



Chinese capitalism: cultures, the Southeast Asian region and economic globalisation

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ABSTRACT *Globalisation is often presumed to be an economically, socially and culturally homogenising force. The deterioration of capitalism's major rival in the early 1990s has paved the way for a truly global economy in which all participants increasingly operate under the general logic of capitalism—that is, a market-orientated system of production and exchange, private ownership and a flexible labour market predicated upon self-interest. Yet, while the pressures of globalisation are obviously formidable and increasingly felt by all, economic societies remain diverse and have responded to these pressures in unique ways. This article makes its case for the continued diversity of capitalism by emphasising the unique mode of economic organisation that has emerged in Southeast Asia; one rooted in the demands of globalisation as well as in the cultural foundations of the Overseas Chinese. The evolution of ethnic-Chinese business networks, which define Southeast Asia's political economy, constitutes a unique reaction to the pressures of globalisation and has laid the basis for a distinct articulation of capitalism in the region.*

Globalization is not flattening civil societies around the world but, rather, combining with local conditions in distinctive ways, accentuating differences, and spurring a variety of social movements seeking protection from the disruptive and polarizing effects of economic liberalism.¹

One of the central paradoxes of globalisation is that it implies the collective abandonment of many divergent modes of social and economic organisation in favour of a single ideal defined by global prerogatives; or, perhaps more aptly, Western prerogatives. Recent financial crises in emerging markets, particularly those situated in Southeast Asia, suggest that this process is supported by more than the moral legitimacy of the 'Western way'; in the realm of finance, there are severe structural disincentives to operating outside the logic of 'global economic efficiency'. In a global financial context characterised by heightened capital mobility, short-term profit incentive and the dominance of huge institutional investors, even modest shifts in investor sentiment are capable of triggering capital flight and undermining the economic viability of entire regions. The

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five countries hit hardest by Asian contagion—Thailand, South Korea, Indonesia, Malaysia and the Philippines—went from receiving net capital inflows of US\$92.8 billion in 1996 to net outflows of \$12.1 billion in 1997: a swing of approximately \$105 billion in a matter of months.² This is a troubling precedent to say the least.

Given the force with which global capital markets punish those emerging markets deemed irresponsible, it is difficult to foresee many nations stepping too far out of line with the emerging financial order or the architectural adjustments proposed by the US. These adjustments have generally centred upon the provision of greater levels of transparency, information disclosure and standardised financial regulation—initiatives meant to ensure a more predictable, homogeneous investment environment and encourage an increasingly uniform articulation of global capitalism. Indeed, it now conventional wisdom that capitalism as it has traditionally been practised in Southeast Asia—the region with which this article is primarily concerned—is inefficient, anachronistic and must be swept aside through market reform.³ Certainly powerful incentives exist to emulate Western financial supervision and practices, but it would be presumptuous to assume that the pressures of globalisation are somehow absolute or that traditional foundations are simply crushed beneath the weight of these transnational forces. An argument put forth here is that, while global economic pressures are felt the world over, distinct political, economic and cultural foundations continue to filter these pressures in unique ways. Indeed, one consequence of the emerging global division of labour—where firms from industrialised nations attempt to traverse, and ultimately tap, the opaque investment climates of the developing world—is the coexistence of various forms of capitalism, each pursuing the increasingly universal objective of wealth generation through fundamentally different means.

This article, in sum, makes a case for the distinctiveness of capitalism, even in the context of rapid economic globalisation, by emphasising the emergence of distinct capitalist cultures in response to the pressures of globalisation.⁴ In this sense, globalisation is interpreted as a ‘dialectical process of homogenization and differentiation’, the end result being a constellation of distinct capitalist hybrids operating within particular cultural contexts while simultaneously responding to the demands of global economic competition.⁵ The realities of global business—the means through which entrepreneurs and financial market operators compete on a daily basis—reveal the degree to which cultural foundations continue to shape modern capitalism. Nevertheless, some prominent theorists of economic globalisation—Kenichi Ohmae and Robert Reich, for instance—seem to underestimate, or at best underemphasise, the importance of these cultural undercurrents in their work. The first section will evaluate and ultimately challenge ‘strong globalisation’ theories by emphasising the role of social capital in economic society and examining diverse regional responses—new economic regionalisms—to the pressures of globalisation. This section, in short, will illustrate the centrality of culture in the construction and maintenance of capitalist society. The second section will support this assertion through an analysis of the distinct cultural order of Chinese capitalism, the dominant mode of business in Southeast Asia.

The cultural underpinnings of modern capitalism

Globalisation is often presumed to be an economically, socially and culturally homogenising force. Despite deep differences world-wide, 'strong globalisation' readings tend to regard the trend towards greater levels of homogeneity and the decline of the traditional guardians of policy diversity—nation-states—as inevitable. And, in many respects, it is impossible to refute the growing influence of globally mobile capital, the ease with which corporations establish transitional networks and the consumer culture that increasingly transcends national divides—in general, a retreat of the state from economic life. The most observable facet of the globalisation phenomenon may be the resonance of Western consumer values and icons in societies throughout the world; flashing Western advertisements a few feet from communist monuments in Moscow and Beijing are particularly revealing. However, globalisation implies a transformation of much greater magnitude for strong globalisation theorists; it suggests a shift from an artificially segregated international economy to a 'borderless' global economy which supersedes state authority and alleviates diversity in any meaningful sense. Kenichi Ohmae, for instance, argues that:

in today's borderless economy ... there is really only one strategic degree of freedom that governments have to counteract this remorseless buildup of economic cholesterol ... And that is to cede meaningful operational autonomy to the wealth-generating region states that lie within or across their borders, to catalyze the efforts of those region states to seek out global solutions, and to harness their distinctive ability to put global logic first and to function as ports of entry to the global economy. The only hope is to reverse the post-feudal, centralizing tendencies of the modern era and allow—or better, encourage—the economic pendulum to swing away from nations and back towards regions.⁶

In the borderless world—where, according to Ohmae and Robert Reich, spatial barriers to the movement of information, investment, people and goods have been obliterated—regions, and businesses operating within these regions, have shed their cultural parochialisms for more market-centred and global orientations. As corporations and financial subsidiaries expand into diverse cultures, an organisational learning effect—for instance, the implementation of 'best practices' internationally—is thought to undermine divergent business practices.⁷ This global production web, and the multitude of convergent pressures it embodies, has had the cumulative effect of stripping capitalism of its distinct variations, fostering a single 'global capitalism'. Robert Reich explains:

As American-owned firms go abroad and foreign-owned firms come to the United States, the two kinds of enterprise webs are beginning to look very much alike in terms of where they derive most of the value inherent in their products and services. The nationality of a firm's dominant shareholders and its top executives has less and less to do with where the firm invests and with whom it contracts around the world.⁸

The implications of globalisation for the future of capitalist diversity are, for these authors, obvious: as economic prosperity has come to reside in global networks that link different nations and cultures together in profit-maximising webs of production and information, meaningful differences between these

economic cultures have receded. Any innovation occurring in any sector of any country's economy can be transferred to and adapted in any other country or sector in this context. As a consequence:

when this process of diffusion [technologies, consumer products, production strategies] collides with culture or political protectionism, it is culture and protectionism that wind up in the shop ... recent experience suggests that, in most cases, economic factors prevail in less than a generation. Thus understood, globalization—the spread of economic innovations around the world and the political and cultural adjustments that accompany this diffusion [ie homogenization]—cannot be stopped ... As history teaches, the political organizations and ideologies that yield superior economic performance survive, flourish and replace those that are less productive.⁹

I do not claim that the economic trends highlighted by these authors are fundamentally false, only that their interpretations are partial accounts which fail to give adequate attention to equally significant cultural undercurrents in the global political economy. Thus, while not disputing the underlying thrust and influence of globalisation, I find the position of strong globalisation theories problematic for two interrelated reasons. First, they fail to acknowledge—or at best understate—the degree to which capitalism remains a social phenomenon, embedded in particular cultures and places. And second, strong globalisation readings tend to simplify the complex and multidimensional nature of the relationship between globalisation and local business systems.¹⁰ With these criticisms in mind, the following sections expand upon the centrality of social capital and culture in the functioning of economic society and the related trend towards heightened regional integration or 'new regionalism' as a response to economic globalisation.

Social capital: the lifeblood of capitalism

Despite the ascent of modern communications technology and the evolution of global subcontracting and production networks, business continues to hinge upon the social interaction of human beings. One of the greatest shortcomings of the current economics discipline is its inability to appreciate this interaction. The economic world is thought to be populated by rational market actors who are influenced by nothing more than profit maximisation and who somehow separate their economic lives from the rest of their social existence. However, as Francis Fukuyama has noted:

the economy constitutes one of the most fundamental and dynamic arenas of human sociability. There is scarcely any form of economic activity, from running a dry cleaning business to fabricating large-scale integrated circuits, that does not require the social collaboration of human beings.¹¹

Economic activity is thus deeply embedded in social life and knit together by a wide variety of norms, rules, moral obligations and other habits that together shape society; anchoring these activities are basic reciprocal understandings or conceptions of trust. In this sense, economic life can never be divorced from the culture in which it is embedded. Since the cultural roots of economic organis-

ation vary, it follows that capitalism will vary. To illustrate this point, it is necessary to elaborate upon the role of social capital in modern capitalism.

Social capital can best be described as those shared ethical habits, norms and understandings that facilitate and lubricate economic cooperation. In each society, cultural foundations determine the complexion of social capital as well as the frame of reference within which social capital functions. For instance, the non-contractual trust that characterises business among members of Overseas Chinese communities is facilitated by shared understandings concerning the nature of kinship and has been tempered by the historic uncertainties of capitalism in Southeast Asia. In this way, a particular form of social capital has come to define the material foundation of economic organisation in the region. This will be elaborated upon and substantiated below, but for now it is enough to say that capitalism operates under a distinct logic in Southeast Asia and much of this is results from the specific functioning—or social capital—of Chinese business. Social capital thus spans roughly the same territory as civil society, defining those intermediate organisations and associations that exist outside both the family and state and, in turn, socialise members into their cultures by providing the knowledge necessary to function in economic society.

These skills are fundamental components of economic prosperity, providing members with the social materials necessary to generate wealth; awareness of the unspoken rules of business in a given cultural context is invaluable, and links the complex web of economic relationships required for an advanced division of labour. Social capital, which is so critical to the health of an economy, thus rests on cultural underpinnings and inherited ethical habits:

An ethical habit can consist of an idea or value, such as the view that pork is unclean or that cows are sacred, or it can consist of an actual social relationship, such as the tendency of the eldest son in traditional Japanese society to inherit the whole of the father's estate.¹²

The ethical habits of a particular culture have a profound influence on the nature of economic activity. This is by no means a unique thesis. Max Weber's *The Protestant Ethic and the Spirit of Capitalism* argued that the psychological conditions, ethos and ethical habits particular to Protestantism gave birth to the systematised organisation of modern capitalism: 'the essential elements of the attitude which was ... called the spirit of capitalism are the same as ... the content of the Puritan worldly asceticism'.¹³ Cultural tendencies contributed to certain forms of economic behaviour. Likewise, the radical reorientation—or, some would argue, the destruction—of culture and social capital in communist Eastern Europe has certainly erected significant barriers to the modern transition to capitalism. Without the robust and spontaneous civil societies that underpin capitalism in other parts of the world, the region's elites have attempted to create capitalism from above, as it were. However, this transition project is being led by an unlikely coalition of former communists and their dissident critics, which has had deep implications for the material realities of capitalism in the region. Making matters even more complex, critical differences in culture and proximity to Western Europe between Central Europe and Eastern Europe/Russia have

contributed to further divergence in the articulation of capitalism in the post-Soviet sphere.¹⁴

Given the centrality of culture in the creation of social capital and the importance of social capital to the nature of economic organisation, it follows that articulations of capitalism will be diverse so long as cultures are diverse. However, strong globalisation readings suggest that differences in culture and social capital are evaporating as a result of heightened global interaction and integration. This may be too simplistic a reading. Globalisation is not a unilateral phenomenon and often unleashes counter-movements, which adapt to the mechanisms of convergence in unique ways. The movement towards regional economic integration—and the centrality of social capital within these regionalisms—constitutes an alternative reaction to the pressures of globalisation. Indeed, diverse patterns of economic regionalism imply that capitalism is far from a single destination.

New regionalisms: the social infrastructure of capitalism

Regional patterns of entrepreneurial activity, money, migration, culture and ultimately power have come to define economic growth strategies at the end of the twentieth century, transcending conventional notions of a state-centric economic organisation. While transnationalism in itself constitutes nothing new, the scale and nature of modern cross-border economic activity is unprecedented. Regionalism during the Cold War was usually imposed from outside by a superpower, dominated by inward-orientated trade arrangements or strategic alliances and sought to establish only limited integration. Modern articulations of regionalism or 'new economic regionalism' have expanded in the scope of their integration (encapsulating various levels of state and non-state economic cooperation), the scale of their cross-border interaction (annual world-wide foreign direct investment (FDI) reached \$400 billion and short-term portfolio investment climbed to \$2 trillion in 1997) as well as their global reach. Scarcely a country in the world is not subject to some sort of regional economic arrangement.¹⁵

Closer to the core proposition of this article, heightened translational activity and integration have been driving forces behind profound changes in the nature of global business, yet not the sort of homogenising tendencies predicted in strong globalisation readings. A prominent feature of new regionalism is the spontaneous emergence of regional patterns of economic interaction and the evolution of traditional transnational business and cultural relationships in response to the pressures of globalisation. The advent of global production webs—whereby various facets of the production process are dispersed transnationally—has created potential economies of scale and has heightened the profitability of regional cooperation. Such co-operative arrangements also encourage investment, rationalise infrastructure projects, strengthen the bargaining position of countries in the region, promote freer movements of human resources and thereby increase output and productivity.¹⁶ Regionalism is therefore of potential benefit to all partners.

However, it is necessary to go beyond these general propositions—which I believe strong globalisation theorists rest on—to determine how regionalism

actually works on the ground. It is at this level that an understanding of social capital becomes essential. With this in mind, the following paragraphs will elaborate upon two critical facets of emerging regionalism, which have promoted powerful economic synergies within regions and are tightly linked to culture as well as to a high level of social capital: emerging transnational business networks and patterns of diaspora finance.

Business networks are co-ordinated, entrepreneurial and, in some instances, personal relationships that link various firms in integrated production networks. These networks effectively shift economic organisation from the vertically integrated corporation, where all activities are produced 'in house', to networks of smaller geographically dispersed firms that are generally co-ordinated by transnational corporation (TNC) input demands. Such networks are a product of the 'post-Fordist era', where international competitiveness and the need for more flexible, less costly manufacturing strategies as well as advances in information and transportation technology have rendered centralised, capital-intensive forms of mass production obsolete.¹⁷ In the place of the traditional centralised factory, dynamic global subcontracting systems—anchored by large TNCs—have emerged to link production in various localities together in regional and ultimately global divisions of labour. Yet a business network is more than just an integrated structure: it is simultaneously a structure and a process, which embodies—and is influenced by—various social and cultural dynamics.¹⁸ Overseas Chinese business strategies demonstrate the critical position of culture in business networks:

[Among the Overseas Chinese] the organization of the family and the family firm overlap. The Chinese family firm is represented by a series of relationships that can be expanded or contracted depending upon time and place. The boundaries of what should be included in the firm are often ambiguous because they are not defined explicitly by property, ownership, or control. Instead, the boundaries are defined by networks of people linked together by social relationships.¹⁹

The unique social capital of the Overseas Chinese is at the centre of the business networks, which define the regional political economy of Southeast Asia. The level of integration and cross-border synergy achieved through these transnational and culturally rooted business networks will be elaborated upon further below. At this point it is sufficient to state that business networks represent an important facet of regionalism and are deeply embedded within particular cultures. While such business networks are generally associated with the Asia-Pacific region, they are also applicable to Latin America, Eastern Europe, South Asia and Southern Africa, as well as the advanced industrial nations of the West. Within the European Union, for instance, subregional economic synergies—connected by business networks between cities—have emerged which reveal distinct cultural foundations.²⁰ While more research is undoubtedly needed to unravel the complex workings of these business networks, the centrality of culture in these relationships and its broader influence on the structure of regional economic integration is obvious. These networks, in short, suggest that the economic world is socially and culturally influenced rather than a realm separate from social life. Patterns of transnational diaspora capital also support this assertion.

Centuries of mass migration have fostered transnational ethnic communities which span the world, but remain socially embedded in their 'birth cultures'. Major global cities have seen prominent immigrant communities take root and reshape their cultural, social and economic landscapes. As members of these communities partake in—and profit from—businesses in their new countries, much of their capital is channelled back into home regions. Prominent in global wage remittance flows are the Indian (US\$9326 million), Mexican (\$4224), Turkish (\$3542), Egyptian (\$2798), Lebanese (\$2503), Moroccan (\$2165) and Chinese (\$1672) diasporas. According to a United Nations estimate, foreign workers around the world remitted as much as \$58 billion to their home countries in 1996—a figure which placed remittances high in world trade for that year.²¹ However, not all diaspora capital is transferred with the sole aim of kin sustenance. In a global context where capital can be electronically transferred to any area of the world and profit can best be made through global diversification, geographically dispersed—and increasingly wealthy—ethnic communities have channelled funds into home-region enterprises, fuelling the movement towards regional economic integration as well as providing a source of information and point of access to foreign markets; in short, acting as key intermediaries between vastly different economic cultures.

Again, this type of activity is generally associated with the Overseas Chinese, but is applicable to the British, Jewish, Russian, Indian, Algerian, Turkish, Mexican communities and generally any other ethnic community with a significant global dispersion and a high level of group identification with the 'home land'. Social capital is intrinsic to these capital flows and, in fact, binds scattered members of the group together in an economic-cultural web. Without trust rooted in ethnic solidarity and cultural norms, the entrepreneurial ties connecting diaspora communities world-wide would be severely strained. Only in a context where trust can be established will webs of transnational capital survive; this is as much a truth for Anglo-American investors as it is for Chinese or Indian business people. However, differences in culture predispose Anglo-American investors to assume an individualistic stance and place their trust in contract (which makes accredited financial institutions the most appealing alternative) while Chinese and Indian investors place greater value in kinship networks and communal affinities (which make the use of informal gold shops, '*guanxi*' or 'caste' investment an option to formal contractual relationships) and use this social capital to complement their investment strategies.²²

Business networks and patterns of ethnic diaspora finance are both critical facets of emerging regionalism and reveal the degree to which economic and cultural forces intermesh to form specific capitalist orders within specific regional political economies. The compression of time and space and a heightened level of integration, rather than eliminating the cultural dimension of capitalism, have made the role of social capital increasingly important. For the sake of brevity, this analysis has focused exclusively upon the private-sector led, market-driven articulation of regionalism—which is by its nature informal and without overt state guidance—forgoing an analysis of the state-led macro-regionalisms.²³

In my opinion, flexible and spontaneous regional interaction reflects the spirit

and demands of the post-Fordist, neoliberal environment to a greater degree than state-centric regional responses do. Such a claim can be qualified by considering a basic question: are Southeast Asia's regional economic realities influenced more by the organisational agency of the association of south-east asian nations (ASEAN) or by the functioning of Chinese capitalism and its extensive configuration of business networks and diaspora finance? Given the region's predisposition towards informal agreements as opposed to legalism, the latter seems more viable. These distinctive regional responses to globalisation indicate that diversity can exist despite the formidable pressures of convergence and that culture is deeply embedded in modern capitalism. This point is, however, contentious and, as such, must be substantiated. A detailed examination of the distinct culture of Chinese capitalism should suffice.

Chinese capitalism and the political economy of Southeast Asia

The Asia-Pacific region has been the site of dramatic shifts in economic fortunes. From Asian miracle to Asian meltdown to the cautious optimism prevalent in the region today, Southeast Asia has remained a dynamic and unpredictable political-economic environment. Yet, despite this turbulence, a source of continuity is discernible: Overseas Chinese networks have consistently been at the centre of the region's economic gravity. This is not to argue that culture has been the only factor at work in recent economic history. Certainly, the predominance of both the US and Japan cannot be underestimated. Without the vast capital transfer associated with the US communist containment strategies, Southeast Asia would have arguably remained part of the underdeveloped world. And without the related ascent of Japan, the momentum of regional integration and dynamism—massive inflows of FDI, intra-regional production and trade—would have been severely circumscribed. Moreover, the role of strategic state intervention in the economies of Southeast Asia has also been profound.²⁴ However, the coherence of this economic region has hinged upon an informal array of Overseas Chinese business networks, and their unique social capital, which serve as crucial bonds between the economies of Southeast Asia.

The prominent status of the ethnic Chinese in the regional political economy is easily quantifiable. The World Bank estimates the total economic output of Southeast Asia's 55 million Chinese reached around US\$400 billion by 1991 and had risen to nearly \$600 billion by 1996.²⁵ Ethnic Chinese control 500 of the largest public corporations in Southeast Asia, with total assets amounting to over \$500 billion and \$2 trillion in liquid assets.²⁶ Yet, while these statistics are impressive, they do not represent privately owned and less visible Chinese assets, nor do they reflect the degree to which ethnic and social networks shape the nature of business, create transnational economic synergies and serve as coordinating agents in the region. These underlying principles, norms, activities and informal relationships—sometimes referred to as the 'bamboo network'—transcend state authority and constitute a distinct mode of transnational capitalism in Southeast Asia. Chinese capitalism, it must be remembered, has developed without the support and coordination of a strong state, but has nonetheless been the driving force behind capital accumulation in the region.²⁷

Complex networks that connect ethnic Chinese in various countries, while simultaneously interacting with state authorities through webs of patronage, function independently of the state. These facets of Chinese capitalism define the region's political economy and, as such, will be the focus of the following section.

The socio-historical foundations of the Chinese diaspora

The commercial influence and intermediary function of Chinese merchants in Southeast Asia dates back at least as far as the third century AD.²⁸ Overseas communities were founded throughout the region as social pressures from the mainland—political turmoil, starvation, natural disaster—pushed inhabitants of the coastal provinces southward to the coastal rim of the South China Sea. The vast majority of the Overseas Chinese have roots in the southeastern provinces of Guangdong and Fujian and have maintained, across generations, tight economic and psychological/mythological contact with their home regions. Rapid economic expansion in these provinces today owes much to the Chinese diaspora. Once established, these communities were the recipients of further waves of mainland immigrants displaced by war and poverty, as well as by Communist and Cultural Revolution. This transnational flow of people and wealth—rooted in regional dialect and kinship—has provided a regional foundation for the socioeconomic networks that define capitalism in Southeast Asia today.

Despite the grievous circumstances of migration, the Chinese that have spread throughout the region remain, in some deep and significant sense, Chinese. The majority genuinely feels bound to China and Confucian ethics, even after centuries of family settlement elsewhere. This is a feature that unites specific clans in various Southeast Asian communities, providing them with a basis for cooperation. Also contributing to the spirit of selective solidarity has been the hostile environment in which Overseas communities have found themselves. Chinese immigrants have suffered brutal discrimination and violence at the hands of indigenous communities who resent their disproportionate control of Southeast Asia's wealth; events in Chinese communities throughout Indonesia in the aftermath of its recent financial crisis suggest that such resentment is still pervasive. A historical context of displacement, discrimination and poverty has profoundly shaped the evolution of the Overseas communities and has played a defining role in conditioning a mentality which has, in turn, ensured survival and fuelled success.

First and foremost, it has placed the entrepreneurial spirit and wealth creation at the centre of Overseas Chinese communities. In an environment defined by insecurity and mistrust, control of wealth is essential both to ensure the family's livelihood and to ensure strong political connections. Second, the family and its internal hierarchy are at the centre of economic life. The importance of control over the means of wealth creation and the centrality of the family, beneath a constant backdrop of insecurity, has ensured Chinese businesses are family enterprises. Confucianism, with its emphasis on family and welfare, makes such firms a natural outcome and has provided moral justification for the practices of

Chinese businessmen.²⁹ These firms become, in essence, family fortresses: instruments for the accumulation of wealth by a very specific group of people which are guarded against incursions from outside influence and are by necessity relatively small. Third, given the limited size of the family firm and the Chinese custom of dividing the father's estate equally among each son, businessmen have often invested in extensive networks of small and middle-sized firms, rather than building large Western-style conglomerates. And finally, since business cannot possibly function—much less thrive—without interacting with other businesses, networks of trust have been extended beyond the family. These sub-ethnic relationships, built on very specific co-operative and personal relationships, or *guanxi*, are initiated for their practical usefulness (security *vis-à-vis* wealth) and are usually rooted in clan or regional connections; that is, entrepreneurs from the same region who speak the same dialect establish trust and are able to network together in a coherent group with greater ease.

The evolution of Overseas Chinese business networks

Specific cultural characteristics and a generally hostile environment have thus underpinned an articulation of Chinese capitalism that is distinct in its practices and norms. This articulation has been shaped by the particular socio-historical context as well as by the social capital of the Chinese in Southeast Asia, but has also been a reflection of business expediency.

Transnational trading networks are very much in accord with the Chinese tradition. They allow for flexible and efficient transmission of information, finance, goods and capital in what are often informal agreements and transactions. Confidence and trust replace contracts as major guarantees that commitments will be met satisfactorily. In a region where capital markets are rudimentary, financial disclosure is limited, and contract law very weak, interpersonal networks are critical to moving economic resources across political boundaries.³⁰

There are discernible economic advantages in such tight network structures, the most obvious being flexibility and an ability to respond quickly to changing circumstances and opportunities. Moreover, since the Chinese family and the Chinese firm are institutionally linked, the stability of Chinese business organisation does not depend upon a set of externally developed political and legal institutions: 'Continuity and predictability—both of which are necessary for ongoing businesses—is generated internally from relational principles in society and are not legitimated by or imposed through political means from outside'.³¹ While the historical and social foundations of Overseas Chinese business networks are crucial to understanding Southeast Asia's political economy, these practices and norms are by no means static. Chinese capitalism—as a dynamic set of social institutions—is in constant flux, adapting to changing circumstances as they arise.

Overseas business networks were traditionally oriented towards, the dominant within, specific domestic markets. Networks were cultivated among politicians, Chinese firms and their subsidiaries domestically. However, the pace of globalisation in recent decades and changes in domestic politics, along with the

continual evolution in Chinese business firms in Southeast Asia, have set in motion centrifugal processes which have forced these firms to establish transnational operations. Businesses and their networks have been forced to restructure as a result of a variety of global and regional developments. Prominent among these changes have been China's 1979 open door policy, which has re-established and deepened economic linkages between ethnic-Chinese communities and the mainland, and the regionalisation of markets in North America and Europe, which has presented Chinese businesses with opportunities to access Western regional markets and technology through foreign production and direct investment. Moreover, the liberalisation and privatisation of many Southeast Asian nations, as well as continued ethnic based economic policies aimed at improving the position of indigenous populations (particularly in Malaysia and Indonesia), has undermined traditional monopolies enjoyed by leading Chinese firms and has forced them to reconsider their future growth strategies.³² Economic internationalisation and diversification have emerged as solutions for these firms.

This has been the impetus behind the transnationalisation of Chinese business networks. Overseas Chinese social relationships have always been transnational in nature, but today their economic activities have come to match the transnationalism of their social connections and now constitute a series of coordinated socioeconomic networks that span the globe. Far from Overseas firms being stripped of their particularities, as Ohmae and Reich imply, Chinese enterprises in Southeast Asia remain socially and culturally embedded in Chinese capitalism. In this context, the importance and fundamental nature of *guanxi* and ethnic networks endure, but they function in a different manner. For instance, if a Chinese firm hopes to expand into new economic sectors, it must enter into inter-firm production networks via *guanxi*; that is, through personal contacts in the target business network, clan or through family friends. The comments of a Hong Kong based IBM representative concerning his expansion into Malaysia emphasises the importance of ethnic connections and social capital in transnational Chinese enterprise:

Legally you can be in Malaysia and own 100 percent of the operations as an overseas business, which we did for several years. It didn't seem to work; we were legal but the business didn't seem to work. We evaluated along with IBM and decided to invite [a Malaysian computer manufacturer] to take 30 percent, which used to be the old rule in Malaysia. And since they took the 30 percent, the business boomed. You don't have to do it, but people felt more comfortable when they saw that we have a local business partner.³³

From this brief statement the significance of cooperative business networks for firms operating in Southeast Asia can be discerned: credibility and trust are primary to successful transnational operations. Without trusted local partners and their local connections, business can be extremely difficult; economic systems and laws are generally opaque and without the acquiescence of government officials obstacles often multiply. As a result:

You must rely on your local partner to tell you everything about the market, to take care of the venture and hopefully not cheat you. So that's why the local partner in

so important ... You just find someone, through other connections ... who has proven to be reliable. Typically, either we would know them or we have close associates who would know them. In any case, the key is to make sure that whoever we pick has a reputation in that local community. Trust and reputation are most important.³⁴

Some may see nothing unique in this practice, since even major Western corporations have initiated joint-venture partnerships with Southeast Asian firms in order to circumvent some of these problems. Yet, as a result of tight interpersonal connections and the weight of informal trust within the Chinese networks, partnerships among ethnic Chinese are more reliable. Chinese businessmen fear to infringe upon the trust other members of the network place in them; these societal pressures take the place of an institutionalised contract. As one businessman notes, 'if you don't honour your commitment, the whole Chinese network will know and you're finished'.³⁵ Thus, within Chinese networks there are elements of trust, disclosure and political influence that Western corporations cannot hope to match, which obviously plays to the advantage of the ethnic-Chinese firm. The evolution of transnational Chinese business networks constitutes a unique reaction to the pressures of economic globalisation and has laid the basis for a distinct articulation of capitalism in the region.

Business synergies, diaspora finance and South Chinese regionalism

Examining the structure and nature of business synergy and regionalism in South China can substantiate this distinctiveness further. Ethnic Chinese firms and their unique social capital are at the centre of the business networks that define coastal China's political economy and its intensified integration with the global economy. FDI and trade flows to and from the Southern provinces of Guangdong and Fujian, and to Overseas Chinese communities, constitute major sources of synergy between the economies of Hong Kong, Taiwan and China. Each play a complementary role in 'Greater China' and are connected via a series of private socioeconomic linkages that transcend political boundaries (although Hong Kong is now politically integrated with China). The mainland serves as an important low-cost manufacturing base and a potentially vast consumer market for Hong Kong and Taiwanese firms, while the latter act as sources of capital, technology and expertise and have become platforms for mainland firms to engage in their internationalisation processes.³⁶ Greater China thus comprises a culturally and economically integrated region of considerable size, dynamism and influence. The following section will place particular emphasis upon the interaction and synergies between Hong Kong and Mainland China.

The Open Door Policy and the implementation of special economic zones (SEZ) in Shenzhen, Zhuhai, Shantou and Xiamen in Southern China precipitated the integration of Hong Kong and China. FDI was fully embraced by Deng Xiaoping as a vehicle to obtain advanced technology and modernisation. In 1984 and 1985 the spatial restrictions on FDI were broadened to include a further 14 cities along the coast and three open economic zones surrounding SEZs. The

designated area strategy was established to attract various dialectic/clan flows of Overseas Chinese capital to specific 'home regions' and has certainly been successful. Between 1979 and 1993, countries dominated by Overseas Chinese—Hong Kong, Singapore, Taiwan, Macau and Thailand—accounted for 81.2% of enterprises with operations in China (136 042) and 84.6% of foreign investment (\$58.1 billion).³⁷ In 1991 alone ethnic-Chinese firms in Hong Kong and Macao accounted for over 65% of the foreign projects in China. The next two ranked—Japan and the USA—accounted for only 20%. In 1992 Overseas Chinese held full ownership of 8000 subsidiaries in China, while Japanese TNCs owned 311 and American TNCs just 39.³⁸ Of the \$200.6 billion in FDI channelled into China between 1990 and 1997, Japanese and US investment accounted for only \$21.75 billion, or roughly 11% of total FDI—much of the remaining investment has flowed from Overseas Chinese communities throughout South-east Asia.³⁹

This disproportionate share of investment results in part from the subcontracting synergies that can be realised through geographical proximity to the mainland. The necessity of face-to-face interaction and quick responses to changing market demands makes such low-wage production platforms extremely attractive. For Hong Kong firms, an important open economic zone emerged in the Pearl River Delta in Guangdong. The rapid expansion of Guangdong's light industries in the 1980s reveals the extent to which cross-border synergies were realised between Hong Kong and the province. Guangdong's apparel sector grew 27% in 1985–86, 37.1% in 1980–87, 15.4% in 1987–88 and 28.2% in 1988–89; its plastics sector grew 17.3% in 1985–86, 27.3% in 1986–87, 14.8% in 1987–88 and 15.5% in 1988–89; its leather products sector grew 31.2% in 1985–86, 54.5% in 1986–87, 17.3% in 1987–88 and 26.6 in 1988–89.⁴⁰ Yet, without social capital and ethnic ties embedded in Chinese business networks, such extensive expansion into South China would have been extremely difficult. *Guanxi* is the key mechanism through which regional economic synergies are realised. Hong Kong-based firms are typically ethnic-Chinese and founded by immigrants from China. Given the rising costs of production in Hong Kong and extensive cultural ties on the mainland, low-cost labour in Shenzhen and the Pearl River Delta has accelerated.

Henry Wai-Chung Yeung's study of Overseas Chinese business synergies reveals complex networks among several leading Chinese-controlled TNCs that enable firms to achieve hidden competitive advantages *vis-à-vis* non-Chinese firms. This hidden advantage is rooted in the particular social capital, or *guanxi*, of the Chinese business networks: long-term commitments based on kinship and personal relationships reduce uncertainties in business transactions as well as ensuring better information and knowledge, which provides 'first-mover' advantages. Moreover, transnational relationships heighten credit worthiness and capital formation strategies. Increasingly, Chinese firms come together to form regional consortiums in order to pool resources to compete with foreign capital. These strategies, along with a tendency to protect existing monopolies from outsiders, have all contributed to the dominance of Overseas Chinese TNCs and their business networks in South China.⁴¹ Western and Japanese TNCs have attempted to establish joint venture partnerships with ethnic-Chinese firms in

order to adapt to this environment. As Ostry suggests, 'language, culture, and history are "capabilities" necessary to navigate the labyrinth of the mainland'.⁴²

However, the Overseas Chinese networks generally remain private and, even when Western or Japanese firms are brought into the loop, cultural problems persist. These include fears over the loss of know-how and intellectual property as well as uncertainty regarding property rights and the enforcement of contractual obligations. Hong Kong firms in China do not face these cultural obstacles and are not 'foreign' in the conventional sense. Through *guanxi* relationships, the production structures and sophisticated sub-contracting networks created by Hong Kong firms in China function as if they were domestic and they respond rapidly to new opportunities on the mainland.⁴³ The reintegration of Hong Kong into Mainland China's political economy has heightened synergies between what is a major business and financial control centre on the Pacific Rim and perhaps the most dynamic economic hinterland in the world.

Conclusion: diversity in the aftermath of contagion?

Underpinning the political economy of Southeast Asia are business networks generated by the cultural characteristics of the Overseas Chinese and the challenges of doing business in the region. This distinctive regional response to globalisation suggests that culture remains deeply embedded in, and a fundamental element of, modern capitalism and that diversity in economic organisation can persist, despite the formidable pressures to conform with Anglo-American business practices. Yet, since the frenzy surrounding the 'Pacific Century' has subsided in the aftermath of contagion, and collusive Asian values have been roundly incriminated by Western economic elites as the reason, one might expect the complex array of social and cultural relationships which constitutes capitalism in Southeast Asia to lose its distinctive Chinese character; that, in order to win back confidence, the region will somehow reinvent itself as a more transparent and culturally neutral—in other words, Western—business platform. While the end of diversity in East Asia seems a reasonable conclusion, I suggest that the characteristics of Chinese capitalism will persist for two reasons.

First, one of the central propositions of this article has been that ethnic-Chinese business networks are essentially adaptive social relationships which have evolved over time in response to specific challenges. If these relationships were static or homogeneous then one could speak of their complete demise and replacement by other forms of socioeconomic order. However, they are neither static nor homogeneous—the networks which define the region's political economy are shaped by divergent orientations and multiple identities, of which a global/Western identity is clearly prevalent. Moreover, since the practices with the greatest impact on ethnic-Chinese capitalism are informal and private, rather than state-based, it would seem extremely difficult to enforce any changes beyond token formal reforms. Such a reorientation of private business practices would require a level of state intervention fundamentally inconsistent with dominant neoliberal ideology and rhetoric. A more likely scenario is a subtle reorientation, rather than destruction, of Chinese capitalism. One which would satisfy Western desires for greater transparency in financial markets and firm

structure, but would retain some of the cultural characteristics crucial to doing business in the region.

Second, and related to this final point, is the utility some aspects of the ethnic-Chinese business networks hold for Western TNCs and portfolio investors. Personal relationships, which allow firms to traverse opaque political climates, remain a strategy crucial to operating in Southeast Asia for Western investors. Financial analysts, for instance, need certain information—ie real assets versus creative accounting within mainland firms or the trustworthiness of a director in a context where legalism provides no cover—before they can recommend investment in a particular Chinese firm, and this knowledge still tends to remain locked within the ‘bamboo network’. The Union Bank of Switzerland’s Hong Kong equities division recognised the advantages of Chinese practices when it recommended Cheung Kong Holdings to its institutional investors:

Cheung Kong is one of our favorite China plays, not because of its direct investment there but because of its well established connections and goodwill. We believe the group is poised to ride the crest of robust economic growth in China over the next ten years through its diversified investment in companies which have substantial mainland exposure. We estimate Cheung Kong’s actual investment in China at less than US\$1 billion; however, through its holdings in Hutchison, Hopewell and some other red chip companies, it will maintain a substantial exposure in China with little direct risk ... At the moment, risk and return analysis would not justify an aggressive investment in China’s property market, since the quality of earnings is still low due to unpredictable market conditions and government controls. We thus favor a company with more prudent China investment strategy. Once the environment becomes clearer, we expect Cheung Kong will easily match the commitments of other big investors in China, thanks to its well-maintained connections. The group enjoys excellent relationships with some powerful state enterprises and companies managed by siblings of influential officials.⁴⁴

This passage reveals the continued importance of ethnic-Chinese capitalism to the regional growth strategies of global financial firms and TNCs and supports the claim that capitalism will continue to be articulated in quite distinct and culturally specific ways.

Of course, it would be problematic to draw sweeping generalisations from any single case, regardless of its persuasiveness. Further research into the evolution of various economic cultures is obviously needed to substantiate an inclusive argument of this type. Nevertheless, distinct Southern African, Eastern European, South Asian and Middle Eastern capitalisms are certainly conceivable and, in the case of Southeast Asia, a distinct capitalist culture is clearly discernible. In a global economy characterised by the functional integration of markets at very different levels of economic development and based upon very different social foundations, one must expect a level of disparity in organisation and practice. So long as disparities persist and the advanced industrialised nations seek to access emerging markets, there will be a need for intermediaries with specific cultural advantages—ie knowledge of, and connections within, emerging markets—like the Overseas Chinese. Culture and social capital will thus remain crucial undercurrents in the global political economy. Determining

how these intermediaries function in different contexts may render the capitalist divergence thesis plausible in global terms rather than making it an anomaly limited to the coastal rim of the South China Sea.

Notes

- ¹ Mittelman, 'Rethinking the "new regionalism" in the context of globalization', *Global Governance*, 2, 1996, pp 190–197.
- ² S Radelet & J Sachs, *The East Asian Financial Crisis: Diagnosis, Remedies, Prospects*, www.hiied.harvard.edu/pub/other/bpeaaia2.pdf, p 2.
- ³ M Beeson, *Competing Capitalisms: Australia, Japan and Economic Competition in Asia-Pacific*, London: Macmillan, 1999, p 194.
- ⁴ Theoretically, this approach owes much to the market integration–disintegration model developed initially by Karl Polanyi in *The Great Transformation*. Polanyi argued that the dislocations which stem from the self-regulating market inspire counter-movements from within societies that challenge and moderate homogenising tendencies.
- ⁵ HWC Yeung, 'Capital, state and space: contesting the borderless world', *Transactions of the Institute of British Geographers*, 23, 1998, p 292.
- ⁶ K Ohmae, *The End of the Nation State*, London: Harper Collins, 1995, p 142.
- ⁷ F Mueller, 'Societal effect, organizational effect and globalization', *Organization Studies*, 15 (3), 1994, p 417.
- ⁸ R Reich, *The Work of Nations: Preparing Ourselves for 21st-Century Capitalism*, New York: Vintage, 1991, p 120.
- ⁹ W Lewis & M Harris, 'Why globalization must prevail', *The McKinsey Quarterly*, 2, 1992, p 115. Cited in J Rosenau, 'The complexities and contradictions of globalization', *Current History*, November 1997, p 363. Kenichi Ohmae was, incidentally director of McKinsey & Company—the institutional publisher of *The McKinsey Quarterly*—for 23 years.
- ¹⁰ HWC Yeung, 'Under siege? Economic globalization and Chinese business in Southeast Asia', *Economy and Society*, 28 (1), 1999, p 3.
- ¹¹ F Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity*, New York: Penguin Books, 1995, p 6.
- ¹² *Ibid.*, pp 33–34.
- ¹³ M Weber, *The Protestant Ethic and the Spirit of Capitalism*, London: George Allen & Unwin, 1930, p 181.
- ¹⁴ G Eyal, I Szelenyi & E Townsley, *Making Capitalism Without Capitalists: The New Ruling Elites in Eastern Europe*, London: Verso, 1998, pp 4–5. The authors go on to argue that in Central Europe the evolution of market institutions has far outstripped the development of private property, but in Russia the accumulation of wealth in private hands is far ahead of the establishment of market institutions. This constitutes two distinct post-communist regions—'capitalism without capitalists' in Central Europe and 'capitalists without capitalism' in Russia—which has had direct implications for the culture or style of capitalism in each context.
- ¹⁵ Granted the scale and comprehensiveness of integration from region to region can differ quite substantially. B Hettne & F Soderbaum, 'The new regionalism', *Politeia*, 17 (3), 1998, p 7. See also, United Nations Development Programme (UNDP), *Human Development Report 1999*, 25.
- ¹⁶ R Davies, 'Approaches to regional integration in the Southern African context', *Africa Insight*, 24 (1), 1994, p 12.
- ¹⁷ M Bernard, 'Post-Fordism, translational production, and the changing global political economy', in R Stubbs & J Underhill (eds), *Political Economy and the Changing Global Order*, London: Macmillan, 1994, p 216. see also D Harvey, *The Condition of Post-Modernity*, Oxford UK: Blackwell, 1989, pp 147–160.
- ¹⁸ HWC Yeung, 'Business networks and translational corporations: a study of Hong Kong firms in the ASEAN region', *Economic Geography*, 73 (1), 1997, p 5.
- ¹⁹ G Hamilton, 'The organizational foundations of Western and Chinese commerce: a historical and comparative analysis', in G Hamilton (ed), *Business Networks and Economic Development in East and Southeast Asia*, Hong Kong: University of Hong Kong Press, 1991, p 61.
- ²⁰ The emerging Alpine Diamond region linking Lyon with Geneva and Turin is anchored by a particular regional pattern of interaction and Latin culture. Likewise, the Eastern Triangle linking Vienna with Prague and Budapest is rooted in Central European geographic, historical and cultural connections. Some have referred to this movement as a rebirth of the Hanseatic League, which was dominated by North European port cities in the 15th and 16th centuries. W Drozdiak, 'Regions on the rise: as European borders become

- more porous, cities replace countries in transnational economic alliances', *Washington Post*, 22 October 1995, p. A22.
- ²¹ UNDP, *Human Development Report 1999*, 27.
- ²² Joel Kotkin, *Tribes: How Race, Religion, and Identity Determine Success in the New Global Economy*, New York: Random House, 1992.
- ²³ James Mittelman makes a distinction between macro-regions (loose geographical units larger than the state with some political and cultural bonds, eg the European Union), subregions (historical, cultural and economic areas in proximity which find their expression in subregional economic zones that transcend state boundaries, but need not encompass entire national economies, eg Greater South China Growth Triangle) and micro-regions (which develop within the boundedness of sovereign states, eg Catalonia, Quebec or industrial districts). Mittelman, 'Rethinking the "new regionalism"', pp 191–192. My approach obviously tends to emphasise subregionalism as a primary locus of economic diversity.
- ²⁴ Robert Wade develops the strategic intervention thesis most persuasively. His examination of growth in East Asia suggests that economic development has been contingent upon a synthesis of government intervention (setting rules, influencing investment allocation and decision making in the private sector) and market competition (internal decentralisation, rivalry, diversity). As a result of this synthesis, East Asian nations acquired a competitive edge in international markets. R Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton NJ: Princeton University Press, 1991.
- ²⁵ Cited in M Weidenbaum & S Hughes, *The Bamboo Network: How Expatriate Chinese are Creating a New Economic Superpower in Asia*, New York: Free Press, 1996, p. 25.
- ²⁶ Yeung, 'Under siege?', p. 7; and Louis Kraar, 'Special report: the Overseas Chinese', *Fortune* 31 October 1994, p. 82.
- ²⁷ G Hamilton, 'Overseas Chinese capitalism' in W M Tu (ed), *Confucian Traditions in East Asian Modernity*, Cambridge, MA: Harvard University Press, 1996, p. 336.
- ²⁸ Southeast Asia's geographic location made it a natural crossroads for trade routes between China to the Northeast and India to the West. Trading ports were scattered throughout the South China Seas. Malacca, Bantam in Java, Johore, Manila—major ports in the Chinese spice trade—were largely controlled by ethnic-Chinese middlemen. See A Gunder Frank, *ReOrient: Global Economy in the Asian Age*, Berkeley, CA: University of California Press, 1998, pp 92–104.
- ²⁹ G Redding, 'Societal transformation and the contribution of authority relations and co-operative norms in Overseas Chinese business', in Tu (ed), *Confucian Traditions in East Asian Modernity*, pp 311–314.
- ³⁰ Weidenbaum & Hughes, *The Bamboo Network*, p. 53.
- ³¹ Hamilton, 'Overseas Chinese capitalism', p. 340.
- ³² HWC Yeung, 'The internationalization of ethnic Chinese business firms from Southeast Asia: strategies processes and competitive advantage', *International Journal of Urban and Regional Research*, 23 (1), 1999, pp 105–106.
- ³³ Interview conducted by Henry Yeung in Hong Kong on 24, March 1994 and quoted in Yeung, 'Business networks and transnational corporations', p. 14.
- ³⁴ Yeung, 'Business networks and transnational corporations', p. 15.
- ³⁵ Interview conducted with David Li by A Tazner, 'The bamboo network', *Forbes*, 18 July 1994, p. 141.
- ³⁶ G Redding, *The Spirit of Chinese Capitalism*, Berlin: De Gruyter, 1991, p. 67.
- ³⁷ Chia Siow Yue & Lee Tsao Yuan, 'Sub-regional economic zones: a new motive force in Asia-Pacific development', in CF Bergsten & M Noland (eds), *Pacific Dynamism and the International Economic System*, Washington, DC: Institute for International Economics, 1993, p. 251.
- ³⁸ Department of Foreign Affairs, Australia, cited in S Ostry, *The Post-Cold War Trading System*, Chicago, IL: University of Chicago Press, 1997, p. 145.
- ³⁹ Mitsubishi Research Institute, p. 37, cited in R Hayter & Sun Sheng Han 'Reflections on China's open policy towards foreign direct investment', *Regional Studies*, 32 (1), 1998, p. 12.
- ⁴⁰ S Thomsen, 'Southeast Asia: the role of foreign direct investment policies in development', *OECD Working Papers on International Investment*, www.oecd.org, 1999, pp 9–14.
- ⁴¹ *The China Statistical Yearbook*, cited in A Mody & Fang-Yi Wang, 'Explaining industrial growth in coastal China: economic reforms ... and what else?', *The World Bank Economic Review*, 11 (2), 1997, p. 298.
- ⁴² HWC Yeung, 'Transnational economic synergy and business networks: the case of two-way investment between Malaysia and Singapore', *Regional Studies*, 32 (8), 1998, p. 702.
- ⁴³ Ostry, *The Post-Cold War Trading System*, p. 169.
- ⁴⁴ Hayter & Sun Sheng Han, 'Reflections on China's open policy', p. 13.
- ⁴⁵ Union Bank of Switzerland Global Research, cited in Kris Olds & HW Yeung, '(Re)shaping 'Chinese' business networks in a globalizing era', *Environment and Planning D: Society and Space*, 17(5), 1999, pp 535–55. Available on the Internet: <http://riim.metropolis.net/Virtual%20Library/1999/wp9912.pdf>.