese American banks to expand in this area. From the mid-1970s onward, as the in-flow of diasporic Chinese increased, the intra-ethnic diversity of Chinese immigrants in Monterey Park grew. In *The First Suburban Chinatown: The Remaking of Monterey Park, California*, Fong (1994) brings up the issue of intra-ethnic diversity in Monterey Park. However, he "limits the discussions to American-born and foreign-born Chinese politicians in their competition for power. In fact, intra-ethnic diversity is complex even among foreign-born Chinese" (Chee 1995/6: 238).

As sociologist Horton (1995: 21–2) points out, Chinese immigrants in the United States were born in various parts of the world including China, Vietnam, Taiwan, Hong Kong, Thailand, Cambodia, Burma, Indonesia, Latin America, and other countries; and "many find it easier to communicate across their national and cultural lines in English." Many of these people also immigrated to the US in different periods for dissimilar reasons, and came from disparate socioeconomic and cultural backgrounds. In effect, Monterey Park became a microcosm of ethnic macrodynamics (Chee 1996). Its "ethnoscape" comprises groups that are "no longer tightly territorialized, spatially bounded, historically unselfconscious, or culturally homogeneous" (Appadurai 1991: 191).

This intra-ethnic diversity is reflected in the ownership of Monterey Park's larger commercial establishments. Table 7.2 shows the types of business and the owners' countries of origin as surveyed by co-author Chee in 1996 and the summer of 2000. There are numerous restaurants in Monterey Park. The ones chosen for this study are the larger ones with formal banquet capacity. This survey includes only banks, supermarkets, and restaurants owned in whole or part by ethnic Chinese, or those so owned in the past and now managed mainly by ethnic Chinese (such as the East West Bank). They are situated along two major thoroughfares in the commercial areas within the city limit of Monterey Park: approximately 2.3 miles on Atlantic Boulevard that runs north and south, and about 1.5 miles on the intersecting Garvey Avenue that stretches east and west.

Of the 14 Chinese American banks operating in this city as of summer 2000, three were owned by old-timer Chinese, six by Taiwanese, four by Sino-Indonesians, and one by an ethnic Chinese from Japan. All the large restaurants and three supermarkets were owned by Chinese immigrants from Hong Kong and Vietnam respectively. The Cantonese-speaking Hong Kong immigrants who owned the city's three large restaurants migrated to the US for family reunification, working in restaurants in Hong Kong and the US, saving money, and finally pooling their resources as partners in their restaurant businesses.[10] An immigrant from Taiwan established the first Chinese supermarket in a strip mall,

Table 7.2 Types of business and owners' countries of origin

Type	*Hong Kong*	*Indonesia*	*Japan*	*Old-timer*	*Taiwan*	*Vietnam*	*Total*
Bank	0	4	1	3	6	0	14
Restaurant	3	0	0	0	0	0	3
Supermarket	0	0	0	0	1	3	4

naming it the "Diho," after a well-known shopping area in Taipei. The same mall had mom-and-pop eateries selling Chinese and Taiwanese dishes, owned by immigrants from Taiwan who spoke Mandarin and the Minnan dialect. Diho eventually changed hands, and finally went out of business in Monterey Park in the late 1990s. A Taiwan immigrant incorporated the 99 Ranch market. The 99 Ranch has successfully branched out to various locations in California and Washington state, and has franchised to Phoenix in Arizona, Las Vegas in Nevada, and Honolulu in Hawaii. In the 1980s, other Chinese supermarkets such as the Hong Kong Supermarket and the Quang Hua Market appeared. By the late 1990s, three of the four Chinese supermarkets in the area surveyed were owned by Sino-Vietnamese.[11] This brief snapshot is sufficient to illustrate the complexity of intra-ethnic Chinese immigration, business patterns, and capital sources in this suburban city, a complexity also present within the Chinese American banking industry.

The Chinese American banking sector has grown along with the community as a whole – and like the overall Chinese immigrant population, its growth has increasingly involved intricate intra-ethnic diversity and cross-border flows of money and capital. The 1980s and 1990s represented a period of great expansion in the number and scale of Chinese American banks. Of the 23 Chinese American banks headquartered in Los Angeles County, the following obtained their charters during the 1980s: the year 1980 saw the establishments of the General Bank, Monterey Park National Bank (now Omni Bank), and Standard Savings and Loan Association which became Standard Savings Bank in 1984. Trust Savings and Loan Association (1981) is the present Trust Bank; Golden Security Thrift & Loan Association, United Pacific Bank (1982); Grand National Bank, United American Bank, and United National Bank (1983); Eastern International Bank (1985), and First Central Bank (1986). Between 1984 and 1986 immigrants from China and Taiwan also bought shares in the existing American International Bank (Wang 1994; Li *et al.* 2000).

Chinese immigrants who had resided in the US for a long time owned the Eastern International Bank, First Central Bank, and Standard Savings. A former executive of East-West Savings and Loan Association

(the predecessor of East West Bank) started Standard Savings. Fluent in English and Chinese dialects including Cantonese, he is a Chinatown community old-timer and an ethnic Chinese from the Philippines educated in the United States several decades ago. To start this formal financial institution, he gathered two friends and associates, and four more were introduced to him via friends (Interview #17). They were all old-timer Chinese immigrant professionals and businessmen associated with the Chinatown community. The foreign-born old-timers initially located their institutions in Chinatown to service a mainly Cantonese-speaking market. On the other hand, Trust Bank was formed by a female American-born Chinese lawyer well connected to mainstream society, together with a group of investors (Interview #7). The Monterey Park National Bank was founded by some local community residents in the San Gabriel Valley area (Interview #22). They included an immigrant from Hong Kong named Frederic Hsieh (Lai 1995), and other minorities such as Japanese Americans and Chinese Americans together with Euro Americans (Interview #22). This bank changed its name to Omni Bank National Association in April 1980, and again to Omni Bank, National Association in July 1982 (National Information Center of the Federal Reserve System). A Sino-Vietnamese and some Euro American investors formed the United American Bank (Lai 1995).

The General Bank was established by recent immigrants from Taiwan, not by Cantonese-speaking old-timers and English-speaking American-born Chinese, reflecting the increasing numbers of Taiwan immigrants in the area. The General Bank is backed by the Unipresidential Enterprise, a large food manufacturer in Taiwan. When General Bank first opened in 1980, it mainly served Taiwanese immigrants who spoke Mandarin and/or the Minnan dialect. The bank's customers tended to be involved in real estate and international trade. With globalization and market expansion, General Bank diversified its portfolio, products, and services in the 1990s. American International Bank began as an Armenian bank to service Armenians in the jewelry industry in downtown Los Angeles. When a group of local immigrants from Taiwan injected needed capital in 1986, the bank expanded into the ethnic Chinese market (Interview #21).

Local, national, international contexts: Further expansion of Chinese American banks

Since the 1970s, the role of Los Angeles in the national and international economy has undergone fundamental changes, providing room for the economic activities of Chinese immigrants. The military-related expenditures that had spurred Los Angeles' growth since World War II were reduced decisively in the 1980s; and industrial restructuring led to

the closure of large unionized factory sites (Soja and Scott 1996). This opened space for the growth of lower-wage manufacturing integrated into global trade patterns. Along with other major cities in the US, Los Angeles also emerged as a global city (Sassen 1991) with a concentration of financial, administrative, and professional activities linked to other global cities. Los Angeles has become, in essence, a dual city (Mollenkopf and Castells 1991), attracting both a professional workforce and a low-paid labor sector. In this dual city, specialized industries employing skilled professionals co-exist with lower-wage, low-technology industries such as apparel.

Many Chinese entrepreneurs involved in manufacturing and commercial activities rely on precisely this mix of lower-wage and professional employees, and they have numerous cross-border trade and other linkages. Thus, this evolution of Los Angeles is consistent with the kinds of economic activities that these immigrant entrepreneurs are able to conduct – and which the Chinese American banks are able to finance. The Sino-Vietnamese, Taiwanese, mainland Chinese, and Hong Kong immigrants engaged in trading and import/export businesses in southern California are able to coordinate flows of goods and services from China, Taiwan, Hong Kong, Southeast Asia and other parts of the world.[12] Given the persistent US trade deficit, especially with East Asian nations, these southern California entrepreneurs are well positioned as channels for robust, stable, and largely one-way flows of goods.

There had been yet more developments encouraging the flow of people and financial wealth from Asia to the US. Many of the diasporic Chinese who had converged on southern California in this most recent period had come in search of a financial and political "safe haven," facilitated by US immigration policies and domestic policies in the immigrants' various countries of origin. Key elements here have been the evolving three-way geopolitical relationship between the US, China, and Taiwan; the retrocession of Hong Kong to Chinese rule in 1997; and China's clampdown on its domestic democratic movement in the June 1989 Tiananmen Square incident. Also facilitating migration from Taiwan are several changes in Taiwan's government policy. In July 1987, the Central Bank in Taiwan liberalized its control on outward and inward remittances. This policy, combined with high real interest rates in the US, led to substantial capital flows from Taiwan to the US.[13]

This money had facilitated the business and residential expansion of Taiwanese immigrants, especially in the San Gabriel Valley. Meanwhile, the United States' 1986 Immigration Reform and Control Act increased the limit of Hong Kong immigrants to the US from 600 to 5,000. Four years later, the 1990 Immigration Act permitted the immigration of foreigners who were willing and able to invest US$1 million in a US business that would create employment opportunities for local residents.

Many applicants from Hong Kong and especially from Taiwan took advantage of this provision. Several immigrants bought residences with mortgages from Chinese American banks, while some immigrant businesspeople in the import business purchased warehouses to store their merchandise, also using loans from Chinese American banks.

The inflow of financial wealth and the high concentration of Chinese residents and businesses provided a ready deposit base for banks in the San Gabriel Valley, as well as infusions of capital enabling banks to increase their asset size and expand their loan base.[14] The continual establishment of more businesses and the growth of existing businesses create the need for working-capital and expansion financing; continuous real estate construction leads to developers' demand for construction financing and, ultimately, purchasers' demand for mortgages or take-out finance from banks. Consequently, Chinese American banks continue to proliferate in the San Gabriel Valley; many maintain their headquarters as well as branch offices there. By supplying this financing, these banks also spur the Valley's further residential, commercial, and industrial development. On average, 58 percent of Chinese American banks' loans are commercial and industrial loans, and 41 percent are residential/real estate based loans (Dymski *et al.* 2000).

Asia in Los Angeles: Ethnobanks, mainstreaming, and globalization

The 1980s and 1990s witnessed yet a third stage in the evolution of Chinese American banking: the increasing ownership of these institutions by ethnic Chinese from Asia, especially Chinese Indonesians. This occurred in particular when financial groups from this region purchased existing Chinese American banks chartered in California.

This trend was initiated in 1979 when a Hong Kong banker acquired the Pan American National Bank of Los Angeles, previously owned by Latino Americans (Lai 1995). It was renamed Trans American National Bank in 1981. The name was changed to Trans National Bank in 1984, and again to China Trust Bank of California in 1995 (National Information Center of the Federal Reserve System) when it was acquired by buyers from Taiwan. As of 1997 it has been known as ChinaTrust Bank (U.S.A.). ChinaTrust Bank is solely owned by Taiwanese investors Jeffery L.S. Koo and Kenneth C.M. Lo (owners of ChinaTrust Commercial Bank Taiwan). ChinaTrust Bank (U.S.A.) later became a subsidiary of the ChinaTrust Bank in Taiwan (Wang 1994; Li *et al.* 2000). In 1982 an ethnic Chinese from Japan acquired the Los Angeles National Bank (Lai 1995) that subsequently relocated its headquarters to Orange County where it remains.

Ethnic Chinese from Southeast Asia began to appear in 1980 when Chinese Indonesian James Riady's Lippo Group bought the Bank of Trade in San Francisco. This bank established a branch in Los Angeles Chinatown in 1986, and changed its name to Lippobank in 1990. The Chinese Indonesian Sudono Salim's First Pacific Group purchased the non-Chinese owned Hibernia Bank in San Francisco in 1982. In 1986, Hibernia acquired the failing United Savings Bank in San Francisco and immediately established a branch in Monterey Park. United Savings Bank was formerly known as United Savings and Loan Association. It was founded by Chinese American old-timers in 1979 (Lai 1995). United Savings Bank is now known as United Commercial Bank. In addition, in 1980 a Chinese family in the Philippines obtained a majority share of the International Bank of California headquartered in Los Angeles County.

The trend continued in Los Angeles County during the 1990s, with more purchases of pre-existing local banks (Chinese American and others alike) by foreign corporations and/or families of Chinese origin, especially those from Taiwan and Indonesia. For example, the Chang family of Taiwan acquired Universal Bank in 1990; in the same year the Rebar Group in Taiwan purchased Omni Bank. The Lin-Yuan Group bought United National Bank from its Indonesian Chinese owner in 1992. The Indonesian Nuri Investment, controlled by the Lim family, took United Pacific Bank first and then East-West Federal Bank; while the Salim Group of Indonesia negotiated Guaranty Bank of California, also in 1992. In 1995, Pacific Business Bank was obtained by a group of American citizens originally from Taiwan. The Bank SinoPac of Taiwan also acquired Far East National Bank in 1997.

New banks also appeared in the 1990s, including the following institutions financed mostly by people from Taiwan: Asian Pacific National Bank (1990); First Continental Bank, Preferred Bank (1991); and EverTrust Bank (1995). These capital injections from disparate sources in the diaspora added momentum to the Chinese American banking sector in Los Angeles, but also intensified its competition (Wang 1994; Li *et al.* 2000).

The purchase of existing banks often pre-determines a bank's market orientation. American International Bank (acquired by East West Bank in January 2000) was started by Armenians but later joined by ethnic Chinese from China and Taiwan in the 1980s. It had an Armenian as its Chief Executive Officer. Its board of directors consisted of three Euro Americans and nine local residents originally from Taiwan. The bank retained its Armenian customers and board members as well as its other Middle-Eastern customers. Its deposits came approximately 50 percent from ethnic Chinese, 30 percent from Middle-Easterners, and 20 percent from other customers. This bank's pre-existing branches in "non-Chinese" areas continued to service Armenians, Middle-Easterners,

ethnic Chinese, Hispanic, Filipino, South Asians, and mainstream customers. Many of their employees spoke four or five Middle-Eastern or Chinese languages/dialects. The executive interviewed offered this remark: "I read that at one time we spoke 96 languages/dialects. Our logo was 'We Speak Your Language'!" (Interview #21).

One bank used to be owned by Euro Americans and Japanese Americans. The existing and additional branches after two mergers are located in areas not heavily populated by ethnic Chinese. The new management retained the mainstream image of the bank without emphasis on its ethnic Chinese ownership. Their customers and employees are mainly local Euro Americans. Ethnic Chinese contribute only a small portion to total deposits and loan portfolio (Interview #13).

Another bank was first established in 1954 by an Italian and then sold to an Australian group in 1980. The bank's branches were located in areas heavily populated by Euro Americans such as Orange County adjacent to Los Angeles County and its San Fernando Valley. A family in Taiwan acquired this bank. It is managed by a family member who has lived in southern California for some time. Its board of directors include two family members who are ethnic Chinese, two Euro Americans, as well as an ethnic Chinese born in Latin America who speaks English, Spanish, a little Cantonese but no Mandarin (the official language of Taiwan). A bank executive stated his personal opinion as follows: "We work in this area and we don't care about ethnicity, Chinese or whatever. We try to give benefits to the whole community. That is the best way. Everyone lives together. There's no one community that's all Chinese" (Interview #18). A high percentage of the banks' depositors are non-Chinese, as are many of its employees.

The emphasis on what might be called a "localized globalizing" strategy is also reflected in some banks' officers and directors. Their management teams are diversified in background and international origin, facilitating numerous cross-border linkages. For example, the board at one of the banks studied is made up of nine or ten directors located in northern and southern California and New York, and includes five Euro Americans (Interview #8). Although the majority of shareholders at another bank are from Taiwan, they consist of ethnic Chinese who are American citizens, permanent residents who live in Taiwan but come to the US frequently, those who live permanently outside of the US and are foreign nationals, as well as some local Euro Americans. All these shareholders came together to form this bank because they were already friends to begin with (Interview #20).

In addition, United Pacific Bank is largely owned by a Chinese Indonesian based in Southeast Asia, but its board of directors is multi-ethnic and intra-ethnic – including Chinese from Malaysia and the Philippines, a Euro American, and a former French banker with 30 years

of experience in Asia. This board is diverse by design, in profession and in ethnic backgrounds, put together by the bank president via personal contacts (Interview #8). As noted in several interviews with bankers, referrals from their boards of directors, bank officers, and customers are a key source of growth in business opportunities and volume. Personnel from diverse ethnic backgrounds enable these banks to cast wider nets into various resources of supply and demand.

As some banks extend beyond the Asian base into the mainstream, they have to contend with American competitors. Those that target an Asian market compete with other banks that do likewise, but some banks also occupy intra-ethnic niches. One banker reckoned that "we all have our own niche, based on relationship. We cater to old-timers, banks backed by Taiwan money cater to immigrants from Taiwan. It depends on contact" (Interview #17). Further nuance is seen in immigrants from Taiwan that reflect the intra-ethnic composition in Taiwan. Some banks are established by those whose families have lived in Taiwan for generations (the *beng sheng ren* meaning people of this province). Others are run by the offspring of mainlander Chinese (the *wai sheng ren* meaning people of other provinces) who came to Taiwan from mainland China with the Guomindang (Nationalist Party) regime after 1947. Capital infusion reflects this difference. For example, General Bank is financially backed by Taiwan's Unipresidential Group which is owned by *ben sheng ren*; Omni Bank is largely owned by the *wai sheng ren* Mr Wang's Rebar Group. Such differences also affect these institutions' choice of executive personnel and their customer base, especially major depositors. In addition to customers who originated from Southeast Asia and mainland China, Omni serves mostly customers from Taiwan but more *wai sheng ren* than *beng sheng ren*, while General Bank initially catered more to the *ben sheng ren* immigrants (Interview #21).

While they compete, Chinese American banks also cooperate with one another in profit-oriented ventures – they participate in loan syndications. To minimize risk and to handle a large loan, some banks let out the news to fellow Chinese American bankers with a deadline, others call the banks they have worked with before to solicit interest, still others call their friends in the business. For loan syndication, these bankers work with other Chinese American banks which already understand the same market at hand. They also work with particular banks based on business decisions because different banks prefer certain loan size and type due to individual banks' asset size, loan portfolio, and investment strategy.

As regards customers, one frequent remark by these bankers is: "Asians are good savers!" Chinese American banks absorb deposits mostly from the Chinese. These funds finance real estate purchases and construction for Chinese as well as non-Chinese borrowers. Although

residential mortgages are mostly made to ethnic Chinese, commercial and industrial loans also go to a clientele from the general populace. While the deposit base is largely Chinese (more than 80 percent for some banks), and Chinese also constitute the majority of trade finance borrowers, some bankers reported that approximately 50 percent (and in one case as high as 80 percent) of the real estate construction loans, commercial and industrial loans are extended to Euro American borrowers from California and such neighboring states as Nevada. In this way, the Chinese American banking sector mediates between an ethnic residential/immigration center and market opportunities. While these market opportunities are increasingly defined in non-ethnic terms – due in part, as we have seen, to the strategic orientation of the newer Chinese American banks – the convergence of heterogeneous sources of diasporic capital and diasporic subjects remains at the core of this sector's robust performance.

The Flair Business Park in El Monte exemplified this convergence. In the economic recession of the early 1990s, this facility had a high vacancy rate. Within a six-month period, the vacancy problem was resolved when six out of seven vacant warehouses and office buildings – a total of 190,000 square feet – were sold. The buyers were as follows: a Hong Kong watch manufacturer, a garment importer and an entertainment equipment importer from Taiwan, the Cultural Affairs Office of Taiwan, the aerospace agency of China, and a Singaporean garment manufacturer (Tseng 1994: 182).

Therefore, contrary to the popularized notions of a single Chinese global tribe (Kotkin 1993) or a monolithic worldwide business web of Chinese commonwealth (Kao 1993), the ethnic Chinese banking industry in southern California demonstrates segmented networks that are intra-ethnic, inter-ethnic, inter-racial, and international, brought together by a common interest in business that is profit-driven. Although this particular banking sector in southern California is termed Chinese American banks, there is tremendous variation within the overall category called ethnic Chinese.

The strategies and goals of the Chinese American banking sector itself became more complex as this sector grew, reflecting the mode and timing of these bankers' entry into the local ethnoscape. The banks founded in Chinatown by old-timers during the first wave of Chinese American banking industry appeared to embrace a strong community ethos. Executives who had, since the early years, long affiliated with Cathay Bank, Standard Savings Bank, Far East National Bank, and East West Bank emphasize their goal of serving the community and helping its people succeed. As one of these early bankers put it: "Our purpose is to serve the community, and just make some money along the way" (Interview #2C). Despite its prominence as one of the four largest

Chinese American banks in the US, Cathay Bank retains its headquarters in Chinatown. Cathay Bank's management indicated that even its interstate expansion was aimed at following the Chinese American population across the country. A banker who had grown with another early bank founded by an old-timer recounted the following:

> We encourage our people to join different community organizations, not just to develop business … [but] become more aware of the community's needs, strength and weakness, and what we can do to help or enhance … it helps us too to develop different products that the community wants. ... Sometimes we help people find a CPA … to start a business here, or find a lawyer to do their immigration … not just transaction ... Sometimes the Chinatown Community Service Center train some people and we hire them (Interview #10).

The above bankers are Cantonese-speakers affiliated with the Cantonese-speaking Chinatown community. But even in the early years this sense of community traversed intra-ethnic backgrounds and places of origin. An executive had come from Taiwan, where Mandarin is the official language, to study for an MBA degree in the US in the 1960s. After almost a decade with public tax firms, in 1977 she joined one of the above old-timer banks in Chinatown when its owner approached her and said: "Being Chinese, with your knowledge in banking you should contribute to the community where you can best serve your people." She stayed with that bank for 18 years until it was sold to foreign ownership. She said: "I have deep emotional ties with it … as if watching a baby grow. Some [of my customers] started as waiters and became big developers. They grew along with the bank … I want to serve the community … to pay back my community" (Interview #7). The above bankers convey strong sentiments for the old immigrant Chinatown community and a solidarity that transcends socioeconomic disparity, perhaps because they had endured discrimination in earlier years as members of a minority excluded by mainstream American society.

On the other hand, the newer banks and even the ones with smaller asset size but backed by Taiwan money and personnel intentionally seek exposure in mainstream and international spaces as a business strategy. Few of these bankers expressed emotions similar to those voiced by the old-timers. One might speculate that this difference in outlook reflects the extent to which these immigrants have experienced racial discrimination in the US. Many of the newer immigrants probably had not gone through or experienced the American pattern of racial hostility and the social struggle by the older immigrants against this hostility. These Taiwanese bankers' perspective is possibly further informed by

Taiwan's ascending position in the global economy during the past few decades. Consequently, the Taiwanese counterparts to the old-timer banks, such as ChinaTrust and Preferred Bank, seek to go mainstream (Interviews #6 and #14). Whereas the larger old-timer Cathay Bank's intra-state and inter-state branching strategy plans to capture and serve a larger share of the Chinese American market, the expansion of the other large banks with Taiwan backing, such as General Bank and Far East National Bank (FENB), is aimed at establishing global linkages across international borders (Interviews #1, #10, and bank publications).

The increasing penetration of the Chinese American banks and of the Chinese diaspora in the economy of southern California is symbolized by the headquarters locations of Far East National Bank. Originally headquartered in Chinatown, Far East relocated its headquarters out of Chinatown to the outskirts of downtown Los Angeles in the 1980s, then again in the 1990s to a prime downtown location in Los Angeles' financial district within the commanding office skyscraper called California Twin Plaza. With US$6 billion in assets, Bank SinoPac of Taiwan subsequently acquired Far East National Bank of Los Angeles as a wholly owned subsidiary for US$94 million in August 1997. Far East's new president is a Euro American and a former Citicorp executive with ten years of experience in Asia. Far East's prominent signage and branch-office location at the California Twin Plaza assert its intention to establish a larger presence in this global city. Far East also opened a branch office in Beverly Hills in 1999, managed by a Euro American, and this office "specializes in the increasingly globalized entertainment industry and corporate banking" (FENB 1998 Annual Report). Far East maintained a representative office in Beijing that continued to operate under the present ownership, and a China Banking Department stands as one of its "Strategic Business Units" (ibid.). Bank SinoPac was prohibited from doing the above due to the political impasse between China and Taiwan, until 2001 when the government of Taiwan permitted Taiwan's banks to open representative offices in China. In other words, through its entry into the US market with the acquisition of Far East, Taiwan's Bank SinoPac secured access to China's potentially lucrative market. Bank SinoPac also keeps representative offices in Hong Kong and Ho Chi Minh City in Vietnam (Interview #10). Far East's goal is captured in a flyer it has issued, which begins with this headline: "YOUR PASSAGE TO THE PACIFIC RIM.... A unique banking network on both sides of the Pacific."

Similarly, from its local origins, the Chinese American banking sector is making efforts not only to penetrate the mainstream American market, but also to enter more centrally into global economic flows. In addition, other large Chinese American banks, such as General Bank and East West Bank, likewise stress their connections with the Pacific Rim. General

Bank once announced that its goal was to become a multinational enterprise. The smaller ChinaTrust views itself as a "premier 'Global Bank'" (ChinaTrust Bank flyer). Chinese American banks in southern California are increasingly operating as a diasporic banking sector embedded in the global economy.

The Asian currency crisis

In 1997–8 a widespread currency crisis broke out over Asia. Countries in Southeast Asia were affected first. Beginning in July 1997, Indonesia, Thailand, and Malaysia – nations with a large ethnic Chinese population – experienced massive capital flight and collapsing land, equity-market, and currency values. Companies in these economies had borrowed heavily in money markets and from overseas banks, much of it short-term loans. By mid-1998, these countries were in deep recession and their banking systems were saddled with huge volumes of unpayable debt.

In East Asia, Hong Kong used aggressive intervention in its equity market to maintain stable prices and to protect both equity prices and the value of the Hong Kong dollar. The calculated gamble paid off, supported by substantial foreign-exchange reserves. Further, Hong Kong had far less external exposure to bank loans than Southeast Asian countries and Korea.

The crisis did not affect Taiwan too adversely. Taiwan was aided by its huge foreign-exchange reserves and its relatively small volume of overseas debt – a legacy of its stringent policies on capital movement. Korea, however, was profoundly affected by the crisis. With both a large exposure to overseas debt and relatively small reserve totals, Korea was forced to sign an International Monetary Fund (IMF) agreement in late December 1997. China itself avoided any direct effects from the crisis, as its currency remained centrally controlled. The US economy encountered very little damage from this crisis, as its banks had relatively small exposure in Asia.

Beyond these impacts at the national level, this crisis had profound micro-level impacts, generating losses for families and firms throughout the Pacific Rim. While Asian nations are renowned for their large trade surpluses with the US and Europe, half of all Asian trade is intra-continental. Further, in Southeast Asia, small and medium-sized ethnic Chinese and family-owned firms generate a substantial amount of manufacturing and trade. Many of these firms experienced revenue and earnings losses. The owners of large-scale enterprises, many of whom were highly leveraged and had substantial risk exposure in real estate and banking, were hit especially hard. Some of these businessmen had invested in the US, including in the banking sector.

Consequently, the Asian currency crisis had a variegated impact on banks in southern California owned by ethnic Chinese. Some of the Chinese Indonesian owners of these banks were seriously affected. They were forced to withdraw some capital, leading to changes in ownership and organizational structures. The Lim family of Indonesia had to sell its ownership share of East West Bank at the peak of the crisis. This bank's senior management team of Chinese and Indonesian Americans was able to rally a group of wealthy investors: more than 50 Wall Street institutions, including Merrill Lynch, Oppenheimer, and Wellington Fund paid about US$200 million to purchase it in June 1998 (Flanigan 1998). East West has thus become a Wall Street-owned institution whose management personnel remain ethnic Chinese from the diaspora including Indonesia. A Taiwanese bank with a Chinese American affiliate sustained an income loss of US$300–400 million from its Southeast Asian branches, even while the US operation skirted any crisis-related losses.

Other Chinese American banks with owners elsewhere in Asia avoided the serious impact of the crisis. Several bankers mentioned that most of their deposit and loan bases came from local residents, therefore the Asian crisis had little negative impact on their businesses. It appears that Chinese American banks are more tied to the local economy in California and the US than to that in Asia. While these bankers indicated little or no business effects from the crisis, other banks, specifically those heavily involved in trade finance, actually benefited from it. Many ethnic Chinese firms in southern California, as noted, are wholesalers, distributors, and importers who deal with suppliers in Asia; and dropping import prices have meant increased business for these importers. Prior to the crisis, these importers often received trade credit from their suppliers in Asia. Since many suppliers are no longer able to provide this trade credit after the crisis, these California importers subsequently turn to Chinese American banks for letters of credit to purchase their wares. To this extent then, the Asian crisis has been a boon for Chinese American banks.

It is possible, however, that in the longer run, more adverse consequences of the crisis will be felt. Taiwan, for example, is still feeling lagged effects of the Asian crisis – in late 2000, Taiwan's banking system was suffering from the joint effect of bad loans and political uncertainty (Landler 2000). Longer-term effects may be felt, directly or indirectly, due to the structural damage that this crisis has had on the wealth and asset values of many of the Asian owners of Chinese American banks. Ironically, the shift of the Chinese American banks toward greater business involvement in Asia – that is, these banks' emerging global financial role – may turn from a source of additional strength into a liability.

Summary and conclusion

The Chinese American banking industry in southern California began as an immigrant enterprise, to counteract the disadvantages of racial discrimination against Asian Americans in residential and business credit markets. Local, national, and international political economic forces led to a sizeable diasporic convergence in southern California of ethnic Chinese residents and businesses from East Asia, Southeast Asia, and elsewhere in the diaspora. This diasporic convergence formed a critical mass with heterogeneous levels of financial, social, and human capitals. The members of this critical mass generated both the supply of deposits and the demand for credits that fed the growth of Chinese American banks. Over 20 percent of all bank branches in Los Angeles County are now ethnobank branches; and most of these are Chinese American institutions. This local core of Chinese American banks not only plays a role in the global economy, it has also begun to penetrate the mainstream US financial market.

As discussed in this chapter, the success of this banking industry cannot be attributed to uniform ethnic affinity and cooperation throughout the Chinese diaspora, nor has it resulted from the efforts of ethnic Chinese alone. Rather, as its ownership structures and market base demonstrate, this banking sector has evolved rapidly because its activities have been simultaneously intra-ethnic, inter-ethnic, and international. In various stages of its development, this industry has demonstrated segmented networks and competitive strategies based on intra-ethnicity. It has also drawn together people and businesses from different ethnic and national backgrounds for the shared purpose of profit-making, in a period and climate that have favored its growth. It is this timely convergence of heterogeneity and the business acumen for profit, rather than universal ethnic affinity and cooperation, that has enabled the Chinese American banking industry to become a significant force in southern California's banking sector. In effect, Chinese American banks are eminently local banks active in the economy of southern California, but they simultaneously engage in the present globalized world market. They are powered by the economic dynamism of segmented networks made of social relations both within and beyond the Chinese diaspora.

This study illustrates the symbiotic relationship between the local and the global, and the interactions within and among disparate networks of firms and people whose business organizations and strategies are profit-driven, and increasingly supra-national yet localized and diversified at once. It challenges the claim of an integrated Chinese diaspora with unqualified co-ethnic affinity and business cooperation. The local is globalizing and the global is localizing concomitantly at different levels,

involving multiple participants that transcend territorial, political, socioeconomic, and ethnic boundaries. The powerful and unstable interaction between global forces and local development continues to shape and mold the Chinese American banking industry in southern California, bringing Asia to Los Angeles in an age of globalization.

Notes

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1 The numbers continue to fluctuate somewhat due to merger and acquisition and/or closure. At last count as of October 31 2002, there are two African American banks with nine offices, three Latin American banks with eight offices, seven Korean American banks with 52 offices, and 22 Chinese American banks with 115 offices.

2 Throughout this study, the Republic of China is referred to as Taiwan, and the People's Republic of China is denoted as China. This use of the terms Taiwan and China reflects no judgment on the question of the national sovereignty of Taiwan. Unless otherwise indicated, the word Taiwanese refers to people from Taiwan irrespective of ethnic or provincial origin.

3 Subsequent to our interviews with the banks listed in Table 7.1, East West Bank acquired American International Bank on January 15 2000. On January 7 2003, the *Los Angeles Times* reported that East West Bancorp, Inc., the parent of East West Bank, had announced on January 6 an agreed acquisition of Pacific Business Bank for US$25 million in cash.

4 Bourdieu (1980, 1986) developed the concept of social capital, Coleman (1988) furthers this concept in English. The idea of human capital was advanced by Becker (1993).

5 The link between heterogeneity in wealth and income levels and banking is readily explained. One way of looking at bank deposit-taking and lending operations is as the redistribution of spending power from units that have more resources than they wish to spend in a given period, to units that seek

to spend more than their resource limits permit. If a given population was uniformly wealthy – so that virtually all of its members sought to spend less than their available resource limits – then banking would only be possible with another population that systematically generated loan demand. This heterogeneity also insures that firms demanding labor might be able to hire from within the ethnic in-group. In effect, the more heterogeneity that exists within a given population, the more borrower/lender and employer/employee positions that can be filled internally.

6 Vietnam was part of the Chinese empire from 111 BC to AD 939. Prior to the fall of Saigon, ethnic Chinese in Vietnam were barred from participation in civil service – perhaps explaining their emphasis on trading and business. Chinese prominence in the Vietnamese economy before the fall of Saigon can be seen in the following:

> The large Chinese trading firms in Saigon dominated rice export, small-goods import, and most of the small-scale manufacturing. This is not to say that all Chinese were wealthy businessmen … and even among those in trade the vast majority were poor, perhaps owning no more than a portable stall and a few dry goods to sell in an open market. Nevertheless, even these small businessmen had a commercial mentality that differed markedly from the peasant culture of the majority of the indigenous population.
>
> (Wilmott 1980: 72)

7 Under the 1975 Refugees Act, 125,000 refugees were allowed to migrate to the US. Between 1978 and 1981, more than 400,000 refugees arrived under this act, about 90 percent of them from Vietnam. In 1984, another 40,000 entered the US. The initial wave of refugees were mainly ethnic Vietnamese. Subsequent refugees included, apart from Sino-Vietnamese, ethnic Chinese from Cambodia and Laos. Initially resettled throughout the US, secondary migration brought most of these refugees to California.

8 Light and Sanchez (1987) have estimated that immigrants whose entry was facilitated by the 1965 Immigration Act (including ethnic Chinese) accounted for between one-sixth and half of the increase in non-farm self-employment during the 1970s.

9 The influx of Chinese newcomers eventually triggered a political reaction by the established white political leadership in Monterey Park. This struggle, analyzed by Fong (1994), Horton (1995) and Saito (1998), is not taken up here.

10 Asked why he chose the restaurant business, a restaurateur answered: “When we were still in Hong Kong before we came here, we were told by our relatives in the United States that we better learn how to work in the restaurant, either as cooks or as waiters. Those are the kind of warning we got from them. Also, when we arrived here and looked for jobs, we relied on family network. Old Chinese immigrants’ job network is the restaurant business.”

11 A local restaurant owner from Hong Kong commented as follows: “You know, one of the supermarkets in Monterey Park is owned by the Chinese who used to provide food supply to the American military bases in Saigon! They are experienced and have the know-how of this business.”

12 International economic linkages and an export-oriented homeland also contribute to the high percentage of small businesses among Koreans in Los Angeles (Chin, Yoon, and Smith 1996).

13 Liu (1992: 169–75) estimated these outflows as US$7.4 billion in 1988 and US$8.2 billion in 1989 for non-bank flows, accompanied by average bank

outflow (mostly due to trade-related financing) of about US$3.9 billion in 1988–90. Taiwan's Ministry of Foreign Affairs estimated that US$349 million moved to the US during the first eight months of 1989, up from US$70 million in 1987.

14 Under the Basle Accord, banks must maintain capital-asset ratios of 8 percent or more; so increasing a bank's equity base increases its potential asset size and hence its loan-making potential.

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8

PATHWAYS TO RECOVERY

Bankers, business, and nationalism in Thailand

Kevin Hewison

Introduction

At the end of 1997, Chatri Sophonpanich, the patriarch of the Bangkok Bank, held a reception for Thailand's business leaders. He welcomed them not as tycoons, but as the "millionaires of yesterday" (Nation Multimedia 1998). Six months earlier, Chatri's bank was the largest private commercial bank in Southeast Asia and his guests were Thailand's Sino-Thai business elite.

This chapter focuses on the trials that have beset Thailand's big business groups since the end of a decade-long boom that concluded with the July 1997 currency crisis. This analysis of the impact of the crisis is placed in the context of an examination of the development and reorganization of the capitalist class. Such an analysis should provide insights into the nature of this restructured class and its trajectory.

The focus of the study is commercial banks. This is because it was these institutions that were at the apex of Thailand's business structure for virtually the whole of the post-World War II period. The economic boom and the crisis have been critical events in shaping the future of Thailand's capitalism. Only the Great Depression and World War II rival the impact of the currency crisis on business. The depression and the war, together with the rise of military authoritarianism, shaped a powerful domestic capitalist class that grew up under import-substituting industrialization. Banking capitalists came to lead large financial and industrial conglomerates, becoming particularly powerful in the protected environment of the 1960s and 1970s. When export-oriented strategies were fully adopted from the mid-1980s, and the 1987–96 boom began, Thailand's capitalist class became both larger and more diverse. Although their position was challenged by rival groups in new economic sectors in telecommunications, entertainment, export manufacturing, and real estate, banking capitalists retained their influential role in the

corporate sector. However, the crisis that began in 1997 has seen the collapse of significant elements of this broader capitalist class, and a serious challenge to the wealth and power of banking capitalists. Huge non-performing loans, debts, and capital write-downs have seen foreign capital take a significant stake in the banking sector. The chapter examines these challenges to Thailand's capitalist class.

The changes to the structure and composition of the capitalist class are discussed in five parts here. First, a brief review of recent issues related to the idea of Asian capitalism and Chinese diaspora capitalism is presented; these issues will be addressed again in the conclusion. The second part provides background on the development of capitalist power in Thailand and pays some attention to the events of the crisis. The third part attempts to draw together some of the data regarding wealth accumulation and ownership and control of the corporate sector in the post-crisis economy. In the fourth section, the focus is on post-crisis outcomes. Finally, some basic data on banking capital are presented in an annex.

Asian and Chinese capitalism

The "Asian miracle," where a number of East and Southeast Asian economies underwent periods of substantial and sustained growth, spawned an academic industry. Theorists from a range of disciplines and across ideological divisions saw Asia as establishing a new path to capitalist development. In the search for patterns, some distinguished between East and Southeast Asian capitalisms (for example, Orrú, Biggart, and Hamilton 1997), while others wrote of the need for (or lack of) "convergence" between "Asian" and "Western" varieties of capitalism (see chapters in Berger and Dore 1996). Others identified a specifically Chinese diaspora capitalist form that was "stateless" (for example, Redding 1990; Hamilton 1993).

In the Thailand context, the debates on "Asian capitalism" have limited utility. For example, Thailand does not easily fit the East Asian "model." One need only examine the obvious contradictions between the World Bank's *Miracles* report (World Bank 1993) and the Thailand country paper (Christensen *et al.* 1993) to understand this. Whereas the main report was reasonably positive on the role of the state in East Asia, the Thailand country paper argued that patronage and rent-seeking meant that state intervention prevented effective policymaking. Thus, unlike Korea, Japan, and Taiwan, there was no effective industrial policy in Thailand (Christensen *et al.* 1993: 1–8). A number of analysts have suggested that in neither boom nor bust did Thailand's experience match that of the East Asian Tigers (see Doner and Hawes 1995; Doner and Ramsey 1997; Pasuk and Baker 1998).

Although all capitalist economies share a number of characteristics, the nature of capital in each nation emerges in particular social and historical contexts. In other words, since capitalism arises from the specific history of class forces in each society, there is no single path to capitalist development. It is, however, these forces that should be the center of analysis (Hewison 1989: 214). In fact, the crisis has reinforced this perspective, with even the liberal magazine *The Economist* (1998: 7) noting significant diversity in the region, stating that the "biggest myth of all is that of a single Asian economic model. These economies differ hugely."

But what of "Chinese diaspora capitalism"? As Lever-Tracy and Tracy (1999: 3–4) explain it, this is a form of capitalism where integration is based on "long-term horizontal networks that link corporate bodies." These networks are often personalized and "embedded in relations of reciprocity." Growth and profit motives are said to be given a priority lower than independence and family control. While acknowledging that this capitalist form is not "uniquely Asian or Western in character," the authors argue that it is prevalent in Asia, and particularly characterizes Chinese diaspora capitalism (Lever-Tracy and Tracy 1999: 5). In defining this form of capitalism, which they see as pre-dating "modern capitalism," Lever-Tracy and Tracy (1999: 5) state that Chinese diaspora capitalism is:

> a distinctive type of capitalism. Continuing control by members of entrepreneurial families, a preference for personalized, long-standing, external networks based on trust and often leading to friendship, and a strategy of multiplication and diversification are the three legs … [of] Chinese capitalism.

Pyatt (1996: 2) argues that the capitalism of the Chinese diaspora is one of the "three successful forms of Asian capitalism."[1] This capitalism is said to provide Chinese firms in Southeast Asia with considerable competitive advantages (Yeung 1999: 122), with some economists even suggesting that the more "overseas" Chinese a country has, the more likely it is that that country's trade will be enhanced (Rauch and Trindade 1999).

These contentions about Chinese networks and capitalism have been the subject of considerable criticism, as discussed in the introduction to this volume. Here, only two points from these critiques require attention. First, almost all of these treatments fail to adequately theorize capitalism or to place the analysis of "Chinese capitalism" within class and global contexts (Hart-Landsberg and Burkett 1999; Gomez 1999: 8–9).[2] Second, there is a tendency to neglect the exploitative elements of Chinese capitalism, idealizing a few tycoons as representative of all "overseas" Chinese. For example, Pyatt (1996: 3–4) and others define

Chinese capitalism in terms of culture and management practice, but neglect critical aspects of production and exploitation.[3]

It is clear that the assumed distinctiveness of "Chinese capitalism" has much to do with ideology. As Szanton Blanc (1997: 264) observes, this "concept of a triumphalist Chinese capitalism" is little more than an attempt by big Chinese capitalists to affirm their strength in a world capitalist system that is reorganizing vigorously, and where Asia is a significant locus of attention. This ideological process has been supported by a number of political leaders in the region (Gomez 1999: 10).

For Thailand, numerous writers have indicated the contribution of ethnic Chinese to the development of domestic business (see, for example, Skinner 1957, 1958; Suehiro 1989; Hewison 1989), an argument borne out by the analysis below on Sino-Thai companies and families. This study is not, however, an ideological exercise in lionizing Sino-Thai tycoons or to identify a form of Asian or Chinese capitalism. Rather, it is to trace the pattern of evolution of the structure of ownership and control within Thailand's economy, the impact of the Asian economic crisis on this structure, and the changing nature of competition deriving from global processes. In the course of this historical analysis, I hope to show that Sino-Thai capitalists have been driven more by the forces of development in Thailand than by notions of culture, ethnicity, or network.

Thailand's economic development

Over the past 100 or so years, Thailand has undergone a capitalist revolution.[4] Capitalism's ascendancy has involved a process of industrialization which has transformed an essentially subsistence agricultural economy into one where production involves the use of capital for profit. These enterprises have required the creation of a class of workers who have their labor for sale. This working class was originally made up of imported Chinese male labor. There has been a gender and ethnic transformation of the working class. Most of this class now comprises ethnic Thais, and more than half are women.

Thailand's capitalist industrialization began with the increasing commercialization of agriculture in the mid- to late nineteenth century, coinciding with the freeing of the peasantry from bondage. The country's specialization in the export of primary commodities saw the development of related industry, for example the setting up of rice and timber mills. The development of the export trade led to attempts to establish local banks, mainly by ethnic Chinese with royal principals, to compete with European banks and to support Chinese business. These Chinese business people were a very small elite within a rapidly growing Chinese population, most of whom were wage-laborers. Interestingly, the fact that

the Chinese were not involved in agriculture meant that they were not bound by links to family and farm in rural areas. Unlike the majority of Thais, the Chinese were embedded in the emerging modern, urban economy, which meant that they could more easily venture into areas of the economy that promised good returns. In contrast with ethnic Thais, the Chinese were "freer" to engage in wage-labor and commerce. The Chinese began to dominate urban areas, and were thus well placed to take advantage of the opportunities that emerged as capitalism developed in towns.

As Suehiro (1989: 71) explains, to successfully venture into business a person required "access to local political power and European capital." This led the Chinese elite to move into tax farming and rice milling as well as acting as compradores for European banks. While dialect and clan associations were important to the Chinese community, it is clear from Suehiro's study that these institutions did not always play a role in determining business or family decisions. Apart from developing business links and encouraging marriage ties with royals and nobles, the small Chinese business elite married among themselves, across clan "boundaries." Between 1912 and 1933, about half of the investors involved in the establishment of Chinese-dominated firms were non-Chinese (Suehiro 1989: 101). Patterns of investment by ethnic Chinese that went beyond clans and speech groups and included Western and royal Thai investors were necessary in an economy where the capital-owning class was small and "access" was important.

With the overthrow of the absolute monarchy in 1932, a more nationalist approach to development was established, revolving around the need for state intervention in the economy to stimulate industry and to improve the lot of the farming majority. The policies introduced by the state were, however, poorly conceived and did little to promote non-agricultural employment and investment by ethnic Thais. These policies led to investments by the state, but these did not prevent the further development of the Chinese business elite. They did, however, lead to the end of the tax farmer group, for their political patrons had been overthrown. When combined with the impact of the depression, the capitalist class was reorganized with Chinese rice millers becoming dominant.

These millers were relatively new groups, dominated by Teochew families, but including Hakkas and others whose origins were in China's southern Kwang Tung province.[5] Even so, there were marriages and business investments between Teochew and other Chinese groups, and with elite Thai families. While each of the big families took leading positions in their dialect associations, they also shared positions in the Chinese Chamber of Commerce, the Rice Millers' Association, and other Chinese community associations (Suehiro 1989: 121).

The combined impact of the depression, World War II, and the state's expansion of investment, especially in the rice trade, saw a noticeable reorganization among Chinese capitalists. Most significant in this was the consolidation of Chinese and Sino-Thai control of the burgeoning domestic banking sector. As Suehiro (1989: 156–7) notes, each of the new banks was established by a group of investors from a wide range of business sectors, with the families involved usually from the same dialect group. The banks were established with a group of associated companies, usually linked by marriage, interlocking directorates, and joint investment. There were, however, some exceptions to this, with some groups having community-wide links. Since certain speech groups had traditionally dominated particular industries, for example – almost all rice millers were Teochew (Skinner 1958: 20) – when banks were formed, they tended to bring together investors from particular speech groups and industries.

If there was a trend that emerged in the period from 1932 to 1957, it was the involvement of military leaders in many large-scale enterprises (see Sungsidh 1983). Riggs (1966) identified this period as being the clearest expression of the "bureaucratic polity." This was a system Riggs characterized as dominated by powerful military and bureaucratic figures who tapped into the resources of Chinese business both for personal gain and to finance political activity. At the same time, there were benefits for those businesses that were linked to powerful political leaders, giving them competitive advantages in the important state sector and more generally.[6] The advantages involved protection from powerful political figures and information on state policy and investments. This group included Sino-Thai commercial bankers.

For the capitalist class as a whole – rather than those with links to powerful political figures – this accumulation regime was inappropriate as it meant an uncertain investment climate. This changed when General Sarit Thanarat came to power in 1958, via a military coup. His government was authoritarian, and was determined to establish order and promote private investment. This coincided with studies by the World Bank and other international organizations recommending increased support for the private sector, import-substituting industrialization (ISI), and a role for the state in infrastructure development.

An ISI strategy provided local enterprises with more room to invest, free of state competition. Industrialists gained the tariff protection they needed for domestic manufacturing. Foreign investors were keen to establish manufacturing behind protective barriers, while the government sought foreign investment to promote access to capital, technology, and entrepreneurial skills (Hewison 1985: 280–1). The taxation and export of agricultural production and the extraction of

savings from households into the commercial banking sector assisted economic growth by providing a pool of funds for industry (Silcock 1967). Under ISI, manufacturing's contribution to GDP rose significantly. High rates of protection encouraged domestic investment, enabling a more diverse capitalist class to emerge. While the Teochew dialect group still dominated many of the main sectors of the economy, other dialect groups were also well represented in business.[7] Many of these new groups were headed by Thailand-born Chinese, many of whom had been educated locally. These groups retained their dominant presence in the economy until the 1980s (see Table 8.1). Co-operation tended to be contained within the conglomerates rather than between them.

The winners in the new business environment of the 1960s and 1970s were banking capitalists and their industrial partners.[8] The banking families had established highly profitable operations in an environment where the Commercial Banking Act of 1962 restricted foreign banking and made the establishment of new local banks difficult (Punnee 1989: 300). Moreover, the stock market was then in its infancy and raising capital overseas was tightly controlled. The control of finance allowed the growth of large business groups for, in effect, finance could only be gained through the commercial banks. The banks were thus able to accumulate shareholdings in a range of businesses, including the developing manufacturing sector. The leaders of these conglomerates also maintained excellent relations with powerful political figures.

While these business groups had their ups and downs, their coalition of interests involving the control of banking and finance and domestic manufacturing meant that ISI was maintained. It was not until the mid-1980s that an export-oriented industrialization (EOI) policy was established. In terms of both policy emphasis and production, EOI has grown and strengthened since the mid-1980s, contributing to spectacular economic results, until 1997, and enabling Thailand to become an industrially oriented economy. In 1960, 82 percent of the economically active population was engaged in agricultural pursuits, but by 1999 this figure had declined to just 48 percent (ILO 2001). While employment in manufacturing industry remains relatively limited, employment in other non-agricultural activities has grown appreciably.

A significant and powerful domestic capitalist class continued to drive growth, developing rapidly, especially after the mid-1980s. As markets expanded, specifically in real estate, construction, and wholesale and retail trade, this class grew further and became increasingly diverse.

This period of rapid growth between 1986 and 1996 also saw a challenge emerge to the financial dominance of the big bankers whose commercial banks controlled the supply of funds to the domestic investment market.

Table 8.1 Dominant business families, *c.* 1980

Family/group (including speech group and place of birth of senior leader)	*Core business activities*
Sophonpanich Family *Local-born (?) Teochew*	Banking and finance (Bangkok Bank)
Tejapaibul Family *Local-born Teochew*	Banking and finance (Bangkok Metropolitan Bank, Bank of Asia, First Bangkok City Bank)
Ratanarak Family *Local-born Teochew*	Banking and finance (Bank of Ayudhya)
Lamsam Family *Local-born Hakka*	Banking and finance (Thai Farmers Bank)
Wang Lee Family *Local-born Teochew*	Banking and finance (Nakornthon/Wang Lee Bank)
Kanjanapas Family *Hong Kong-born*	Banking and finance; real estate; major Hong Kong interests (Siam City Bank, First Bangkok City Bank, Stelux)
Royal Family *Usually considered "Thai," but the present king is at least half Chinese on his locally born mother's side*	Banking, finance, property, industry (Crown Property Bureau, Siam Commercial Bank, Siam Cement Group)
Chiaravanont Family *Local-born Teochew*	Agro-industry (CP Group)
Pornprapha Family *China-born Teochew*	Manufacturing (Siam Motors)
Asadathon Family *China-born Shanghainese*	Agro-industry (Thai Roong Ruang Group)
Osathanukroh Family *Local-born Teochew*	Manufacturing (Osotsapha Group)
Chirathivat Family *Local-born Hainanese*	Retailing (Central Group)

Sources: Hewison (1989, Part II), Suehiro (1989), Hiscock (1997).

While the big banks benefitted from the boom, and were aggressive in financing exports, a range of factors challenged their dominance. First, the post-1985 direct foreign investment (DFI) boom saw increased numbers of foreign investors seeking local partners. The level of demand for domestic partners and joint ventures went beyond the boundaries of the bank-dominated cliques. Second, policy changes affecting the financial sector led to an easing of capital controls, meaning that domestic enterprises were able to go beyond the domestic banks to secure loans, including borrowing from abroad. A relatively large number of foreign banks established limited operations in Thailand but were particularly aggressive in their corporate and business lending. In addition, merchant banking expanded significantly, and a number of finance companies, freed from reliance on commercial banks, expanded their activities. Third, the expansion of the Stock Exchange of Thailand (SET) gave businesses an alternative source of funds. Following the Wall Street crash of October 1987, the SET took off, with market capitalization growing markedly and equity trading increasing phenomenally. While volatile, the SET was attractive to local and international investors, and mobilized large amounts of capital. This further diminished the control of the banks over the expanding corporate sector.

For many capitalists the expansion of the SET was "liberating," allowing a range of new companies and groups to emerge to challenge those who had developed enterprises through the ISI period. Many business people saw the SET as an unlimited source of funds. Manipulation of stock prices was not unusual and regulation of the SET was not stringent (Handley 1997). No longer were the dominant capitalist groups concentrated in the banking and industry sectors. Within the widened financial sector, as well as in telecommunications, real estate, media, entertainment, and a range of services, a number of remarkably wealthy capitalist groups emerged (see Tables 8.2a and b).[9]

Table 8.2(a) Wealthiest persons in Thailand, by shareholdings, 1996

Name, major company, and sector	*Estimated wealth (mn. baht)*
Potjamarn Shinawatra, Shin Corporation (telecoms)	18,945.85
Premchai Karnasuta, Thai T & T, Italian Thai Development (telecoms, construction)	18,793.71
Thaksin Shinawatra, Shin Corporation (telecoms)	17,974.32
Anand Asavabhokin, Land & House (real estate and construction)	17,459.42
Adisai Bodharamik, Jasmine Corp. (telecoms)	10,662.71

Table 8.2(b) Wealthiest families in Thailand, ranked by *Forbes*, 1995

Family name, major company, and sector	*Estimated wealth (US$ bn.)*
Chiaravanont, CP group (agro-industry)	5.5
Sophonpanich, Bangkok Bank group (banking)	3.0
Lamsam, Thai Farmers Bank (banking)	2.3
Karnasuta, Thai T & T, Italian Thai Development (telecoms, construction)	2.3
Shinawatra, Shin Corporation (telecoms)	2.1
Bhirombhakdi, Boon Rawd Brewery (brewing)	1.7
Bodharamik, Jasmine Corp. (telecoms)	1.6
Leopairatana, Thai Petrochemical Industries (petrochemicals)	1.5
Ratanarak, Bank of Ayudhya, Siam City Cement (banking)	1.4
Asavabhokin, Land & House (real estate)	1.4
Kanjanapas, Bangkok Land, Tanayong (real estate)	1.1

Sources: *Kan ngeon thanakhan* (Money & Banking) (December 2000: 148); *Forbes*, reported in *Bangkok Post* (22 June 1998).

Huge profits were made, and while much was reinvested, consumption spending also increased markedly, further expanding the domestic market, but setting the scene for the 1997 collapse.

Almost all of the expanded capitalist class was composed of Sino-Thais. With the notable exception of the Bhirombhakdi family, all of those listed in Tables 8.2 (a) and (b) are Sino-Thai. For example, the Shinawatra and Lamsam families are now led by their fourth generation in Thailand. While some of these families, such as Kanjanapas, Sophonpanich, and Chiaravanont are clearly identified as "Chinese," reflecting their business links to Hong Kong and China, many are "new generation" Sino-Thai. As Hewison and Maniemai (2000) have indicated, the new generation of business people have been educated in Thailand, use Thai and English more readily than Chinese, and identify with Thailand rather than China. The dominance of Sino-Thais among the "new rich" reflects both the continued prominence of the Sino-Thai capitalist class and the rise of a significant Sino-Thai middle class made up of families that have moved out of the working class of earlier generations.

The EOI period and its related economic boom created remarkable opportunities for entrepreneurs and business people. Yet, it is noteworthy that co-operation between business groups remained limited. Joint investments tended to remain on the margins of business activities. For example, tycoons often co-operated in areas such as entertainment, real estate, or golf and sporting facilities, but seldom in their core

businesses. There were some notable exceptions, but generally Sino-Thais tended to look for overseas partners from the main investing countries rather than seeking local partners. At the same time, links to state and political leaders remained important (Handley 1997). For example, Thaksin Shinawatra's remarkable wealth has been built on state concessions (Pasuk and Baker 2000: 159).

The accumulation regime of the ISI era had seen the rise of a small capitalist group dominating the economy, buttressed by relationships with powerful state and political figures. The cozy relationships of the ISI period were disrupted by the expansion that came with EOI in the 1980s and early 1990s. While many of the links between business and state remained, the nature of Thailand's capitalism was changing. Electoral politics expanded, moving the center of politics toward the parliament and cabinet. In addition, technocrats became more concerned to manage an economy that established and enhanced the conditions for the expanded accumulation of capital. This was more appropriate for an increasingly diversified business community.

Impact of the crisis

From the flood of publications seeking to explain the Asian crisis, several significant issues have been raised about Thailand. Of particular significance was an earlier downturn in the stock market (from 1993) and the decline of exports growth (from 1996). These declines have been seen to be due, in part, to the high value of the baht. There was also over-capacity in a wide range of sectors, including electronics, automaking, textiles and garments, footwear, electricity generation, electrical appliances, real estate, cement, petrochemicals, and steel. Despite this, "hot money" continued to pour into sectors facing over-capacity and into unproductive areas. For example, about two-thirds of private sector overseas loans were short term. This was, however, not highly unusual in a global context, where 55 percent of foreign bank loans worldwide were short term at the end of 1997 (Bailey, Farrell, and Lund 2000: 102). This combination of factors eventually led to a "price collapse," an erosion of "the rates of return on new capital invested," and "unprofitable industry capacity" (Bank for International Settlements 1998: 35–6, 117). The July 1997 baht devaluation marked the beginning of a downward spiral. When the government implemented the original reforms demanded by the IMF, the economic downturn worsened.

The crisis resulted in a massive restructuring of ownership and control patterns in the economy. Devaluation meant the end of many businesses, with hundreds closing in all sectors. There was also a transfer of business ownership to Japanese, American, and European investors through debt-for-equity swaps, investment in devalued local companies, and buy-outs

of Thai partners. The crisis, however, provided an opportunity to promote a raft of reforms, sweeping aside national laws and regulations considered restrictive to the "free" operation of the market. Greater transparency, better regulated financial systems, further liberalization, and an end to "cronyism" and business transactions identified as corrupt or "unethical" were also on the reform agenda.

This agenda challenged the hitherto successful relationships that had been developed between capital and state, and between capitalists, during the economic boom. The results of the decline of these relationships and understandings, together with the impact of liberalizing reforms, were devastating for many local capitalists. Foreign currency debts and the liquidity squeeze crippled many industrial firms, already reeling from weak exports. Firms involved in the finance, real estate, and construction sectors were initially most affected by the crisis, with many having to be dissolved, mainly due to the huge debts they carried.[10] With over-capacity in many sectors, manufacturers struggled in 1997–8 (*Bangkok Post* 25 September 1998). Survival became the aim as bankruptcies increased, with some 7,000 companies closing between 1997 and mid-2000 (*Nation* 21 July 1998, 14 September 2000). Despite an export boom from 1998, even by early 2000, more than a quarter of non-performing loans were in the manufacturing sector, while manufacturing capital utilization averaged just 55 percent for 2000 (*Nation* 21 March 2000; *Bangkok Post* 1 February 2001). Land developers fared particularly badly, and few managed to make it through 1998. The finance sector was in tatters, with only about half of finance and securities companies surviving. The result was that a high proportion of the 1990s high-flyers were wiped out by the crisis, crushed by the weight of foreign currency loans and loans held by domestic banks.

But the cuts went deeper than merely bringing an end to brash boom-time capitalists. The commercial banks were also in dire straits. The collapse of the property and manufacturing sectors contributed to the rise of non-performing loans, with more than half of all loans classified as "non-performing" at one time. More significantly, the impact of the crisis challenged the way in which the Sino-Thai bankers had run their operations. During the ISI period, they had built their empires on their control of finance. Borrowers had few choices but to deal with the Sino-Thai bankers. For bankers, "relationship lending" justified poor accounting and reporting requirements of Thailand's companies, meaning that relationships took on an important business role. This meant that bankers lent to friends and associated companies. In the process, this practice led to the development of bank-led conglomerates, as banks and their controlling families took strategic shares in new companies and industries. For example, the Bangkok Bank funded

much of the expansion of the textiles industry from the 1960s, and built a large stake in the sector (see Doner and Ramsey 1997).

During the boom, as opportunities for funding expanded, the Sino-Thai bankers were subject to increased competition. They responded by expanding their loan portfolios to include growing consumer markets, for example, retail and housing lending, and new entrepreneurs, while continuing to lend to related companies and groups. Many of these new loan portfolios were inherently riskier, and left the banks more exposed and vulnerable when the crisis occurred. For example, lending to the property sector left the banks badly exposed. Property prices had peaked in the early 1990s, and declined thereafter. In addition to large commercial projects, much of this lending was for middle-class housing in and around Bangkok and other major towns. The emphasis that local banks and finance companies placed on this sector reflected the fact that they had an advantage in this sector, especially as foreign companies were reluctant to become too involved with small property and housing lending. When the crisis occurred, however, the domestic financial institutions were left exposed.

The result of exposure in consumer, property, and manufacturing for already weak banks has been that the banking families had to reduce the size of their business empires. This marked a defining moment in the competitive reorganization of banking capital. Reorganization had, in fact, begun during the boom when a number of the families controlling banks were involved in internal conflicts. With the combined impact of internal squabbling and the competitive pressures of the 1983–6 downturn, a number of banks stumbled. They included the Siam City Bank (Mahadamrongkul family), First Bangkok City Bank (Tejapaibul family), and the Union Bank of Bangkok (Cholvijarn and Penchart families). The Bangkok Bank of Commerce (BBC – Jalichandra family) had collapsed in 1995, despite support from political figures. Further, small family banks, often acting as little more than family treasuries and investment brokers, came under significant pressure during the boom. For example, the Laemthong Bank (Chansrichawla family), Nakornthon Bank (Wang Lee family), and the Bank of Asia (Phatraprasit and Euachukiarti families) all experienced periods of weakness well before the 1997 crisis. The crisis exacerbated the problems that some of these banks faced. As the government took over four struggling banks and closed many finance companies, one-third of the financial sector was gone by October 1998.

A number of the smaller banks failed to attract new capital, as required by the Bank of Thailand. For some, including the largest, maintaining family control became the issue. The Bangkok Bank and Thai Farmers Bank were able to raise new capital, although this meant significant increases in foreign ownership. In total, the finance sector had raised

more than 900 billion baht by September 2000 (*Bangkok Post* (eds) 2000: 17). The shareholdings of the powerful Lamsam (Thai Farmers Bank) and Sophonpanich (Bangkok Bank) families had already been diluted during the 1980s, but these families have been able to maintain management control. Other results are summarized in Table 8.3, where it is obvious that foreign investors have made significant inroads into Thailand's banking sector. The impact of the crisis for the financial sector is summarized in Table 8.4.

These ownership changes are of immense importance in terms of their impact on the structure of business and the domestic capitalist class. Since the banking fraction of domestic capital has been most powerful since 1957, these changes are a watershed. The banking and finance sector was protected, but this is no longer the case. This fraction's dominance, first challenged during the boom, is now challenged by the crisis and the resultant restructuring. In view of the significant gains made by foreign capital, the banking fraction, while supportive of the general thrust of Chuan Leekpai's government's reforms, was clearly enthused by the prospect of Thaksin Shinawatra's electoral victory. This was because Thaksin promised support both to the banks for eliminating non-performing loans and to domestic business (see below).

Domestic banks now find themselves in a more competitive environment than ever before. To be sure, EOI had required more competitive banking, and the state's efforts to liberalize the finance sector in the early 1990s also increased competitive pressures. The crisis, however, emphasized that banks had to be competitive internationally and regionally. Thailand's remaining private banks, each still dominated by a single Sino-Thai family, now appear anachronistic in international finance. While family control of banks may continue, it is apparent that this will only be possible in a protected finance sector or where a family-controlled bank can establish international competitiveness. It seems unlikely, however, that the financial sector will gain increased protection. Even the more populist and nationalist Thaksin government, which proposed a rolling back of regulatory reforms, saw this approach rejected by the bankers. The Bank of Thailand and the big banks will support continued reform seen to enhance their competitiveness. This means that the remaining banking families will need to undertake internal reform if they wish to retain control over their enterprises. There has been general discussion of mergers, but in the period since 1997, the emphasis has been on enhancing professional management and maintaining family control.

There is little doubt that increased internationalization and liberalization revealed weaknesses in the structure and operation of the Thai banking sector (Menkhoff 2000). The banks that have been able to survive with majority Thai ownership, while also avoiding state

Table 8.3 Thailand's banks and the crisis, 1997 and 1999

Bank	*Estimated foreign stake (March 1997)*	*Situation at end of 1999*
Bangkok Bank	25.0%	Raised capital. 48.78% foreign stake. Significant share held by Singapore Investment Corporation.
Thai Farmers Bank	25.0%	Raised capital. 48.98% foreign stake. 3% stake held by Singapore Investment Corporation.
Siam Commercial Bank	25.0%	Raised capital – 49% foreign, mainly Japanese stake.
Bank of Ayudhya	24.9%	40% foreign stake. Resisted state recapitalization. Ratanarak family sold other assets to retain the bank.
Thai Military Bank	n.a.	Military ownership diluted. Reluctant to bring in foreigners. Recapitalization long delayed, took place in 2000. Thaksin Shinawatra has taken a 3% stake.
Bank of Asia	6.1%	75% owned by ABN Amro (paid about 7.5 billion baht).
Thai Dhanu Bank	9.4%	Now DBS Thai Dhanu Bank. Development Bank of Singapore has 51% stake (paid about 10.5 billion baht).
Nakornthon Bank	5.6%	Wang Lee family lost control. 75% owned by Standard Chartered Bank as the Standard Chartered Nakornthon Bank (paid about 12.38 billion baht).
Radanasin Bank*	0.0%	75% owned by United Overseas Bank of Singapore. Now UOB Radanasin Bank.
Krung Thai Bank	7.0%	State bank. Mired in non-performing loans and corruption scandals.
Siam City Bank	n.a.	Taken over by the government. Up for sale.
Bangkok Metropolitan Bank	n.a.	Tejapaibul family lost control when the government took over the bank. Likely to be bought by a foreign bank.
First Bangkok City Bank	n.a.	Merged with Krung Thai Bank in August 1998.

Table 8.3 continues

Table 8.3 continued

Bank	*Estimated foreign stake (March 1997)*	*Situation at end of 1999*
Bangkok Bank of Commerce	n.a.	Had been taken over by the government, and was wound down and closed in 1998. Good assets passed to Krung Thai Bank.
Laemthong Bank	n.a.	Taken over by the government and merged with Radanasin Bank. Chansrichawla family lost control.
Union Bank of Bangkok	n.a.	Taken over by the state and then merged with 13 finance companies also seized by government to form BankThai. Cholvijarn family lost control.
Asia Trust Bank	n.a.	Defunct prior to the crisis.

Note: * Created from Laemthong Bank and several finance and securities companies, all of which had been taken over by the government.

Sources: Bangkok Post (eds), 1998; *Bangkok Post* (eds) 2000; *Bangkok Post* (30 May 1998, 20 August 1998, 25 June 1999); *Nation* (10, 27 January 2000, 19 February 2000, 22 March 2000); and World Bank, *Thailand Economic Monitor* (February 2000: 51).

Table 8.4 Consolidation of the financial sector, 1997 and 1999

	Finance companies		*Commercial banks*	
	No.	*Share of assets (%)*	*No.*	*Share of assets (%)*
June 1997	91	18	15	60
Total assets of US$240 billion	State share <1% of total assets		State share 8% of total assets	
Closures	56	11	1	2
BOT interventions	12	2	5	10
Mergers	13	13	5	3
December 1999	23	4	13	71
Total assets of US$236 billion	State share of <1% of total assets		Share share 23% of total assets	

Source: Adapted from Endo *et al.* (2000: 40).

ownership (Bangkok Bank, Thai Farmers Bank, Bank of Ayudhya, Siam Commercial Bank, and Thai Military Bank), appear to have some commonalities. First, they had significant levels of foreign investment and ties with overseas institutions. Second, with the exception of the Bank of Ayudhya, they also had noteworthy international operations. For example, while the Bangkok Bank has looked to rationalize some of its overseas operations, it has long had strong overseas interests, and its operations in Hong Kong remain significant.[11] The failure of the banking families, coming from a protected to an increasingly competitive environment, is clear. Interestingly, however, most of the other rising business groups also operate in protected sectors or sectors where local investors have advantages (see Table 8.5).

The challenges to banking capital are reflected in data regarding wealth in Thailand. Table 8.5 indicates the changing structure of business. While there are problems with utilizing shareholdings in listed companies as a measure of wealth and business control, it is noticeable in Table 8.5 that telecommunications holdings have become increasingly significant. Table 8.5 also indicates the rising significance of the related media and entertainment sectors. It is significant that bankers have slipped down the table.[12]

The big banks, while recognizing the risks of a competitive environment, have cautiously supported further reform. In addition, the fact that the high level of non-performing loans threatened these banks suggested the need for a way out of many of the "relationship loans" established during the boom. In order to survive and compete, the banks realized that it was in their long-term interest to support the thrust of the reforms initiated by the state and the IMF (*Far Eastern Economic Review* 2 September 1999). The Governor of the Bank of Thailand, speaking in mid-1999, reinforced the need for further banking reform, when he warned local banks that they risked being "trampled" by highly competitive foreign banks (*International Herald Tribune* 23 July 1999).

The banking families have not, however, been keen to adopt the logic implicit in the regulator's assessment. Increasing liberalization and internationalization means that Thai banks need to merge. None of the remaining private banks are strong enough to compete in the rapidly changing business environment. It is interesting that the only mergers that have taken place, before or since the crisis, have been engineered by the state among nationalized banks. None of the remaining banks appear to have the urge to merge. In contrast with the literature on Chinese capitalism and networks discussed above, it seems that the Sino-Thai banks do not demonstrate that "Chinese networks" have been mobilized or even created to sort out the problems facing the banks. They remain more interested in maintaining family control and sorting out the loans and problems of related and associated companies. Indeed, this failure to

Table 8.5 Wealthiest families in Thailand, based on shareholdings, 2000

Rank, name, and business sector	*Estimated wealth (mn. baht)*	*Main business*
1 Maleenon *Entertainment and communications*	24,422.96	BEC World, CVD Entertainment.
2 Shinawatra *Telecommunications*	11,772.27	Shin Corporation.
3 Damapong *Telecommunications*	5,864.24	Shin Corporation.
4 Chirathivat *Retail trade, hotels, real estate*	3,020.84	Central Department Store Group, Central Hotels, Central Pattana.
5 Bencharongkul *Media and entertainment*	2,615.63	United Communication, other media and communications cos.
6 Damrongchaitham *Media and entertainment*	2,394.84	Grammy Entertainment and other media and entertainment firms.
7 Asavabhokin *Real estate*	2,046.17	Land & Houses, real estate, furnishing and construction cos., Mandarin Hotel, Quality Houses Co
8 Chansiri *Seafood*	1,854.81	Thai Union Frozen Products and other frozen/canned seafood exports.
9 Leopairatana *Petrochemicals*	1,765.20	Thai Petrochemical Industries, TPI Polene, Bangkok Union Insurance, Cathay Finance, other petrochemical firms.
10 Bodharamik *Telecommunications*	1,709.39	Jasmin International & other communications firms.
11 Karnasuta *Construction and telecommunications*	1,540.39	Thai Telephone and Telecommunications, Italian Thai Development, Jalaprathan Cement, Oriental Hotel.

Table 8.5 continues

Table 8.5 continued

Rank, name, and business sector	*Estimated wealth (mn. baht)*	*Main business*
16 Sophonpanich *Banking*	775.38	Bangkok Bank (see annex for other holdings).
26 Ratanarak *Banking*	483.40	Bank of Ayudhya (see annex for other holdings).
30 Euachukiarti *Chemicals*	460.35	Thai Plastic and Chemicals; Directorship in Siam Cement.
34 Lamsam *Banking*	424.00	Thai Farmers Bank (see annex for other holdings).
48 Kanjanapas *Real estate*	321.00	Bangkok Land, Stelux, and other real estate interests.
68 Tejapaibul *Formerly banking*	199.44	Directorships in: Central Plaza Hotel, Asia Fiber, and a range of other companies.
96 Wang Lee *Banking and finance*	125.16	Bijoux Holdings, General Engineering, HiPro Electronics, Loxley, Nava-kij Insurance, Poonpipat Finance & Securities, Thai Commercial Insurance.

Source: Kan ngeon thanakhan (Money & Banking) (December 2000: 149–79).

work together indicates that there is some mistrust between the remaining private banks and the families that control them. For example, Chatri Sophonpanich of the Bangkok Bank was apparently more willing to take on foreign partners than to look to a local merger (see *Bangkok Post* 28 November 1998).

Beyond the crisis

The collapse of the banking sector during the crisis meant that Thai banks were considerably weakened. In the depth of the crisis, as IMF-supported reforms promoted further liberalization, and as the state took over the weakest banks, the position of foreign investors was greatly strengthened. But neither the state nor local bankers appeared keen to

sell assets too cheaply. The state was thus forced to bail out much of the finance sector. At the end of 1999, the total state investment in the banks alone was US$12 billion, or about 10 percent of GDP (Endo *et al.* 2000: 39). The bailout of the financial sector meant that the taxpayer was footing the bill for at least the next generation (*Bangkok Post* 1 October 2000). Even so, foreign investors made significant gains (see Table 8.3) through strategic purchases that gave them access to branch networks (previously forbidden).

While a new accumulation regime is still emerging, it is clear that it will be characterized by three features. First, foreign capital will play a more significant role in the economy. Second, the most powerful domestic capitalist class will be owners of restructured enterprises that are export-oriented and internationalized in terms of their operations. Third, the relationship between these capitalists and the state will be increasingly rules-based. The new Commercial Banking Act, for example, addresses issues of enhanced supervision, prudential regulation, insider/affiliated/nominee transactions, and improvements to bank "governance" (Norton 2000: 42).

A more rules-based approach may also see emphasis placed on the state's regulatory role, and its economic role further reduced. Further privatization of state enterprises can also be expected. Interestingly, the development of a more rules-based business environment is congruent with reforms in the political sphere, where the 1997 constitution has established numerous rights and responsibilities for citizens, and better defined the roles of politicians and state officials. It is likely, however, that further liberalization will be approached more cautiously.

The crisis has also reorganized the extent and nature of accumulation. It has revalued and re-priced Thailand's industrial base, reduced wages bills, and potentially made the country's industries more internationally competitive. This should again enhance capital's accumulation base (see Bonefeld and Holloway 1995: 225). This has been the outcome of crises that occurred in the past for Thailand. In those crises, the development of local capital was promoted as foreign capital withdrew. This time, however, foreign capital has expanded aggressively, and large sections of local capital have been in retreat.

How will a more rules-based and internationalized sector "fit" in with the pattern of banking and corporate control in Thailand? Lever-Tracy and Tracy (1999: 10) argue that there is evidence that the prime concern in restructuring has been to maintain family control. They also argue that the "family control of the core of many of the major Chinese conglomerates has not been lost, nor have they been effectively taken over and restructured by outsiders" (Lever-Tracy and Tracy 1999: 13). These propositions can be examined with evidence from Thailand.

Family-based capitalism in Southeast Asia has been highly concentrated. Indeed, family-based control, and the desire to retain it, may be one reason why Sino-Thai companies relied heavily on debt to expand in the 1980s and 1990s (Endo *et al.* 2000: 12). A study of East Asian listed corporations, prior to the crisis, showed that there remained a close link between shareholding and control. Family control remained strong before the crisis, *although it is strongest in the oldest companies*. This survey found that Thai corporations attached great significance to informal alliances, with a small number of families controlling most companies (Claessens, Djankov, and Lang 2000). Thus, while family enterprise has been significant, the question in the post-crisis period is whether it will remain so.

The short answer is yes, but in greatly diminished terms (Lim 2001: 4). The longer answer requires that we consider a range of conflicting evidence, especially for banks.

There is evidence that the big families have had incentives to protect their core businesses. The approach taken by these families to protect their interests has, however, been diverse. Certainly, too, there is incontrovertible evidence that "outsiders" (foreign capital) have taken over or increased their holdings in a number of banks. At the same time, Thai banks are rethinking and revamping their overseas operations. Some branches have been closed. The Bangkok Bank, however, which derives some 10 percent of its total revenues from overseas operations, is expanding operations in China, while closing a branch in Cambodia (*Bangkok Post* 29 December 2000). At this stage, we may feel confident only in saying that the strategies adopted by Sino-Thai banking families do not exhibit a distinct pattern. While some families have been bringing in foreign partners, others have been selling off "non-core" assets, and some have simply gone under (see the various stories in Nation Multimedia 1998).

Some studies have indicated that family-run businesses and extensive links between banks and other companies may lead to a "lack of discipline and induce risky behavior" (Claessens, Djankov, and Xu 2000: 32). For example, lending was based on personal relationships and collateralized on personal guarantees or in the form of land and partially completed housing projects (Endo *et al.* 2000: 29). It has also been suggested that the further development of banks has been hampered by their focus on non-core business (*Nation* 22 March 2000). Data on the links between the banks and other companies suggest that these ties remain strong (see annex) well after the initial impact of the crisis, and in some cases have been mutually supportive. A number of alliances have been developed. For example, some joint ventures have been arranged between the Bangkok Bank, Shin Corporation, the Crown Property Bureau, and the

CP group, some of whom were bitter enemies in the past. But these big groups have not always been supportive of long-time business allies.

The case of Thai Petrochemical Industries (TPI) is illustrative. The owner of TPI, the Leopairatana family, has long been close to the Sophonpanich family and the Bangkok Bank. When the crisis hit, TPI became one of the Bangkok Bank's largest non-performing loans. In fact, TPI refused to repay its loans, and the Leopairatana family appeared to believe that the Bangkok Bank would not call in the loan. But the years of links between the Leopairatana and Sophonpanich families amounted to nothing. The rift between TPI and the Bangkok Bank was made worse by the fact that the Bank led a consortium of creditors, including overseas interests (among them Citibank, Bank of America, and the International Finance Corporation), to take control of TPI from the Leopairatana family. Despite Prachai Leopairatana's efforts to invoke nationalist concerns, the creditors gained control of TPI in late 2000 (*South China Morning Post* 17 November 2000; *Bangkok Post* 16 December 2000). Interestingly, a group of foreign managers was put in place at TPI (*Bangkok Post* 17 November 2000). Chatri Sophonpanich was publicly critical of the role Prachai had played in opposing creditors over a period of three years. The TPI case evidenced a concern to respond to competition and other business pressures rather than to consider either long-time alliances or any ethnic or network considerations.

In the banking sector, then, there is evidence that suggests that families are striving hard to retain control over their enterprises, in spite of the changes occurring in the corporate sector that necessitate some form of management reform. This suggests that even if family control of banks continues, we can be sure that these businesses will adapt to the new accumulation base and competitive environment, as they have done in the past. Some banks have already moved away from family control, as has happened with the Bank of Asia, but it is clear that not all banks find this an attractive response (Nation Multimedia 1998).

Conclusion: national v. foreign capital?

The nationalist backlash against the strictures of the IMF emerged almost as soon as the rescue package was put together. There have been a number of crescendos in the nationalist backlash against liberalization and "forced" regulation. While the Chuan Leekpai government tended to ignore this response, in January 2001, Thailand's voters had such issues in mind when they chose to support Thaksin Shinawatra. His newly formed party carried the unlikely name of the Thai Rak Thai (Thai Love Thai; TRT) Party, but the name conveyed an appropriate nationalist flavor. The party campaigned strongly on a collection of promises that have been identified as populist. It was apparent that

TRT's appeal was real and widespread. It spanned a number of "divides" – ethnic, political, and especially the gap between rural and urban electorates.

Thaksin and TRT were seen as populist because they exhibited concern for the plight of the poor, especially those in rural areas. The party spent time collecting opinions from the electorate and signed up members around the country. The nationalist label has been attached for a number of reasons. With this label, TRT emerged as an alternative to the Democrat Party. Many of Thailand's public intellectuals had abandoned the Democrats after three years of policies identified as foreign-driven. The Democrats had adopted neo-liberal policies, albeit with limited attempts to reflate the economy, in an attempt to overcome the impact of the crisis. The restructuring process was initially accepted by significant components of domestic business, technocrats, and politicians who believed that competitiveness in an era of global capitalism required open markets and a convergence of regulatory environments. As the crisis dragged on, however, and as the destructive impact of post-devaluation policies on domestic business became increasingly obvious, there was a rejection of Chuan and the Democrats. TRT built on this disenchantment, and embraced expressions of support for domestic business and for those disadvantaged by the crisis and neo-liberal policies. The result, tempered by vote buying, corruption, and the like, was a groundswell of support for TRT, its promises, and "soft" nationalist and populist ideology.

But Thaksin is more than a politician. He and members of his family have consistently been among Thailand's top five wealthiest people, at least since 1994, when they were listed as owning equity-based assets amounting to almost 39 billion baht (*Kan ngoen thanakan* December 2000: 146–7). Thaksin is, in fact, one of Thailand's most powerful capitalists, operating in one of the few sectors that remain relatively protected.

Given that domestic business has struggled since the crisis, the argument that further liberalization may further damage "Thai" business has been seductive. It is not surprising, then, that a number of leading capitalists threw their support behind Thaksin's bid for the premiership. Most notable among these were Chatri Sophonpanich of the Bangkok Bank, Dhanin Chiaravanont of the CP group, and members of the powerful and wealthy Maleenon family of BEC World. This does not mean that these capitalists are opposed to further liberalization. Rather, it seems that they wish to control the pace of liberalization, and to retain protection in those areas where domestic capital retains some advantages (property, agro-business, telecommunications, retail trade, and entertainment). Even the bankers recognize that they continue to have limited and perhaps short-term advantages over foreign banks through their extensive branch networks. The Bangkok Bank's Chatri

Sophonpanich made his position clear prior to the 2001 election. He was particularly pleased with the TRT's policy to limit foreign control, especially in the commercial banking sector. He argued that "Every government needs to support the liberalization policy. However, in implementing the policy, it [a government] might adopt different approaches" (*Bangkok Post* 29 November 2000).

Hence, TRT may slow liberalization in some areas and roll back some changes to laws, aimed at giving back to domestic business a competitive "edge." That Thaksin is also populist is a significant political bonus for business. One of his government's important tasks is to continue to pacify class struggle. While the Chuan government did this, there was clearly a political polarization emerging. With a "populist" and "nationalist" government in place under Thaksin, this task will be addressed in a more inclusive manner. This approach will be attractive to local business which wants to avoid the kinds of conflict seen in Indonesia and South Korea.

A larger question is whether the big business groups that have survived the crisis will be able to reconstitute themselves adequately to compete in regional and global markets. This is a relevant question for Thailand's Sino-Thai conglomerates. As noted above, in previous crises foreign capital retreated and domestic business expanded. This crisis sees foreign capital expanding. So an arm's length government might not be as attractive to domestic business. Thaksin's victory, then, very obviously suggests that domestic capital is taking hold of the political process.

The extent of business backing for Thaksin is more than just support for a fellow business leader. It has been a long-held proposition that a parliamentary regime, as a form of state power, may well be the most appropriate model of political rule for capitalist societies (Jessop 1978: 29). Anderson (1990: 40) has argued that parliamentary democracy is the "style of regime with which all ambitious, prosperous and self-confident bourgeoisies feel most comfortable, precisely because it maximizes their power and minimizes that of their competitors." There is some basis to this argument, but we might also consider the fate of Thailand's capitalists under Chuan's government; they were devastated and have struggled to recover. This may have been because the Democrats sought to support capitalism (capital-in-general) rather than domestic capitalists. The support the latter have given Thaksin suggests that the Democrats' strategy misunderstood the class impacts of the crisis. Thaksin, as a powerful domestic capitalist clearly knew the situation facing local business.

This chapter has indicated that there has been an important ethnic component in the development of Thailand's capitalism. Since the end of the influence of the monarchy and its state in 1932, the country's business has been largely controlled by ethnic Chinese and Sino-Thais. In addition, there have been periods and business sectors that have been

dominated by capitalists from one of the major Chinese dialect groups. It has also been shown that family control of business has been important, and this remains the case. These broad patterns have not, however, remained static. Change has been significant, and the direction of change has tended to be reflective of the trajectory of capitalist development. In other words, Thailand's capitalist class has developed according to the opportunities and constraints of its economic development in various historical epochs. In fact, there is little in the development of Thailand's capitalism, especially in the post-crisis period, to suggest that Chinese business people have responded along ethnic lines to these opportunities and constraints. By and large, business people in Thailand have operated in ways that are familiar in other capitalist societies. As emphasized in the study of the banking sector, which Sino-Thais have dominated, capitalists have been primarily focused on survival and consolidation rather than on considerations of ethnicity, relationships, or networks.

Contrary to the position adopted by Lever-Tracy and Tracy (1999), there does not appear to be anything particularly "Chinese" about the way Thailand's business people have responded to either boom or bust. There is little evidence that ethnic Chinese-owned enterprises are co-operating domestically or even regionally as a means to deal with the current crisis of accumulation. Indeed, as noted above, some are deliberately avoiding some of the elements of Chinese business considered critical by these analysts – the control by members of entrepreneurial families, personalized, long-standing, external networks based on trust and friendship, and a strategy of diversification. The crisis has shown that family control will be important for some businesses, but not all. But as family business is not the preserve of Chinese, this hardly seems compelling evidence of the operation of ethnicity. The crisis has shown that many of the relationships of earlier historical periods have collapsed, and that a focus on core business is now far more significant. In the case of Thailand, it appears that in order to understand the development of business the focus must be on class and economic development rather than ethnicity. Such a focus suggests that those who wish to add "Chinese" to "capitalism" may be obscuring the dynamics of capitalist development in order to emphasize an ethnic element that explains little about the history of development, accumulation, opportunity, crisis, and profit.

Notes

1 The other two forms identified are the Japanese *keiretsu* and Korean *chaebol*.

2 Indeed, many of the elements of the suggested "distinctiveness" of "Chinese diaspora capitalism" have equally been identified in other business and historical environments (see Kwong 1996; Berger and Dore 1996).

3 For a critique, see Ong (1999).
4 This is not a new story, so few references are given. Details can be found in Hewison (1989, 1997).
5 The Teochews were the majority Chinese dialect group in Thailand. In the early 1950s, Skinner (1958: 20) estimated that 60 percent of Chinese in Bangkok were Teochews, 16 percent Hakka, 11 percent Hainanese, 7 percent Cantonese, and 4 percent Hokkien. Almost 90 percent of Chinese were estimated to have provincial origins in Kwang Tung.
6 Riggs and many of those who have followed his approach have tended to assume an ethnic division between Chinese and Sino-Thais in business and ethnic Thais in government service. It needs to be said that the evidence for such an ethnic division is limited. Many of the political leaders of the period had some Chinese ancestry. It seems, however, that the "division" was between those who identified as Chinese and those identifying as Thai.
7 This pattern of capitalist development in the early 1950s was captured and presented by Skinner (1958).
8 It is usually argued that this domination of business by Sino-Thais is remarkable given that they make up only about 10 percent of the country's population. However, it is worth noting that Sino-Thais make up as much as 40 percent of the urban population (Szanton Blanc 1997: 268). The urban sector is, of course, the locus of business and industrial activity.
9 These two sets of data were constructed in different ways. Table 8.2a is based on listed shareholdings, while *Forbes* uses a wider range of sources and estimates. The point is to indicate the rise of a number of new powerful capitalists and families.
10 Average corporate debt-to-equity ratios have been higher in Thailand than in Germany and the US, but lower than in South Korea and Japan. There does not appear to be an "Asian" pattern in these ratios (Claessens, Djankov, and Xu 2000: 28).
11 In 1999, the Bangkok Bank had some 24 overseas branches and representative offices. It is reported that, in 1995, its foreign operations accounted for more than 16 percent of revenues (Bangkok Bank 1999: 114–15; *Asiaweek* 7 June 1996).
12 Missing from Table 8.5 is the Chiaravanont family (CP group). This reflects a deliberate strategy adopted by the family to delist a number of companies. This family would certainly continue to rank near the top of the wealth scale, having come through the crisis reasonably well. Other companies have been tempted by this strategy of delisting, but have not taken the step (*Bangkok Post* 1 October 2000). Also missing from all wealth and ownership tables is the Crown Property Bureau and Royal Family. This is probably because of the sensitivities of dealing with the assets of this group in Thailand. Given the large property and shareholdings of this group, it would also rank very highly.

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Annex
Detailed data on Thailand's banking sector

A.1
Summary of banking directorates and links in Thailand, 1999

Bank	*Directors*	*Other directorships*
Bangkok Bank	16 directors. 8 directors have disclosed directorships in other companies (including 3 from the sophonpanich family, and at least 5 with strong and long-term links to the family). No director is identified as "non-Thai."	Advance Agro Prakit Holdings Thai Factory Development Post Publishing Samart Telecoms HiPro Electronics Central Pattana Saha Union Berli Jucker Furukawa Metal (Thailand) Foremost Friesland (Thailand) Padaeng Industry Mandarin Hotel Thai Iron Works
Bangkok Bank of Commerce (delisted)	10 directors. No director has disclosed directorships in other companies. No director is identified as "non-Thai."	–
Bangkok Metropolitan Bank	7 directors. 6 directors have disclosed directorships in other companies. No director is identified as "non-Thai."	Thai Union Frozen Products Thai-British Security Printing Siam Commercial Life Assurance Thai Reinsurance Bangkok Rubber Pan Asia Footwear Saha Union Union Plastic Union Pioneer Bangkok Produce Merchandising Charoen Pokphand Feedmill Charoen Pokphand Northeastern Telecom Asia Corporation

Annex A.1 continues

Bank	*Directors*	*Other directorships*
Bank of Asia	11 directors. 4 directors have disclosed directorships in other companies. 6 directors are identified as "non-Thai."	Post Publishing Thoresen Thai Agencies UCOM Patra Ceramics Samart Corporation Univest Land Asia Fiber Central Plaza Hotel Safari World Siam Food Products Srithai Superware
Bank of Ayudhya	9 directors. 5 directors have disclosed directorships in other companies. No director is identified as "non-Thai."	Ayudhya Insurance (2) Siam City Cement Ayudhya Investment and Trust (2)
First Bangkok City Bank (delisted)	7 directors. 5 directors have disclosed directorships in other companies. No director is identified as "non-Thai."	NEP Realty and Industry PTT Exploration and Production Interlife John Hancock Assurance Indara Insurance Land and Houses KGI Securities One BankThai (2) President Rice Products Bumrungrad Hospital New Imperial Hotel Thai Asahi Glass
Krung Thai Bank	11 directors. 4 directors have disclosed directorships in other companies. No director is identified as "non Thai."	United Finance Corporation Thai Investment and Securities National Fertilizer (2) New Imperial Hotel Rojana Industrial Park Siam Cement Siam City Bank

Bank	*Directors*	*Other directorships*
Siam City Bank	8 directors. 6 directors have disclosed directorships in other companies. No director is identified as "non-Thai."	Krungdhep Sophon DTC Industries Ekachart Finance Rojana Industrial Park (2) Siam Steel Service Centre The Deves Insurance Siam Panich Leasing Sub Sri Thai Warehouse New Imperial Hotel Krung Thai Bank National Fertilizer Siam Cement Siam Pulp and Paper Sino-Thai Resources Development Thai Plastic and Chemicals Unithai Line
Siam Commercial Bank	15 directors. 12 directors have disclosed directorships in other companies. 3 director are identified as "non-Thai."	Christiani & Nielsen (2) Siam Commercial Life Assurance (2) Eastern Star Real Estate Saha Union (2) Union Textile Industries Dhipaya Insurance Serm Suk Shin Corporation Saha Phathana Inter-Holding Central Pattana Rajadamri Hotel Singer Thailand Bangchak Petroleum Dusit Thani (2) The Deves Insurance East Asiatic (Thailand) National Fertilizer National Petrochemical Siam Tyre Thai Industrial Gases Bangkok Bank of Commerce Ch. Karnchang International Finance Corporation of Thailand Oriental Hotel (Thailand) Padaeng Industry Thai Reinsurance

Annex A.1 continues

Bank	*Directors*	*Other directorships*
Siam Commercial Bank (continued)		National Finance Pakpanang Cold Storage Patum Rice Mill and Granary White Group
Thai Farmers Bank	12 directors (including 4 from the Lamsam family and 3 associated with the Royal Family and its interests). 10 directors have disclosed directorships in other companies. No director is identified as "non-Thai."	International Finance Corporation of Thailand Phatra Thanakit Siam Tyre Loxley United Finance Corporation Siam Cement Thai Airways International DTC Industries Jutha Maritime Premier Enterprises Safari World Goodyear (Thailand) New Imperial Hotel Crown Seal Serm Suk Thai Commercial Insurance Bangkok Agro-Industrial Bangkok Produce Merchandising Charoen Pokphand Feedmill Charoen Pokphand Northeastern Quality Homes Sammakorn Siam Food Products Samaggi Insurance Bangkok Expressway The Deves Insurance Rajadamri Hotel Siam Commercial Life Assurance
Thai Military Bank	18 directors (including 8 Generals, 2 Air Chief Marshals, 1 Admiral). 6 directors have disclosed directorships in other companies. No director is identified as "non-Thai."	Shin Corporation Bangkok Expressway Thai Airways International (2) Bangkok Bank of Commerce Sun Tech Group MEC Far East International

Source: Stock Exchange of Thailand (2000).

A.2
Bank directors in Thailand, 1999

Bank	*Directors*
Bangkok Bank	Chatri Sophonpanich Chatsiri Sophonpanich Charn Sophonpanich Piti Sithi-Amnuai Vira Ramyarupa Pipat Tantipipatpong Deja Tulananda Damrong Krishnamara Kosit Panpiemras Staporn Kavitanon Teera Aphaiwongse Prasong Uthaisangchai Amorn Chandhara-Somboon Thamnoon Laukaikul Kanung Luchai Admiral Prachet Siridej
Bangkok Bank of Commerce (delisted)	Aran Thammano Asawin Kongsiri Swangchit Chaiyawat Termpong Tantipipatpong Thiva Inthaseni Anothai Techamontrikul Samrong Vanijyananda Maitri Tantemsub Thawatchai Yongkittikul Phimol Rattapat
Bangkok Metropolitan Bank (now state owned)	Ajva Taulananda Manit Wityatem Somchai Sakulsurarat Thamnoon Duangmanee Kopr Kritayakirana Sompop Amatayakul Suchart Thada-Thamrongvech
Bank of Asia ABN Amro	Chavalit Thanachanan Chulakorn Singhakowin Praphan Phatraprasit Viroj Laohaphandu Pichai Vasnasong Herman Mulder Hendrik Adriaan Van Joolen Pieter Sipko Overmars Sergio Agapito Lires Rial Jan Joost Oyevaar Jacob Cornelio Adriano De Jonge

Annex A.2 continues

Bank	*Directors*
Bank of Ayudhya	Krit Ratanarak Praphaisith Tankeyura Thipsamat Na Chiengmai Ekasak Puripol Yongyuth Withayawongsaruchi Jamlong Atikul Anek Srisawat Virat Pairatpiboon Surachai Prukbamroong
First Bangkok City Bank (delisted)	Suchart Jaovisidha Sirivuthi Siambhakdi Prateep Wongnirund Pibool Limpraphat Sawai Yakardkanong Suvarn Valaisathien Prasit Kovilaikool
Krung Thai Bank (state bank)	Sivavong Changkasiri Suparut Kawatkul Singh Tangtatswas Machima Kunjara Na Ayudhya Adul Udol Chainarong Indharameesup Supachai Manusphaibool Chantha Achvanantakul Kamolchai Pattarodom Supat Tansathitikorn Prabhas Sakunwadhna
Siam City Bank	Angkhani Vorasaph Sompoch Intranukul Sivavong Changkasiri Pol. Gen. Pornsak Durongkaviboon Chalaw Fuangaromya Nawaporn Ruangskul Pongsak Angsupan Taksapol Chiemwichitra
Siam Commercial Bank	Vichit Surapongchai Jada Wattanasiritham Chirayu Israngkun Na Ayuthaya Anand Panyarachun Asawin Kongsiri Somchainuk Engtrakul Banterng Tantivit Olarn Chaiprawat Viroj Phutrakul M.L. Usni Pramoj M.R. Disnadda Diskul Ryosuke Tamakoshi Peter Seah John William Hancock

Bank	*Directors*
Thai Farmers Bank	Banyong Lamsam Bantoon Lamsam Pairote Lamsam Sujitpan Lamsam Pol. Gen. Pow Sarasin M.R. Yongswardi Kridakorn Sumet Tantivejkul M.R. Sarisdiguna Kitiyakara Tawee Butsuntorn Chaleo Yoovidhya Sukri Kaocharern Somchai Bulsook
Thai Military Bank	Gen. Wimol Wongwanich Gen. Surayud Chulanont Gen. Pramont Palasin Gen. Teeradej Meepien Gen. Montrisak Boonkong Gen. Patana Phutananond Gen. Rewat Boonthap Gen. Mongkol Ampornpisit Air Chief Marshal Sanan Tauthip Air Vice Marshal Thira Dhitivara Adm. Thira Hao-Charoen Thanong Bidaya Akadej Bijaphala Somchart Intharatoot Thawatchai Yongkittikul Bodi Chunnananda Prayoon Chindapradist Sanit Vorapanya

Source: Stock Exchange of Thailand (2000).

A.3
Major shareholders of Thailand's commercial banks, 1997 and 1999

Bank	*10 major holders, 1997*	*%*	*10 major holders, 1999*	*%*
Bangkok Bank	Bangkok Insurance	4.02	Thailand Securities Depository	15.63
Total shareholders: 25,844 (1997) 28,289 (1999)	Cathay Capital	3.80	Littledown Nominees	4.84
Minor shareholders: 22,974 (1997) 28,257 (1999)	Ministry of Finance	3.41	Chase Nominees	4.17
	Tisco Finance & Securities	3.35	State Street Bank & Trust	2.82
	Asia Sermkit	2.82	Deutsche Borse Clearing Co.	2.58
	Thailand Securities Depository	2.70	Govt of Singapore Investment Corporation	2.41
	Chase Nominees	2.68	Bangkok Insurance	2.36
	Asia Finance & Securities	2.51	Ministry of Finance	2.33
	Bangkok Thanthon	2.40	Sakura Bank	2.05
	Mandalay Pioneers	2.37	Bankers Trust	1.95
Bangkok Bank of Commerce (delisted)	Bank and Finance Co. Rescue Fund	65.07	Financial Institutions Development Fund	48.89
Total shareholders: 8,835 (1997)	Bayerische Vereinbank	2.73	Industrial Finance Corporation of Thailand	47.34
Minor shareholders: 8,812 (1997)	Bangkok Bank	2.25		
	Krung Thai Bank	1.58		
	Thai Fuji Investment	1.54		
	Thai Farmers Bank	1.46		
	Ponphat Phatthana	1.41		
	Thai Pineapple Canning Industry	1.41		
	Siam Commercial Bank	1.06		
	Bank of Ayudhya	0.93		
Bangkok Metropolitan Bank	Singkon Holdings	4.29	Financial Institutions Development Fund	100.00
Total shareholders: 12,383 (1997) 13,033 (1999)	Sri Phaibun Holdings	4.25		
Minor shareholders: 12,346 (1997) 13,032 (1999)	Siri Thai Holdings	4.15		
	Wang Petchabun	3.07		
	Thai Amarit Brewery	2.89		
	Mongkon Phaibun	2.56		
	Noppakit Holdings	2.31		
	Bang Phu Country Club	2.29		
	Sri Nakon Leasing	1.84		
	VPC Rungroj	1.84		

Bank	*10 major holders, 1997*	*%*	*10 major holders, 1999*	*%*
Bank of Asia	Phatra Prasit Holdings	4.91	ABN Amro Holdings (Thailand)	45.82
	Charoon and Family Co.	4.00	Phatra Prasit Holdings	0.64
Total shareholders: 7,207 (1997) 10,124 (1999)	Thon Sayam Invest & Securities	3.87	BankThai	0.53
	Phatra Group	3.56		
	Phatra Lanna	3.45		
Minor shareholders: 7,167 (1997) 10,121 (1999)	Uachukiati Co.	3.40		
	Phatra Kriangkrai	3.06		
	Mayland Co.	2.91		
	Ek Holdings	2.75		
	Asia Share Holdings	2.67		
Bank of Ayudhya	CKS Holdings	5.00	CKR Co.	5.00
	BBTV Asset Management	5.00	BBTV Asset Management	5.00
Total shareholders: 10,167 (1997) 14,680 (1999)	Stronghold Assets	4.80	GL Assets	4.99
	Chase Nominees	4.63	Thun Mahachok	4.96
	Ayudhya Insurance	3.68	Thai Lamliang	4.66
	Thun Mahachok	3.22	Stronghold Assets	4.44
	Ratanarak Co.	3.18	Mahakit Holdings	4.10
Minor shareholders: 10,130 (1997) 14,656 (1999)	Bangkok Television & Radio	3.10	Rung Ruang Fund	4.09
	Sura Hong Phet	2.90	Mahalap Fund	4.00
	Super Assets	2.83	Ratanarak Co.	3.18
First Bangkok City Bank (delisted)	Financial Institutions Development Fund	15.26	Delisted	
	Rai Thatree Co.	3.12		
Total shareholders: 11,931 (1997)	Angsana Enterprises	3.00		
	Continental Connections	2.97		
	Nimit Nakon Ratchasima	2.95		
Minor shareholders: 11,892 (1997)	Lancent Associates	2.85		
	Solid Gains Development	2.73		
	Well Prosper	2.59		
	Sin Phraetun	2.52		
	Thai Siri Wiwat	2.44		

Annex A.3 continues

Bank	*10 major holders, 1997*	*%*	*10 major holders, 1999*	*%*
Krung Thai Bank	Financial Institutions Development Fund	29.38	Financial Institutions Development Fund	87.27
	Ministry of Finance	28.01		
Total shareholders:	Government Housing Bank	2.54		
35,651 (1997)	Littledown Nominees	1.86		
32,813 (1999)	Chase Nominees	1.69		
Minor shareholders:	Krung Thai Thanakit Finance & Securities	1.12		
35,640 (1997)	State Street Bank & Trust	1.06		
32,809 (1999)	Crown Property Bureau	0.97		
	Deutscher Kassenverein	0.78		
	HSBC (Singapore) Nominees	0.69		
Siam City Bank	Financial Institutions Development Fund	8.54	(1998) Financial Institutions Development Fund	98.50
Total shareholders:	Chase Nominees	4.15		
24,096 (1997)	Mr Kiarti Srifuangfung	3.94		
25,764 (1998)	Crown Property Bureau	3.72		
Minor shareholders:	Littledown Nominees	2.98		
24,069 (1997)	Kudavil Marketing	2.28		
25,760 (1998)	Thun Thurakit	2.20		
	State Street Bank & Trust	1.50		
	HSBC (SET) Nominees	1.48		
	Thamronsin Co	1.45		
Siam Commercial Bank	Crown Property Bureau	26.23	Crown Property Bureau	25.28
	Siam Cement	4.93	Sanwa Bank	13.10
	Ministry of Finance	3.99	Chase Nominees	3.40
Total shareholders:	Chase Nominees	3.33	SCB Fund	3.14
14,747 (1997)	State Street Bank and Trust	2.86	Thailand Securities Depository	3.05
18,602 (1999)	Cathay Trust	1.71	Ministry of Finance	2.58
Minor shareholders:	King Bhumipol Adulyadej	1.68	State Street Bank and Trust	1.64
14,076 (1997)	Morgan Stanley Trust	1.59	Long Term Credit Bank of Japan	1.63
18,584 (1999)	HSBC (Singapore) Nominees	1.29	Deutche Borse Clearing	1.32
	Midland Bank	1.18	King Bhumipol Adulyadej	1.01

Bank	*10 major holders, 1997*	*%*	*10 major holders, 1999*	*%*
Thai Farmers Bank	Siam Cement	5.00	Thailand Securities Depository	3.08
Total shareholders:	Cathay Capital	4.92	Govt of Singapore Investment Corporation	2.91
44,903 (1997)	Chase Nominees	4.52	Chase Nominees	2.39
18,602 (1999)	State Street Bank and Trust	2.94	HSBC (Singapore) Nominees	1.81
Minor shareholders:	Crown Property Bureau	2.55	Bankers Trust	1.45
44,882 (1997)	Thailand Securities Depository	2.24	State Street Bank & Trust	1.33
18,584 (1999)	Littledown Nominees	2.10	Littledown Nominees	1.13
	Lamsan Sombat Co.	1.51	Deutche Borse Clearing	0.93
	HSBC (Singapore) Nominees	1.51	Midland Bank	0.90
	Muang Thai Life Insurance	1.31	Crown Property Bureau	0.87
Thai Military Bank	Royal Thai Army	24.66	Royal Thai Army	20.67
Total shareholders:	Royal Thai Air Force	4.53	Army Channel 5 Co.	14.51
42,667 (1997)	Royal Thai Navy	3.96	Royal Thai Navy	3.73
51,961 (1999)	Chase Nominees	3.79	Thailand Securities Depository	3.64
Minor shareholders:	Littledown Nominees	3.70	Royal Thai Air Force	3.14
35,690 (1997)	HSBC (Singapore) Nominees	1.56	Thai Life Insurance	2.50
51,948 (1999)	State Street Bank and Trust	1.03	HSBC (Singapore) Nominees	1.36
	NCB Trust	0.90	Ms. Varisa Chaimongkon	1.04
	Supreme Command	0.64	Pictet and Cie Geneva	0.98
	Lloyds Bank	0.63	Chase Nominees	0.79

Source: Stock Exchange of Thailand (2000).

A.4
Bank investments in other companies, 1999

Bank	*Company (% owned)*	
	Holdings > 20%	*Holdings 10–20%*
Bangkok Bank Loans and commitments to subsidiaries and associated and related companies: 52 billion baht	BBL (Cayman) Ltd (100) Bangkok Bank Berhad (100) Sinnsuptawee Asset Management (99.99) Thaksin Finance (97.27) Thai Filament Finishing (46.85) Thai Polymer Textile (45.42) Thai Taffeta Textile (41.78) Bangkok Sakura Software Service (39) Ong Asia (33.33) Smart Loyalty (Thailand) (33.33) Local Telephone (33.3) MC Private Equity Management (Private) (30) Processing Centre Co. (30) Thai Film Industries (29.41) SG Asia Credit (27.49) Bangkok Sakura Leasing (25.88) BBL Asset Management (25) MC Private Equity Partner Asia (25) WTA (Thailand) (24.9) Ong and Co. (24.5) American Express (Thai) (22.5) PT BBL Dharmala Finance (22.5)	ABN Amro Asia Securities Asia Lamp Industry Bangkok Arts and Crafts Bangkok Central Leasing Bangkok First Tokai Bangkok Polyethylene Bangkok Synthetics Bangkok Sumigin Consulting Bangkok Water Resource Chiva-Som International Health Resorts Electrical Lamp Manufacturers Thai HMC Polymers Merial (Thailand) Pasteur Merieux Connaught Thailand Rhodia (Thailand) Seacon Development Siam Union Container Thai Food International Thai Ohbayashi Thana Thep Printing Toyota Leasing (Thailand) Sinn Bualuang
Bangkok Bank of Commerce (delisted)	Aurvidhya Equipment (75) Thai Fuji Finance & Securities (43)	
Bangkok Metropolitan Bank	None listed	

Bank	*Company (% owned)*	
	Holdings > 20%	*Holdings 10–20%*
Bank of Asia	Sathorn Vanichkij (99.99) BOA Leasing (99.99) Asia Vanichkij (99.99) Asia Property (99.99) Asia Leasehold (99.93) ASEC Finance and Securities (55) Thai Asia Mutual Fund (35.89) BSP Leasing (30) Vendome Assurance (27.56)	
Bank of Ayudhya Loans and commitments to subsidiaries and associated and related companies: 1.4 billion baht	Siam Realty & Service (99.99) Ayudhya Services & Management (100) KrungSriayudhya Card (99.99) KS Law Office (99.99) Ayudhya Investment & Trust (66.25) Ayudhya International Factors (45) Ayudhya Jardine Fleming Capital Management (38.33) Ayudhya Development Leasing (26.65)	Asian Trade & Leasing Prachuap Port Co. Thai US Leather
First Bangkok City Bank (delisted)	None listed	
Krung Thai Bank	Krung Thai Holding (100) Krungthai Law (100) Krung Thai Computer Services (100) KTB (Cayman) (100) FBCB Asset Management (100) Krung Thai General Business Services (100) Krungthai Land and House (99.99) Krung Thai Card (99.99)	

Annex A.4 continues

Bank	*Company (% owned)*	
	Holdings > 20%	*Holdings 10–20%*
Krung Thai Bank (continued)	Krung Thai Thanakit (96.09) NC Associates (54.39) Krung Thai Commercial Insurance (40) Krung Thai CS (35)Krung Thai IBJ Leasing (29.99) Krung Thai Charoensri (35)	
Siam City Bank	Crown Development (97) Siam City MB (85) Crown Holdings (70) Sinchada Thong (70) Siam City IT (69.96) Nakornluang-Showa Leasing (49) Nakornluang Factoring (48.16) SCF Finance and Securities (47.8) Siam City Surat Leasing (43.7) Nakornluang Charoen Hire (35) Siam City Credit Finance and Securities (33.39) Siam City Asset Management (25) Siam City Syndicate Finance and Securities (24.43)	ING Mutual Funds Management (Thailand) SCIB Land and House Siam City Factoring Siam City Insurance Siam City Showa Leasing Siam Samsung Insurance
Siam Commercial Bank Loans and commitments to subsidiaries and associated and related companies: 27 billion baht	SCB Resolution Trust (100) SCB Business Service (100) Cambodian Commercial Bank (100) Oreo Realty (100) Mahisorn (100) Siam Information and Processing (100) Siam Commercial Securities (99.99)	Angthong Sugar Terminal Bangkok Intercontinental Hotel BNH Medical Centre Cargill Siam Dhanamit Factoring Donmuang International Airport Hotel Food Fair Ratchayothin Fortis

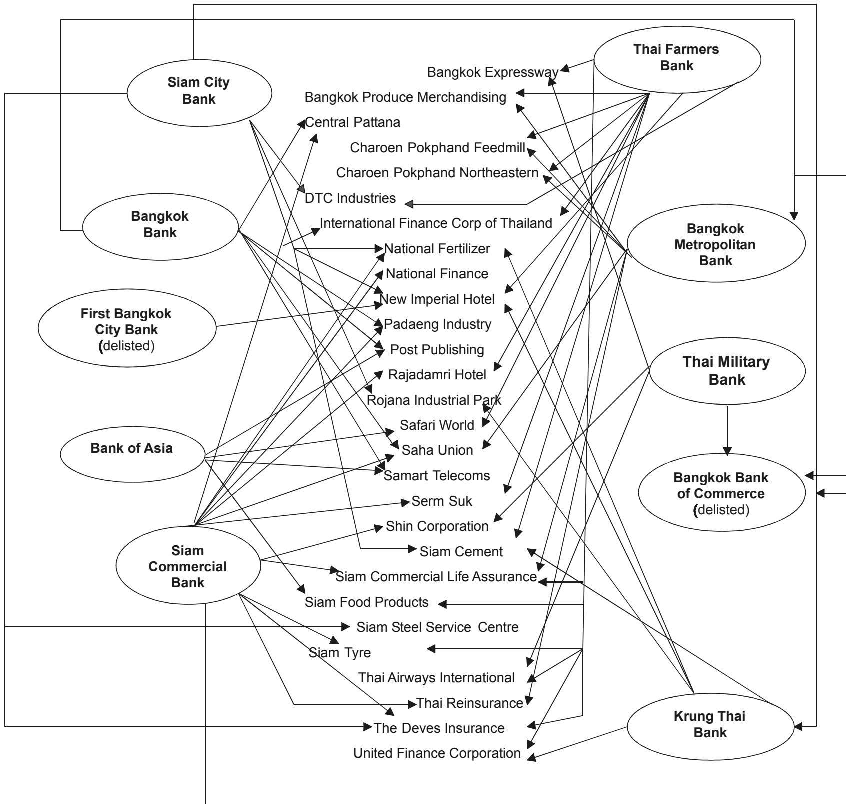
Bank	*Company (% owned)*	
	Holdings > 20%	*Holdings 10–20%*
Siam Commercial Bank (continued)	Astrakhan Investment (99.99) Siam Pitiwat (99.99) Siam Appraisal & Services (99.99) Siam Integrated Service (99.99) SCB Book Club Securities (99.99) SCB Advisory Service (99.99) SCB Securities (99.99) Book Club Finance (93.34) Supapirom (70.6) Siam Sanwa Industrial Credit (69.56) SCB Research Co. (60) Samaggi Insurance (53.3) Siam JLC Leasing (51) Siam Sanwa International (49.9) Siam Niti Law Office (49) Sub Sri Thai Warehouse (47.4) Christiani & Nielsen (Thai) (43.6) Siam Samaggi Leasing (41) SCB Holding (40) Siam Sanwa Trilease (35) Siam Media & Communication (33.3) Thai International Property Development (n.a.) Techno Holding (n.a.) Business Venture Promotion (32.5) Siam Commercial Life Assurance (31.3) Thai Baroda Industries (30.9) Alcan Nikkei Siam (30) SCB Asset Management (25) SCB Training Centre (25) Sonoco Asia Corp (25) Vina Siam Bank (Vietnam) (25) Siam Sindhorn (24.99) Thai International Rent a Car (23) Alcan Nikkei Thai (22.4) Asian Marine Services (21.1)	Fuel Pipeline Transportation Kibun Bangkok Mahachai Land Development Mining and General Management Myanmar Trading Narathiwat Thani Navuti Nobleclear Holding BVI Phattanadhorn Saturn Inc. SCB Biotech Sea Minerals Seatran Mining Siam Administrative Management Siam Cement Siam Children Care Siam Commercial Development Siam Cosmos Service Siam Health Care Siam Panich Leasing Siam Press Management Siam Technology Service Singburi Sugar Sino-Thai Resources Development Suthakarn Thai Container Systems Thai Fuji Xerox Thai Hoya Lens Thai Ohbayasi Corporation Thai Industrial Gases Thai Public Port Thai US Leather The Dheves Insurance TSS Real Estate Uni-Media YKK (Thailand)

Source: Stock Exchange of Thailand (2000), and Annual Reports of each of the banks

Bank	*Company (% owned)*	
	Holdings > 20%	*Holdings 10–20%*
Thai Farmers Bank	Thai Farmers International (Cayman) (100) Thai Farmers International Finance (100) Thai Farmers Research Center (99.99) Phatra Thanakit (97.47) Thai Farmers Asset Management (60.54) Progress Software (50) Thanakorn Vegetable Oil Product (49) Merrill Lynch Phatra Securities (48.99) Business Venture Promotion (32.5) Processing Center (30)	Phoenix Pulp and Paper
Thai Military Bank	Ajala Co. (99.99) TMB Holding (99.99) Sin Phahol (99.99) TMB Real Estate (99.93) Designee for ETA Contract Co. (99.4) NSRF (Thailand) (59.8) Nava Securities (Singapore) (51) TMB Asset Management (45) Phayathai Property Fund (28.67) Thanapol Finance and Securities (21.67) Nava Finance and Securities (20.67) Bangkok Asian Finance (20)	

Source: Stock Exchange of Thailand (2000), and Aal Reports of each of the banks.

A.5
Bank-held directorates in Thailand's listed companies, 1999



Source: Stock Exchange of Thailand (2000)

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