Chinese Networks and Enterprise Development: Malaysian Investments in China[1]

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[**Abstract:** This study assesses the argument that common ethnic identity has facilitated the creation of transnational business networks leading to the rise of a new economically powerful "global tribe" comprising ethnic Chinese from East and Southeast Asia. The primary contention in this article is that a network with the economic clout of a "global tribe" would entail interlocking stock-ownership ties, a sharing of resources and cooperation to the point of merger. Through an in-depth analysis of investments in China by ethnic Chinese from Malaysia, this article proves that even major Chinese-owned companies have little or no interlocking stock ownership and directorate links, either domestically or across borders, with other Chinese-owned companies. The growing inflow of investments into China by ethnic Chinese from Southeast Asia is primarily due to endeavours by government leaders in the region and China to encourage businesses to invest in the Mainland.]

KEYWORDS: Chinese business; identity; networks; enterprise development

In the early 1990s, the role of "networks" in the development of enterprises owned by ethnic Chinese became a major topic of interest. At this time, numerous studies began actively claiming that the Chinese diaspora was collaborating through ethnically-based networks to channel huge investments into China. Terms such as "Chinese commonwealth" (Kao, 1993) and "global tribe" (Kotkin, 1993) were created to describe this alleged "network of entrepreneurial relationships" (Hamilton, 1996) of individual firms that shared "a common culture" (Redding, 1990).

This argument about extensive business networks among ethnic Chinese is also attributable to well-publicised statements by certain Southeast Asian leaders. For reasons of their own, from the early 1990s, Singapore's Lee Kuan Yew and Malaysia's Mahathir Mohamad began encouraging ethnic Chinese in their countries to use their "ancestral" identity to exploit the economic opportunities that had reputedly opened up in China. Meanwhile, in China, authorities at all levels had been flaunting ethnic ties in an attempt to draw in diasporic investment. In response, Chinese entrepreneurs in Hong Kong, Taiwan and Southeast Asia took advantage of the privileges on offer to start trad-

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ing and manufacturing. The encouragement and privileges accorded by the government of China to "Overseas Chinese" – as they have been viewed by the Chinese authorities – had the blessing and support of government leaders in Singapore and Malaysia.

Lee has been a particularly strong advocate of business networking among the Chinese. Chinese businessmen in Southeast Asia have been encouraged by Lee to recognise that ethnic networking is an effective way to move into potentially lucrative markets in China, to compete more effectively with multinational corporations and to transform into an advantage the handicap they may feel as ethnic minorities, not just in the region, but in the global economy (*Business Week*, 29 November 1993).

Mahathir, on the other hand, has urged Malays to work with the Chinese to enter the market in China partly as a means to promote the development of Malay capital. In 1993, Mahathir led a 300-strong delegation to China, with half his entourage comprising businessmen, in an attempt to expose the latter to the Mainland (Ho, 1995). Similarly, Abdullah Ahmad Badawi, within six months of being appointed Prime Minister in November 2003, made two visits to China to encourage Malaysian companies to tap into the Chinese market. As reported by the *New Straits Times* (Malaysia) (30 May 2004), in his second trip in May 2004, Abdullah had more than 500 businessmen in his entourage. Abdullah went so far as to identify the economic sectors that Malaysians could venture into in China – education, biotechnology, pharmaceuticals, health care, tourism and high technology.

These endeavours by government leaders in China, Singapore and Malaysia to promote investments in the Mainland suggest that fund flows into this country by ethnic Chinese is not due to a modern form of tribalism but to state policies (at both ends of the investment flow). The notion of a proliferation of powerful networks has little or no basis. There is ample evidence that business networks defined as the pooling of resources in the form of one-off, short-term projects connect ethnic Chinese companies (both to each other and to non-Chinese business). But such loose arrangements would not in themselves enable ethnic Chinese capitalists to emerge as the region's business dynamo and a major force in terms of its asset base. 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. There is little evidence that even big ethnic Chinese companies have interlocking stock ownership and directorate links, either domestically or across borders, with other Chinese-owned companies. Many Chinese who do dabble in joint ownership end up at loggerheads. Most owners of companies are loath to merge with other firms, for to do so would mean sharing control of the enlarged enterprise.

The deals among a handful of major Chinese capitalists have been used to back the theory that, in an increasingly globalised environment, the Chinese are creating transnational business networks. During the 1990s, the business activities of an elite Chinese – Malaysia's Robert Kuok, Indonesia's Liem Sioe Leong, Singapore's Ong Beng Seng, the Philippines' Henry Sy and John Gokongwei, Thailand's Sophonpanich family and Charoen Pokphand group and Hong Kong's Li Ka Shing – and their business deals have been the primary bases for arguing that business cooperation among Chinese enterprises in Asia which will ensure their emergence as a dynamic global business force (see EAAU, 1995; Weidenbaum and Hughes, 1996). This study assesses the argument that common ethnic identity facilitates the creation of networks through an in-depth analysis of investments in China by ethnic Chinese-owned Malaysian firms.

The Problem with "Networks"

Many researchers claim that "networks" are a characteristic feature among Chinese-owned firms. These business networks are tightly-knit, based on a sense of group cohesion, which facilitates the movement of funds across borders (Kotkin, 1993; Hamilton, 1996; Lever-Tracy, et al., 1996). This body of literature also argues that Chinese culture and value systems determine decision-making among firms owned by business people from this community, while intra-ethnic networks, based on trust and kinship ties, help reduce transaction costs and diminish risks (Redding, 1990; Whitley, 1992; Hamilton, 1996).

The term "networks" is contentious. Redding (1996), for example, asserts that Chinese networks in Taiwan and Hong Kong share commonalities that indicate "cultural predispositions, most of which are traceable to Confucian values" (Redding, 1996: 40). Researchers subscribing to this view argue that Chinese enterprise is a form of "network capitalism" or "*guanxi* capitalism" (Hamilton, 1996). This form of capitalism reputedly provides Chinese firms in Southeast Asia with ample competitive advantages (Yeung and Olds, 2000). Such culturalist analyses misrepresent the basis for and extent of business ties among Chinese firms.

Castells (1993), on the other hand, provides a different understanding of the term networks. He notes that firms "down-size" by out-sourcing jobs as a way of lowering production costs. This process of out-sourcing has led to the development of "network enterprise" in which a densely interlocking group of firms engage in a range of industries and operate in a number of different countries. Castells' formulation of "networks" is similar to Gereffi's (1994) concept of "global commodity chains" in which production networks connect numerous different firms. The networks are set up to cut costs, improve the quality of goods and enhance innovation. Networks are not formed in a single dimension but are primarily production chains or sub-contracting ties that undergo processes of change and operate at multiple levels.

While Castells advances a relatively nuanced argument about the term networks, Redding (1996) and Hamilton (1996) tend to "essentialise" business networks. This essentialising of Chinese-owned enterprises has been further developed in the literature on ethnic enterprise, specifically through the works of Light (see Light, 1972; Light and Gold, 2000) and Waldinger (see Waldinger, 1996; Waldinger, et al., 1990). This type of "essentialist" literature on Chinese enterprise has two fundamental problems. The first is the liberal and unquestioning use of the term "networks." In effect, these studies suggest that ethnically-based "networks" are institutionalised and play a fundamental role in helping co-ethnics of the diaspora mobilise and move capital across national boundaries. The second problem is that this literature draws little attention to the diversity in the forms of corporate development of Chinese business groups when they cross borders. There are conspicuous differences in the way ethnic Chinese from China, Hong Kong, Taiwan, Malaysia and Singapore develop their enterprises. The different methods adopted by these businessmen to develop their enterprises hinder co-ethnic collaborative corporate ventures. For example, while Chinese-owned big businesses in Southeast Asia have generally adopted a conglomerate or diversified pattern of corporate growth financed through loans, firms in Taiwan, a majority of which function as small and medium-scale companies, have generally deployed a vertical or horizontal approach to enterprise development (Whitley 1992). Consequently, the possibility of Chinese capital coalescing and emerging as a major force in the global economy is improbable.

This study will determine whether cross-border investments are promoted through ethnically-based networks. The research methodology adopted is an assessment of Malaysian Chinese investments in China. Networks are defined here as interlocking stock ownership ties, interlocking directorates and cooperation to the point of merger. The study will focus on the form and extent of intra-ethnic business collaboration between the Chinese from Malaysia and other Chinese in Asia or in China.

The reasons why Malaysian firms invest in China will provide insights into the following questions: Do intra-ethnic ties among Malaysian Chinese firms help them collectively build their enterprises in China? Are Malaysian Chinese firms establishing joint-ventures with each other or with the other Chinese investors when setting up new enterprises in the Mainland? Do Malaysian Chinese cultivate corporate ties with business people in China to help them develop their enterprises? Have Malaysian investments in the Mainland contributed significantly to the development of these firms?

Malaysian Business in China

In 2003, Malaysia was listed as the 16th largest investor in China. That year, Malaysia also overtook Singapore as China's largest trading partner among ASEAN countries. In 2002, as reported by *The Edge* (10 March 2003), the volume of Malaysian foreign direct investments (FDI) in China amounted to about US$367.99 billion, with the Mainland listed as among the top 10 FDI destinations of Malaysian investors; this figure was then widely accepted to increase. There have been numerous investments in the Mainland by some of Malaysia's leading publicly-listed enterprises, including well-diversified firms owned by leading capitalists like Robert Kuok (Perlis Plantations group), Quek Leng Chan (Hong Leong group), William Cheng (Lion group), Vincent Tan (Berjaya group), Khoo Kay Peng (MUI group) and Francis Yeoh (YTL Corp group).

A whole host of smaller quoted firms, in terms of market capitalisation, has also invested in China. Most of these firms are involved in manufacturing, such as Apollo Food (manufacturer and trader of chocolate confectionery products), Mamee Double Decker (owned by the Pang family and a manufacturer of instant noodles which established a new plant in Suzhou in 1998), Kim Hin Industry (owned by the Chua family and a manufacturer of ceramic tiles), Leader Universal Holdings (owned by Hng Bok San, and a manufacturer and distributor of electrical and telecommunication cables), New Hong Fatt Holdings (owned by Kam Leng Fatt and involved in the manufacturing and marketing of automotive spare parts and accessories), AKN Technology (owned by Tan Yeow Teck and involved in metal stamping and precision tool manufacturing), PCCS Group (manufacturer and distributor of golf apparels), Ramatek (manufacturer of textile and garment products), Prolexus (a garment manufacturer which has a joint venture in China), Integrated Logistics (involved in logistics and a bonded warehouse operator), Thong Guan Industries (manufacturer of plastic garbage bags), JSPC i-Solutions (involved in IT business applications) and Globetronics Technology (integrated circuit contract manufacturer).

The primary activity of both these large and medium-sized firms is manufacturing, for domestic consumption in China and export. This suggests that their decision to invest in China may primarily be in response to structural problems within the Malaysian economy. A study undertaken by a private consultancy revealed that the labour costs in the lower end of product manufacturing are significantly cheaper in China compared to Malaysia. This factor alone has been used by Malaysian businesses as the primary justification for the transfer of their manufacturing activities to China. This study by the management consultant, Deloitte Kassim Chan Business Services, of the activities of about 160 – primarily manufacturing – firms also revealed that these enterprises encountered a host of problems following their decision to invest in China. More than half of these respondents – about 53% – admitted that their enterprises in China were still not profitable but they would continue to invest in the hope of securing better returns in the future. Corruption involving government officials that they had to deal with was cited as another problem by about 73% of these Malaysian businessmen. A key problem they faced was keen competition, from Malaysian as well as foreign firms operating in China. Labour matters, including securing reliable and loyal managers, were cited as another serious problem faced by Malaysians (*The Edge*, 10 March 2003).

For these reasons, it is moot if these firms have invested in China primarily because of the active encouragement of the Malaysian government. Since the cost of manufacturing products like electrical and electronic goods, chemicals, steel, iron and consumer goods is significantly cheaper in China, Malaysian firms involved in such activities have been compelled to transfer their plants to the Mainland to ensure that the pricing of their goods remain competitive in the global market. In other sectors like the garment industry, because of World Trade Organisation regulations, companies in this industry in Malaysia have no alternative but to move into China. Meanwhile, some firms, like Padini Holdings, once actively involved in the manufacture and distribution of garment products, ceased its manufacturing activities and began out-sourcing its orders to firms in China. The company justified this decision on the grounds that "price, speed, flexibility and capacity were all considerations that tipped the balance in favour of the Chinese" (Lee, 2004). China is the world's largest apparel and footwear producer.

It is probably because manufacturing costs are cheaper in China that the Malaysian government has been actively encouraging domestic firms to invest in the Mainland. Like Prime Minister Abdullah, the International Trade and Industry Minister, Rafidah Aziz, has also advocated the benefits of investing in China. During a trade mission to China in May 2004, Rafidah revealed that in Shanghai alone there were 151 projects involving Malaysian firms. They had investments in the manufacturing sector, involving the production of, among other things, ceramics, vegetable oils and plastic material. As reported by the *New Straits Times* (Malaysia) (2 June 2004) the major Malaysian firms in Shanghai included Malayan Banking, William Cheng's Parkson supermarket and Malaysian Airlines.

However, during my interviews with Malaysian government officials who have investigated the outcome of investments by domestic firms in China, it was disclosed that many of these companies have not secured the expected returns on their investments. But since their venture abroad has involved substantial capital investments, for example, to establish new plants for their manufacturing activities, they prefer to remain in China and hope for a turn of luck rather than cut their losses and return to Malaysia. The studies by government officials confirm private sector reports that Malaysian enterprises encounter a variety of problems in China, including having to deal with corrupt government officials, securing the services of a competent local management team and ensuring the loyalty of a labour force (information obtained from author interviews with Malaysian bureaucrats).

Press reports in Malaysia, however, focus on the "success stories" in China. When Malaysian firms record attractive returns on their investments in the Mainland, thses are provided much publicity in the government-controlled media. Among the firms that have been highlighted include Integrated Logistics, which ventured into China in 1994 and is presently one of the more prominent Malaysian enterprises operating in the Mainland. This company has constructed and operates warehouses in various parts of China, including in Dalian, Tianjin, Suzhou and Guangzhou. In 2004, the company announced that two more warehouses would be built in Shenzhen and Shanghai (*The Edge*, 29 June 2004). The company provides warehousing facilities to multi-national firms in China, and the expansion of its activities was primarily attributed to growing FDI investments.

Another firm that has been expanding its operations in China is Thong Guan Industries which first invested in a manufacturing facility in Suzhou. While the company's facilities were originally producing about 500 tonnes of garbage bags for export, primarily to Japan, in 2004 it invested another RMB 3 million – the exchange rate was then 8.28 Yuan to the dollar – to double its production capacity. This investment was an attempt to expand its export capacity to other parts of East Asia. Prior to this new investment, Thong Guan Industries had invested about RMB 20 million in China (*The Star*, 30 June 2004). PCCS group has a wholly-owned subsidiary in the Mainland, China Roots Packaging Pte Ltd, which operates as a one-stop packaging materials outlet. A number of unlisted companies, like Merry Brown Fried Chicken, Sugar Bun, Dave's Deli and England Optical have franchising operations in China (*Bernama*, 17 May 2004). The large and medium-scale Malaysian enterprises that have ventured into China can be classified as highly entrepreneurial firms, which have shown a capacity to venture into manufacturing as well as develop new products and have been able to identify and effectively exploit niche markets. None of these companies have, however, any interlocking ownership ties with other Malaysian firms. Their relationship with each other, by their own admission, is one that is characterised by intense competition, not cooperation.

There following brief review of some of the investments in China by some of Malaysia's largest enterprises provides further insights into the key issues that inform the form of development of these enterprises in the Mainland.

Case Studies

Robert Kuok's Diversified Interests: The most prominent ethnic Chinese, originally from Malaysia, with extensive investments in China is Robert Kuok, who operates out of Hong Kong. Kuok is believed to have been investing in China since 1983, through his Shangri-La hotel chain and his Hong Kong-based firm Kerry Trading, which has had joint-ventures with the Chinese central government (New Straits Times [Malaysia], 14 September 1993).

Kuok has long been one of the most active proponents of the potential economic impact of the Chinese in Asia. Kuok is quoted by the *New Straits Times* (Malaysia) (5 October 1991; 6 October 1991) as arguing in early 1991 that:

> because of the sheer size of their capital flows, and increasing all the time, they make an enormous impact on the economies of the region, particularly as they possess considerable entrepreneurial and organizational abilities. By and large, they are a very thrifty lot, and very careful with money. Therefore, in a region where capital is in perennial short supply and at the same time development schemes are both plentiful as well as crying out for action, the Overseas Chinese capitalists are really the best medicine that can be prescribed because they tend to start a project or an industry with a small money investment but with large investments of time, skill and energy.

Kuok has, however, probably managed to develop his extensive business interests in China because of his close links with the Mainland authorities. In 1993, Kuok was selected as one of the advisors to the Chinese authorities on the future of Hong Kong. That year, Kuok was also appointed by China's government as a shareholder and director of Citic Pacific, the Hong Kong-listed arm of the Beijing-based government agency, China International Trust and Investment Corporation (Citic) (*New Straits Times* [Malaysia], 14 September 1993). Citic was formed by the Mainland government to secure foreign investments, particularly from the Chinese diaspora. Another well-known director on Citic's board was Li Ka Shing. Kuok's interest in Citic Pacific now amounts to about 10% and is held through his companies in Hong Kong *(Business Times* [Malaysia], 14 September 1993). In 1996, Kuok was selected by the Chinese authorities to sit on the 150-member Preparatory Committee established to oversee the return of Hong Kong to China.

Kuok's involvement in hotels through the Shangri-La chain, for which he has gained international repute, commenced in the 1970s after he began to venture abroad. When he moved from Malaysia to Singapore in 1971, it was to establish the Shangri-La hotel, and his entry into Hong Kong was for a similar reason. From this initial venture in Hong Kong, Kuok has diversified extensively, into electronic and publishing media, property development, manufacturing and trading. When he ventured into China, he followed a similar pattern of growth – first setting up a chain of Shangri-La hotels, then moving into property development and eventually developing a manufacturing base; he has set up vegetable oil refining and Coca-Cola bottling plants in the country. In some major property development schemes in Beijing and Shanghai, Kuok has worked with Li Ka Shing, and in Chengdu in Sichuan province, he was involved in developing a huge shopping complex with T.T. Tsui, who controls the Hong Kong-listed company, China Paint Holdings (see *Far Eastern Economic Review,* 30 October 1986; *New Straits*

Times [Malaysia], 14 September 1993; *Business Times* [Singapore], 23 July 1992).

Kuok's growing interests in media in East Asia commenced in 1993. The Kerry Group acquired a 35% stake in the South China Morning Post Holdings, which publishes Hong Kong's leading English-language newspaper, the *South China Morning Post*. This newspaper was acquired from News Corp, owned by Australian media magnate Rupert Murdoch. The South China Morning Post Holdings owns a 15% stake in Thailand's Post Publishing Company which runs the influential Thai daily, the *Bangkok Post*. Kuok also owns a 32% stake in Television Broadcasts (TVB), Hong Kong's leading television station. Following Kuok's move into the media sector, in which he had no previous experience, the *Far Eastern Economic Review* (16 September 1993) reported that, "Some analysts speculate that Peking blessed – if not bankrolled – Kuok's purchase of SCMP [South China Morning Post]." This was seen as an attempt to channel ownership and control of the influential newspaper into the hands of businessmen associated with the Chinese authorities.

Kuok is probably the best example of an ethnic Chinese who has created business ties with a number of Asia's leading Chinese capitalists. Kuok has been involved with Indonesia's Liem, through his sugar business, and in property development ventures in China with Hong Kong's Li Ka Shing and T.T. Tsui. With Run Run Shaw, Kuok has an interest in Hong Kong's TVB. Kuok had business ventures with Thailand's Chatri Sophonpanich (and before him, his father, Chin), one of Southeast Asia's leading Chinese capitalists who controls the Bangkok Bank. According to *Asiaweek* (9 June 1989), the Bangkok Bank was one of "Kuok's initial bankrollers." In Malaysia, Kuok has worked closely with Khoo Kay Peng of Malayan United Industries (MUI) – they jointly hold equity in South China Morning Post Holdings – and the major property developer Tan Chin Nam who controls IGB Corporation, IJM Corporation and Tan & Tan Development (see *Business Week*, 11 January 1991; *Far Eastern Economic Review*, 7 February 1991). Kuok and Tan share a long-standing friendship but there is no evidence that the enterprises they own are jointly involved in any business deals in China.

While Kuok's links with businessmen in Malaysia and Hong Kong would suggest that business networks exist, he is probably the exception to the rule. Kuok's development of his business ventures in China has been widely attributed to his close ties with leaders of the Chinese state, not just his entrepreneurial capacity. Even though some of these enterprises involve other ethnic Chinese, almost all analysts of his business operations refer to them as "family-controlled," dominated by Kuok.

William Cheng's Lion Group: As reported by *Malaysian Business* (16 August 1993), William Cheng Heng Jem, through his main Malaysian publicly-listed flagship, Lion Corp, has control of six other quoted companies, Amsteel Corp, Angkasa Marketing, Amalgamated Containers, Chocolate Products, Lion Land and Posim. The Lion group first started investing in China in 1992 and, by 1995, it was estimated that the company had invested almost RMB 400 million in the Mainland. This, reportedly, made Cheng the second largest Malaysian investor in China after Kuok (*The Edge*, 27 March 1995). Cheng is also the president of the Malaysian Chinese Chambers of Commerce.

In China, Cheng's most prominent business ventures are in breweries – Hubei Lion Brewery (60% equity), Hubei Jinlongquan Brewery Co Ltd (60%), Hunan Lion Brewery Co Ltd (55%), Ningbo Lion Brewery Co Ltd (55%) and Zhuzhou Lian Brewery Co Ltd (55%) – motorcycle and tyre manufacturing – Changchun Motorbike Co Ltd, Changchun Motorbike and Engine Co Ltd and Dong Feng Lion Tyre Co Ltd – the operation of nearly 40 Parkson departmental stores and the manufacturing of chocolates through Beijing Vochelle Foodstuff Co Ltd.

The Lion group has been described as being "over-diversified," with the suggestion that it has lost its focus. This heavy diversification was probably one reason why Cheng faced enormous problems with the onset of the 1997 currency crisis which revealed that his firms were heavily laden with debts that they had problems servicing. His ventures in China were reportedly registering huge losses, exacerbating Cheng's financial predicament. The Lion group was subsequently restructured, involving a massive divestment of assets and firms to reduce its debt burden. In China, the group's main ventures presently are the Parkson retailing outlets and the manufacturing of beer and motorcycles, though the contribution of these activities to the group's profit margin is reportedly not impressive. For this reason, the group's beer manufacturing operations may also be divested (*The Edge*, 2 June 2003).

Cheng, however, maintains that China remains an important source of revenue for him in the long-term, going so far as to lament that, "I should have gone to China much earlier. Just look at Robert Kuok … he went in much earlier and has big investments there. The returns on investments are better." And his solution to his group's problems in China would be resolved by focusing on core activities: "We are consolidating our investments in China, to focus on a few of the core industries that we are currently among the top players. In order to be successful in China, you need to be either No. 1 or 2" (*The Edge*, 2 June 2003).

There is no evidence in Cheng's business ventures of support from either other Chinese of the diaspora or the state in China or Malaysia which encouraged businessmen like him to invest in the Mainland. Although some of his ventures were based on joint-ventures, involving domestic enterprises in China, Cheng does not talk about including other firms or ethnic Chinese businesses in his new ventures to lift the prospects of the group. Despite registering poor returns from his ventures in China, his solution is to hold on to key investments while reducing his involvement in a number of other activities. In this regard, his manner of dealing with his problems in China is no different from other Malaysian investors who have not been performing well in the Mainland.

Quek Leng Chan's Hong Leong: The Hong Leong group's listed subsidiary, OYL Industries, which manufactures air-conditioners and air-filters, is one firm that has managed to register respectable returns on its investments in China. OYL Industries ventured into China in 1994 when it set up a new plant to manufacture air-conditioners. By 2004, the firm had three manufacturing plants in China, in Wuhan, Shenzhen and Suzhou. Subsequently, another of Hong Leong's quoted firms, Malaysian Pacific Industries, invested in the production of semi-conductors in Suzhou. The Guoco Group, a member of the Hong Leong group and publicly-listed in Hong Kong, has investments in property development projects in Beijing and Shanghai. Hong Leong's early investments in China, which commenced in 1994, had not been very lucrative until OYL Industries began to register profits, precipitating a new round of investments by the group (*The Star,* 24 May 2004). The Hong Leong group's partner in the manufacturing of air-conditioners is the American firm, AAF-McQuay.

The Hong Leong group had been developing a major interest in banking and finance, in Malaysia and Hong Kong. In Hong Kong, Hong Leong joined forces with the Kuwait Investment Office (KIO) to acquire the Dao Heng Bank in 1987. In 1989, Hong Leong also secured a controlling interest in another Hong Kong bank, Hang Lung Bank, which was merged with the Dao Heng Bank; this gave the Hong Leong group the fifth largest bank network in the territory. In 1992, the group bought another bank in Hong Kong, the Overseas Trust Bank. In 2004, however, the Hong Leong group divested its interests in the Dao Heng Bank to Singapore's DBS Bank for a massive RMB 10 billion (see *Far Eastern Economic Review*, 22 February 1990; *Malaysian Business*, 1 March 1994).

Quek's Hong Leong group has a history of takeover of firms owned by other ethnic Chinese. This is most obvious in the banking sector with his takeover of the Hang Lung Bank and the Overseas Trust Bank in Hong Kong. In Malaysia, he was involved in the acquisition of MUI Bank, later renamed, Hong Leong Bank, an enterprise in which Quek now has a controlling interest. MUI Bank was owned by Quek's long-time adversary, though one time close ally, Khoo Kay Peng. In Singapore, he was involved in a takeover bid of the prominent food and drink manufacturer, Yeo Hap Seng. Hong Leong is known to have cultivated business ties with non-Chinese firms, for example, in its venture to develop the production of air-conditioners, now one of its most thriving enterprises. There is little evidence that Quek has worked with other ethnic Chinese in any of his ventures in China.

The Yeoh family's YTL Corp.: YTL Corp, controlled by Francis Yeoh and his family, is primarily involved in construction, power generation and the manufacture of cement. YTL gained a strong reputation in construction and cement manufacturing before diversifying into power generation when it was awarded an independent power producer (IPP) licence by the Malaysian government in 1992. Yeoh reputedly had a close relationship with then Prime Minister Mahathir. YTL quickly acquired expertise in this sector by cooperating with Siemens AG of Germany, before embarking abroad on its own. The group subsequently secured power generation contracts in Singapore, Thailand and Zimbabwe.

According to *The Star* (4 April 1997), YTL's venture into China involved the securing of a contract to supply electricity in 1997. In October 1996, YTL had tried unsuccessfully to take over 80% of Consolidated Electric Power Asia (CEPA), the power supply subsidiary of the Hong Kong-based Hopewell Holdings, controlled by Gordon Wu (*Asiaweek*, 6 December 1996). The takeover was seen by YTL as an opportunity to create a YTL-controlled pan-Asian power giant (*The Edge*, 17 March 1997).

YTL's power-generation business involves a 51% stake in YTL-CPI Power

Ltd, which in turn owns a 60% stake in a joint-venture company, Nanchang Zhongli Power Co Ltd, formed in China by the state; the other members of the joint-venture are Jiangxi Provincial Power Electric Corp and Jiangxi Provincial Investment Corp, also state-owned enterprises (*The Edge*, 14 April 1997).

That the firms the YTL group have been working with in its power generation enterprise in the Mainland are owned by the state has probably facilitated its entry into China. In Malaysia, YTL similarly cultivated close ties with government leaders which facilitated its access to a power-generation licence. Yeoh's relationship with other ethnic Chinese in this sector can be characterised as one that is adversarial in nature, seen particularly in YTL's attempted takeover of a firm in this sector owned by Wu.

Khoo Kay Peng's MUI Group: The Malayan United Industries (MUI) group, controlled by Khoo Kay Peng, has some cooperative ties with firms owned by Robert Kuok. Khoo and Kuok are known to have had a long-standing friendship when they had both served at Bank Bumiputra in the late 1960s. The Malaysian government had established Bank Bumiputra in 1966 to encourage Malay involvement in business. Under Khoo's control, MUI quickly emerged as a highly-diversified group, involved in banking, finance, property development, hotels, construction and manufacturing. In China, MUI (China) Ltd was incorporated primarily to venture into property development and hotels in Shenzhen.

In 1994, MUI acquired equity in a Hong Kong-based listed company linked to Kuok –South China Morning Post Holdings Ltd (SCMP). In April 1994, MUI first acquired a 15.1% stake in SCMP from Rupert Murdoch's News Corp; the following month, MUI acquired another 5% interest in SCMP from Singapore Press Holdings, giving MUI a 20.58% stake in the company. Kuok owned another 34.9% in SCMP, also acquired from Murdoch's News Corp (*The Star*, 19 May 1994).

Apart from this joint ownership of SCMP, there is no evidence that Khoo has worked with other ethnic Chinese to acquire prominent firms or to venture into business in China. In 1989, Khoo had attempted to create a huge conglomerate in Malaysia by merging his enterprises with the business groups owned by Tan Chin Nam and Vincent Tan, apparently with the support of Kuok. The proposed merger eventually disintegrated into an acrimonious battle between the partners, with Khoo and Vincent Tan involved for a protracted period in hostile takeovers of each other's key assets in Malaysia.

Vincent Tan's Berjaya group: In the early 1990s, Berjaya group, controlled by Vincent Tan Chee Yioun, announced its intention to invest about US$100 million in China, primarily in the gaming sector, by establishing computerised lottery outlets in six cities and moving into horse-track betting. Other ventures in China in which Tan voiced an interest included involvement in leisure projects, including developing golf courses and amusement parks (see *New Straits Times* [Malaysia], 7 December 1993; *Far Eastern Economic Review*, 1 April 1993; *Euromoney*, June 1994). While the outcome of these investments is still unclear, what is evident is that Tan has ventured into these enterprises alone.

As with most other Malaysian Chinese business people, Tan has been involved in takeover attempts owned by ethnic Chinese in East Asia. In 1989, Tan attempted a takeover of Hong Kong-based Semi-Tech Microelectronics (Far East) Ltd, owned by casino magnate Stanley Ho and James Ting, for control of the US-based SSMC Inc., a publicly-listed investment holding company which owns the franchise for Singer-brand sewing machines and other consumer goods. SSMC had established manufacturing operations in Asia, Latin America and Europe and a well-developed worldwide distribution network. This takeover did not materialise, and when asked by the *Malaysian Business* (16 December 1993) in 1993, "What has been your greatest regret?," Tan would respond: "My biggest regret was losing the Singer world-wide empire to James Ting of Semi-Tech Global Ltd, Hong Kong. Do you know, if we had been successful, we would be in 120 countries?"

Although Tan has extensive business ventures abroad, there is little evidence that he has established close ties with other Chinese. He has reportedly been involved in ventures with Kuok, but unlike Khoo Kay Peng, who jointly controls companies with Kuok, Tan does not appear to have developed similar business ties. Rather, Tan has been involved in well-publicised feuds with other Chinese, including Khoo, Ho and Ting.

Conclusion

While Malaysian firms have invested in China, there is little evidence of much cooperation between them in the Mainland. Kuok is the only Malaysian businessman with cooperative ties with other ethnic Chinese, though primarily with his close friend, Khoo. The other major Malaysian business figures in China – Cheng, Quek, Yeoh and Tan – operate alone, with foreign partners or with firms owned by the Chinese state. There is evidence that their investments have not all paid off. Cheng, for example, is divesting some of his huge investments in China, including his venture into beer manufacturing.

This review of the activities of these leading businessmen also indicates that they have been involved in the takeover of firms owned by other ethnic Chinese. Quek has had an acrimonious relationship with other Malaysian Chinese like Khoo, while Tan has been involved in hostile takeovers of firms controlled by Khoo and Ting. Yeoh attempted the takeover of a firm owned by Hong Kong's Gordon Wu.

The lack of networking among these Chinese businessmen and their relatively poor returns from investments in China stress important lessons about the idea that the Mainland is an important avenue through which ethnic Chinese of the diaspora can continue to develop their enterprises. The case studies also raise questions about the application of the concept of networks in the development of Chinese-owned firms. The basis on which the concept of networks rests is the belief that there exists a pan-ethnic unity among the Chinese in different countries which facilitates the development of their enterprises around the globe. However, the case studies reveal that transnational networks do 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 China provides little evidence to support the argument that co-ethnics, even those from a minority community in a country, work together to promote their investments.

There is also no indication that Chinese investors from Asia have forged joint-ventures with each other, nor is there much evidence of interlocking stock ownership and directorate ties among these businessmen, with the exception of firms owned by

Kuok and Khoo. Although there has been much overlap in areas of investment by leading Chinese capitalists from Asia, there is evidence of only one interlocking stock ownership tie among these businessmen, involving Khoo and Kuok. This overlap in areas of investment in China by Chinese business people from Malaysia appears to have generated competition, rather than cooperation, between them.

There is clearly a marked heterogeneity in the business style of these ethnic Chinese investors in China. This heterogeneity suggests different attitudes by these business people to manner of corporate growth, a factor that hinders co-ethnic collaborative business ventures; moreover, there is little reason for investors in different areas of business to cooperate in corporate deals. The way these business people identify partners for their ventures is dependent on the contribution the latter can make to development of the new enterprise; inevitably, the best partner is seldom a co-ethnic, especially when the new venture is being undertaken in a foreign country.

There are two major conclusions that can be reached based on this study. First, an evident dynamism prevails within Chinese-owned enterprises, a dynamism that has been attributed to intra-ethnic business cooperation. This study has, however, found more evidence of competition than cooperation among Chinese-owned firms. The level of competition between these Chinese was significantly high, especially when competing for limited resources like control of the banking sector in Hong Kong. This competition best explains the growth of firms owned by ethnic Chinese investing in China.

The second major conclusion about this analysis of Chinese-owned firms is that there is more evidence of inter-ethnic corporate ties. Partnerships have been forged with foreign firms, like Quek's cooperation with the American firm AAF-McQuay and Yeoh's ties with Siemens and then firms owned by the state in the Mainland. These partnerships are also probably not sustainable in the long-run. YTL presently has no links with Siemens, while Quek's group eventually bought over its American partner, a trend which is quite common in business practices (Chandler, 1977, 1962; Penrose, 1980).

This would suggest that the issue of common ethnic identity is of little importance in transnational business transactions undertaken by ethnic Chinese from Asia. Ethnicity is a political construct that has been used to justify state policies and endeavours (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 helps unify a community. The case studies suggest that though individual businessmen could use these political constructs when it suits their business interests, since some state leaders promote the 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 limited business ties among Malaysian Chinese in China 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 corporate ties. 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 enterprise.

The major findings in this study bring into question the validity of the concept of "intra-ethnic business networks." This concept of networks 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 potential influence of Chinese capital coalescing and emerging as a major force in the global economy due to the networks consolidated by their common ethnicity is untrue.

Note:

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