Chinese Networks

By Shiraishi Takashi

THE recent tsunami disaster reminds us that many of the affected countries not only occupy the same geographical space in the Indian Ocean, but were historically part of the world built on and connected through maritime trade. This world encompassed the western part of Southeast Asia, including what is now southern Thailand, Malaysia, the western part of Indonesia and Myanmar. In fact, Southeast Asia was called "the land below the winds," and it was an important area connecting the Indian Ocean and the South China Sea.

The maritime zones were primarily created by long-distance trade. But those days are over. Now, investment and intra-firm trade led by Japanese and Chinese businesses are spurring the regional integration of "East Asia."

It is generally agreed that the expansion and deepening of business networks by both Chinese and Japanese firms were the preeminent factors in de facto regional economic integration. In 1980, intra-regional trade within East Asia constituted 33.6%; by 1990, the figure had risen to 41.6%, and by 1995, two years before the Asian financial crisis, to 50.1%. We need only to compare the above statistics to those of European Union intra-regional trade (64.1% in 1995), and the North American Free Trade Area (41.9%) to realize that the rate of integration in East Asia has accelerated significantly in the last two decades.

Conventional wisdom holds that East Asian integration is supported by existing Chinese networks capable of overcoming political divisions and state boundaries. From this perspective, the so-called "overseas Chinese economy" – conceived as stateless, network-based and non-official – ranked fourth in the world in terms of economic size in the early 1990s. In 1990, for example, *The Economist* put the "GDP" of the "overseas Chinese" in Southeast Asia at US$ 450 billion or 125% of mainland China's GDP at the time. Furthermore, the liquid assets held by the "overseas Chinese" were estimated at US$ 1.5 to 2 trillion or nearly two-thirds of Japan's assets.

It is often said that Chinese networks are built on their social systems. Formal overseas Chinese mutual aid associations are organized according to clan, place of ancestry or dialect groupings, and supposedly function like banks through which members can borrow and lend money, exchange information, recruit labor and establish business connections. Chinese firms, financial networks and distribution systems have successfully adapted to the vast changes that the region has experienced since 1945, in particular, the rise of developmental states and the entry of foreign multinational companies. Held together by capital flows, joint ventures, kinship ties, marriages, political alliances, a common "culture" and business ethics, Chinese networks act as crucial intermediaries between bureaucrats, the military and politicians on the one hand and foreign firms on the other.

In sum, orthodoxy holds that the rise of a Chinese "capitalist layer," which was called "Greater China" in East Asia during the postwar period, is a product of the historical continuity and resilience of "overseas Chinese" business networks and the emergence of East Asia as a high-growth economic zone.

There is no question that networks are important, but it is wrong to assume that these networks are just "there" or have been there for a long time or are simply reactivated given the right time and the right opportunities. It is also misleading to assume that these networks are unproblematically "Chinese."

WE need to locate these networks in their proper contexts. For instance, the transnationalization of the Salim Group, the largest "Chinese" business conglomerate in Suharto's Indonesia, was led by Anthony Salim, son of the founder Liem Sioe Liong (Sudono Salim), who received Chinese-language training in elementary and junior high school, but

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Chinatown in Nagasaki

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Hong Kong capital leads the Chinese economy

also received instruction in Bahasa Indonesia in high school, and subsequently studied Business Management at a British university. The top manager of his Hong Kong operations is a Filipino, while his business partners in Indonesia include *pribumi* or native Indonesian friends from his university days. The Salim Group expanded its operations through joint ventures with foreign multinationals, including Japanese and American companies.

By the 1980s, the ethnic Chinese businesses were ready to go transnational. The Salim Group set up a new company in Hong Kong called First Pacific. Between 1981 and 1983, the company invested heavily not in East Asia but in America and Europe. During the same period, the Salim Group also established another company, KMP United Ventures Pte Ltd, in Singapore. But only in 1985 did the Salim Group withdrew from America and Europe and began investing in Singapore, as well as the Philippines and Thailand (but not yet in China) via Hong Kong.

In the same manner, Robert Kuok of Malaysia went transnational with his first investment in Hong Kong in the late 1970s. Although he moved his headquarters to Hong Kong in the early 1980s, it was not until the 1990s that he started to do major business with China.

The point is that these ethnic Chinese entrepreneurs did not transnationalize their business operations because they were Chinese, but because they were capitalists. When post-Maoist China opened its economy to foreign investment in 1979, it was not the ethnic Chinese in Southeast Asia or Hong Kong who rushed there in pursuit of business opportunities by reactivating their business networks based on clan or dialect groupings, ancestral roots or, as Anthony Salim ironically put it, "nostalgia."

The reason was simple; when the Chinese government announced its intention to take back Hong Kong in 1997, Hong Kong society was not just unsettled, but deeply divided. Its uncertainty manifested itself in the increasing number of out-migrants and substantial capital flight, which sparked a currency crisis in 1983.

In dealing with this state of affairs, the Chinese government decided on a policy aimed to retain British capital, and not only prevent the flight of Chinese capital but expand it, while attracting both overseas Chinese and Taiwanese capital as well as American and European capital.

A former Chinese representative in Hong Kong, Xu Jiatun, remarked in his memoirs that this policy represented China's attempt to persuade the Hong Kong Chinese class of "haves"– in particular, the big capitalists – to remain in Hong Kong. For this purpose, he relied on the Bank of China and mainland Chinese firms to forge joint-ventures and business tie-ups with Hong Kong's tycoons and to solicit their commitment to invest in China. He also personally supported such business leaders as Gordon Wu and Li Ka-Shing, and Southeast Asian tycoons like Sudono Salim, Robert Kuok and Dhanin Chearavanont.

But these business leaders were cautious about their investments in the 1980s, and ventured into China only after Deng Xiaoping underlined China's commitment to reform its economy during his historic visit to Southern China in 1992.

WITH Hong Kong as a hub or launchpad, ethnic Chinese entrepreneurs created new networks, some of which involved the reinvention of existing business ties. Multinational companies as well as ethnic Chinese business groups in Southeast Asia set up joint investment firms in partnership with local Hong Kong tycoons. Salim, Kuok and Mochtar Riady (head of the Lippo Group) teamed up with Li Ka-Shing and mainland Chinese firms to invest in China in a major way after 1992. Half of Singaporean investment in China went directly into China while the other half was coursed through Hong Kong. And in 1992, US$ 170 million of Malaysian investment went directly to China, while US$ 500 million was channeled through Hong Kong.

It should also be noted that the Singaporean government tried its best to make Singapore an alternative hub in those years. In 1989, the Singaporean government attempted to "regionalize" Singapore's economy, with Lee Kuan Yew calling for the creation of a "Growth Triangle" consisting of Singapore, Indonesia's Riau Province and West Sumatra and Malaysia's Johore state. Salim's increased investment in Singapore was perhaps a response to this Singaporean initiative. But Singapore's effort to replace Hong Kong as a launchpad for "overseas Chinese" investment in China flopped. As we all know, the development of industrial estates in Suzhou and Wuxi by Singaporean government was a costly failure.

No doubt, the formation of "Greater China" rested on the de facto economic integration of China, Hong Kong, Macao, Taiwan and Southeast Asia. But it is not the case that "Chinese" business networks were simply reactivated and that "Chineseness" was the essential ingredient of these networks' success. New networks and even new "Chinese businesses" have to be created, and far more important, have to be profitable. JS

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