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Under siege? Economic globalization and Chinese business in Southeast Asia

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Abstract

To some observers, economic globalization has led to the end of the nation state and geography. It is assumed that globalization erodes national differences and geographical heterogeneity. This globalization discourse has a life of its own because it shapes neoliberal thought in economics and politics. In this paper, I attempt to challenge this 'strong globalization' reading of the global political economy. I argue that, instead of leading to a 'borderless' world, economic globalization continues to reinforce national diversity in the face of global capitalism. This argument is particularly relevant to the recent economic crisis in Southeast Asia where Chinese business serves as a dominant mode of capitalism. Through two case studies of Chinese capitalism, I argue that globalization is a highly contested process. On the one hand, it poses a serious threat to the practice and social organization of Chinese capitalism in Southeast Asia. The recent collapse of Peregrine Investment Holdings is a good example of how globalization has put Chinese business under siege. On the other hand, globalization presents opportunities for such social institutions as Chinese business firms to take advantage. The latest move of the Malaysian government to relax its twenty-seven-year old *bumiputra* equity ownership restrictions to allow more equity ownership of local companies by non-Malays and foreigners exemplifies both the pragmatic response of nation states to globalization and the unintended opportunities opened to Chinese capitalists. Taken together, this paper argues for a historically and geographically contingent reading of the impact and processes of economic globalization. It also suggests some implications for the future of Chinese capitalism in Southeast Asia under globalization.

Keywords: economic globalization; Chinese business system; Southeast Asia; global capitalism; economic crisis; national diversity.

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Introduction

The late twentieth century has witnessed an extension of the globalization of economic activities, typically through cross-border investments and trade spearheaded by transnational banks and transnational corporations (TNCs). In 1996, foreign direct investment (FDI) inflows reached US$349 billion and global inward FDI stock recorded at US$3.2 trillion (UNCTAD 1997: 4). The sales and total assets of the foreign affiliates of TNCs were valued respectively at US$6.4 trillion and US$8.3 trillion. These figures are remarkable because the sales value of TNCs' foreign production now exceeds that of world trade. In 1996, exports of goods and non-factor services were valued at US$6.1 trillion. Through this complex interpenetration of trade, finance and production on a global scale, the world economy today has become much more functionally integrated and interdependent than ever (Perraton *et al.* 1997; Dicken 1998; cf. Hirst and Thompson 1996). This reality of the global economy has also led to a 'new' discourse of globalization – it is now fashionable among business gurus, international economists and liberal politicians to assert that the world *is* 'borderless' through the convergent effects of globalization tendencies (e.g. Ohmae 1990, 1995; O'Brien 1992; Horsman and Marshall 1994; Chen and Kwan 1997; cf. Yeung 1998a). During the last two decades, these globalization tendencies have achieved a heightened intensity driven primarily by the champions of market mechanism, technological change and time-space compression. In such a 'borderless' world, it is claimed, the convergent effects of globalization and cross-border organizational learning have rapidly outpaced the divergent effects of cultures, national institutions and social systems (Mueller 1994).

The problem here does not just rest with these discourses of globalization, but also with their impact on policy making and social life. To date, these globalization rhetorics and one-off 'end-state' readings of global economic change have been deployed prescriptively by both political leaders and business strategists to legitimize a particular neoliberal ideology which has gained rapid ascendancy in many Western societies today. This neoliberal ideology is then used to justify the annihilation of localities by global forces and territorial states by capital, as evident in the call for putting the global logic of capital above local interests of real people.[1] In this discourse of 'business civilization', business is held to perform a civilizing mission through the operation of the 'invisible hand' of market competition on a global scale and the ceaseless search for profit. Capital, represented in institutional form by transnational capital, has potentially planetary reach and is akin to forces of nature. It is represented as beyond or above the state and forms the basic structure of an interdependent global economy. The recent and ongoing economic turmoil in Asia is perhaps a very relevant example of this interdependent and 'borderless' world. Those ultraglobalists can easily offer a cursory reading of this Asian economic crisis by stating that capital has fled freely from Southeast Asian countries and the Asian economic turmoil, which, originating from the depreciation of the Thai baht in August 1997, spread virtually unabated throughout the Asian region within months. The Asian region is therefore deemed to be subjugated to global forces of liberalization, free-market mechanisms and neoliberal political ideology. Clearly, such a 'strong globalization' reading of the Asian economic crisis has caricatured the complex and multi-dimensional nature of the relationships between globalization tendencies and national/local business systems.

In this paper, I intend to take up this latter issue by arguing that there is a significant national diversity in the face of global capitalism (see also Berger and Dore 1996; Brook and Luong 1997; Hefner 1998). Local modes of capitalism serve as an institutional mechanism to mediate the totalizing effects of globalization tendencies. These distinct modes of production and consumption norms provide the institutional links between culture and economy. Despite their uncertain and, often, contested effects on capitalism which remains a characteristically European-origin way of organizing economic life, these institutional mechanisms place an important contingent influence on the advancement and expansion of capitalism into regional economies. I argue that, in Southeast Asia where Chinese business has been a dominant institutional form of capitalism, while globalization and its associated crisis-laden tendencies have posed serious challenges to the organization and dynamics of the Chinese business systems, they have also initiated multiple and transformative responses from actors in the Chinese business systems, i.e. firms and their close political-economic allies.[2] On the one hand, some Chinese business firms are under siege from the recent economic turmoil in the region because their very modes of business operations have over-exposed them to excessive risks and 'crony capitalism'. On the other hand, other Chinese business firms have actively responded to the Asian economic crisis by activating their closely knit political-economic networks to consolidate their regional operations. This process of reorganizing and transforming the Chinese business systems has important implications for the future of Chinese capitalism in Southeast Asia.

The paper is organized into four major sections. The next section examines briefly the ongoing debate on economic globalization and its limits. This is then followed by a discussion of Chinese business as a dominant form of capitalism in Southeast Asia. Both the institutional context and the social organization of Chinese capitalism in Southeast Asia will be explained. The penultimate section is concerned with the challenges of globalization to Chinese business in Southeast Asia. After a brief introduction to the recent economic turmoil in Southeast Asia, I will develop my argument through two case studies. The first case study is related to the over-exposure in Indonesia and the subsequent collapse of Peregrine Investment Holdings based in Hong Kong. This case serves to demonstrate the risk of engaging with globalization and the limits to Chinese business networks. The second case study is concerned with the recent decision by the Malaysian government to allow non-indigenous Malaysians and foreigners to take up more stakes in local companies. This case helps to illuminate the beginning of a new chapter in the history of the Chinese business systems in Southeast Asia when Chinese business becomes less subject to ethnic-biased economic policies. As a local response to globalization tendencies, this relaxation of equity ownership restrictions may potentially, and in a positive way, reshape the practice and organization of Chinese capitalism in Southeast Asia. Some implications for the future of Chinese capitalism in Southeast Asia will be offered in the concluding section.

The limits of economic globalization

The geography of the world to which we are accustomed is made up of regions, nation states, sub-national regions, cities and so on. These conventional geographical units are differentiated by territorial boundaries artificially erected to define their spatiality. In this traditional world of regions and nation states, information, people, goods and investment are mobile only to the extent that they are not subject to tyranny of national barriers and geographical differences. Recent new developments in the global economy, however, have obliterated some of these spatial barriers to free movement of information, people, goods and investment. Proponents of economic globalization begin to question the effectiveness and, eventually, the existence of national boundaries. To them, investment, industry, information flow and individuals move relatively unimpeded across national borders. The main vehicle driving such a 'borderless world' is the neoliberal market mechanism, expressed in the global reach of capital and production (Ohmae 1990, 1995). Accordingly, this 'strong globalization' reading of the global political economy has made the following observations of economic globalization:

1 It has led to the end of the nation state.
2 It has exposed localities, defined by local communities and business/production systems, to irreversible forces of globalization.
3 It has done away with any geographical specificity in the ways through which business organizations operate.

These neoliberal globalization theses may seem inevitably valid in today's globalizing world economy. Amid this 'globalization fervour', however, it is worthwhile to pause for a moment and re-examine critically the analytical constructs in these theses. Although the neoliberal 'end-state' view of globalization has been critically refuted in the recent literature (e.g. Boyer and Drache 1996; Hirst and Thompson 1996; Mittelman 1996; Sassen 1996; Cox 1997; Scott 1997; Weiss 1998; Yeung 1998a; Olds *et al.* 1999), relatively little has been said on the underlying logic(s) and tendencies of globalization as an ongoing process. Instead, much of the counter-globalization literature has focused on providing evidence to show that the world is *not* yet globalized. In this paper, I argue that globalization should be conceptualized as a complex process of interrelated tendencies (see also Dicken *et al.* 1997). Though it invades local contexts of action, globalization does not destroy them. Instead, new forms of local resistance and local expression emerge, reinforcing the interconnectedness of the local and the global and the multiplicity and hybridization of social life on every spatial scale (Amin 1997; Cox 1997; Kelly 1999). Globalization can therefore be seen as a *dialectical* process of homogenization and differentiation constituted by the relativization of scale. The end-state of globalization is often perceived as a homogenized world, economically, socially and culturally. The dialectical response to homogenization, however, has been the affirmation of difference, equally present if lacking the material force of the apparently dominant homogenizing tendencies (Cox 1996). These tendencies towards homogenization and differentiation reflect continuous tensions between capital and the state in the (re)production of space (Yeung 1998a, 1998b).

Contrary to the claims of Ohmae and others, economic globalization does not obviate the need for nation states. The latter continue to provide institutional arrangements and strategies to assure some minimal levels of international economic governance, facilitating the capital accumulation objectives of capital. Markets and firms cannot exist without a public power to protect them. For particular firms to thrive in the global economy, favourable national policies controlled by nation states are required. These national differences not only give capital arbitrage and leverage options to enlist one state against another, but also differentiate them from domestic firms. Differences in the political behaviour of nation states are therefore *intrinsic* to and *endemic* in the conduct of globalization. What then are the instruments of regulating globalization commonly used by nation states? First, nation states can restrict access to markets and resources. In areas of trade, state regulation of TNC activities is exercised through various tariff and non-tariff barriers, such as import quotas and anti-dumping regulations. Second, nation states can set the rules of operations, particularly those aimed at inward FDI by foreign TNCs. There are ample examples of such investment policies aiming specifically at regulating the activities of TNCs in the Asia-Pacific region. These regulatory investment policies are pertinent to ownership requirements, transfer of technology, domestic trade and borrowing, remittance restrictions, foreign exchange restrictions, local content requirements, export levels and so on. In many Southeast Asian countries (e.g. Cambodia, Indonesia, Malaysia, the Philippines, Thailand and Vietnam), foreign firms are subject to similar regulations imposed by host nation states (see the case of Malaysia in the following sections). Third, nation states can plan and implement specific industry policies. These policies may not be specific to foreign firms only, but they also may be aiming at promoting the competitiveness of domestic firms and industrial structures. They may be formulated to reflect the objectives of host-country nation states to achieve industrial competitiveness and economic independence in the global economy.

On the other hand, capital and firms are *geographically* embedded in cognitive processes (e.g. specific modes of rationality), cultural specificity (e.g. collective understanding) and social structures (e.g. ongoing networks of social relationships). Geographical embeddedness of capital and firms refers to the complex inter-mingling process of business firms with their home-country characteristics and host-country operating environments. Viewed from this perspective, virtually all transnational corporations today are still attached to their home countries and remain national firms with international operations (Hu 1992; Hirst and Thompson 1996). When globalizing TNCs enter into host countries for production, resources, markets or other factors of production, they realize that there may be striking differences in the operating environments *vis-à-vis* their home countries. Traditional economic theories of international production inform us that these foreign TNCs possess firm- or ownership-specific advantages unavailable to local and regional competitors (see Dunning 1993). Recent studies, however, have shown that these home-country-based advantages may not be readily transferable to host countries (Hu 1995). In entering new markets or production territories, foreign TNCs are compelled to acquire *new* sources of competitive advantage that are available *locally*. The locational specificity of such competitive advantages effectively encourages foreign TNCs to embed themselves in host-country operating environments. Whitley (1992: 252), for example, has pointed out that 'the internationalization of markets and firms is neither a simple matter of transferring managerial technologies to foreign subsidiaries, and thereby transforming "backward" economies, nor a case of firms adapting their practices to those dominant in each host country; but it is rather a more complex and variegated set of relationships between economies, institutions and firms'.

There are local conventions, rules, practices and institutions that combine to produce the systemic environment for foreign firms to operate within a world of uncertainty. These 'local elements' in the business system tend to be highly territorialized because they are found in particular geographic locations and regions. They can be embodied in either specific entrepreneurs or institutional relations. They also frame the new methods of national economic regulation by nation states. Hirst and Thompson (1992: 374) note that 'the new methods rest on specific ensembles of social institutions and these are more difficult to adopt or transfer by deliberate choice. States are thus in considerable measure trapped by the legacies of social cohesion that they inherit.' They use the example of the US which just cannot decide to adopt the more solidaristic and co-ordinative relations between industry, labour and the state characteristic of Germany and Japan (see also Pauly and Reich 1997). In Southeast Asia, I would argue, it is the Chinese business systems that provide the social and institutional foundations of capitalism. We shall now turn to these aspects of Chinese capitalism before we examine the impact of globalization, as expressed in the recent Asian economic melt-down, on Chinese business in Southeast Asia.

Chinese business in Southeast Asia: a dominant form of capitalism

> Since the 1500s, southern China has served as a springboard for emigrants to Vietnam, Thailand, Indonesia, and elsewhere in Southeast Asia. These overseas Chinese have developed a bamboo network that transcends national boundaries. This informal array of complementary business relationships extends throughout the region, where entrepreneurs, business executives, traders, and financiers of Chinese background are major players in local economies.
>
> (Weidenbaum and Hughes 1996: 23–4)

Chinese capitalism in Southeast Asia has been an important subject of academic studies over the past two decades. More specifically, these studies tend to focus on the success of the 'Overseas Chinese'[3] in their domestic settings (e.g. Lim and Gosling 1983; Limlingan 1986; Yoshihara 1988; Jesudason 1989; Menkhoff 1993; Chan and Chiang 1994; Hodder 1996; Chirot and Reid 1997; Hefner 1998). These studies have shown that the 'Overseas Chinese' have indeed had a significant presence in Southeast Asia for a very long time.[4] The commercial influence of Chinese merchants overseas dates back to at least the third century AD when official missions were despatched to countries in the then South Seas (*Nanyang*). These missions were then followed by Buddhist pilgrims and later, during the Sung dynasty, by traders (Hodder 1996: 1). After Chinese trade from Fujian and Guangdong to the south was legalized and licensed in 1567, stable and distinct Chinese communities became a feature of Southeast Asia (Reid 1997: 41). In the mid-seventeenth century, there were communities of 3,000 to 5,000 Chinese in the major port cities of Java, Siam and Vietnam. By 1700, the Chinese were unrivalled as the pre-eminent commercial minority in Southeast Asia. These 'Overseas Chinese' thus made a major contribution to the Southeast Asian region long before the nineteenth century (Dixon 1991). Today, there are some 55 million ethnic Chinese living outside mainland China. The majority of them (91 per cent), however, are living in Asia. Measured in absolute terms, Taiwan, Thailand and Malaysia have the largest ethnic Chinese populations. In terms of ethnic distribution, Taiwan, Hong Kong and Singapore exhibit the largest concentrations of ethnic Chinese population. These 'Overseas Chinese' have contributed considerably to the dynamic economic locomotive of Asia and served as a catalyst for regional economic growth.

The World Bank estimates that the combined economic output of the 'Overseas Chinese' was about US$400 billion in 1991 and up to US$600 billion by 1996 (cited in Weidenbaum and Hughes 1996: 25). Through family, clan and dialect ties, they have virtually created a 'nation' without borders which generates a GDP only fractionally less than that of mainland China (Asia Inc. 1996). Today, the collective 'funds' of the 'Overseas Chinese' in the region (excluding Hong Kong and Taiwan) are conservatively estimated at US$400 billion (Hodder 1996: 3). In terms of their ownership of economic assets in the domestic economies, the 'Overseas Chinese' have emerged to be a class on their own. Table 1 presents some financial statistics on the 500 largest local public companies controlled by these 'Overseas Chinese' in seven Asian countries in 1994. Together, the 'Overseas Chinese' control some 500 of the largest public companies in these Asian countries, the total assets amounting to more than US$500 billion. These statistics exclude many privately controlled Chinese business firms throughout the Asian region. Some estimates also report that the 'Overseas Chinese' control up to 80 per cent of Indonesia's corporate assets (and run 160 of the 200 largest businesses), 40–50 per cent of Malaysia's corporate assets, 90 per cent of Thailand's manufacturing and 50 per cent of Thailand's services (Wu and Duk 1995; Weidenbaum and Hughes 1996). In 1995, every reported Indonesian billionaire was ethnic Chinese. In Thailand, ethnic Chinese control the four largest private banks, of which Bangkok Bank is the largest and most profitable private bank in the region. In the Philippines, ethnic Chinese control over one-third of the 1,000 largest corporations (Weidenbaum and Hughes 1996: 25). The following sub-sections provide an overview of the institutional context and social organization of Chinese capitalism in Southeast Asia.

Institutional context in Southeast Asia[5]

To set the above dominance of Chinese business in Southeast Asian capitalism in context, we need to address the institutional conditions of economic development in Southeast Asia since independence. I argue that local institutions and social norms have strongly shaped the emergence of Chinese capitalism in Southeast Asia, giving it a distinctive peculiarity and set of practices. With the exception of the predominantly Chinese city-state of Singapore, the post-independence Southeast Asian region was filled with anti-foreign and anti-Chinese capital sentiments (Mackie 1988; Yoshihara 1988, 1995; McVey 1992; Lim and Gosling 1997; Yeung 1997a, 1998c). During the 1960s, virtually all Southeast Asian countries were in the embryonic stage of industrialization and development. Anti-Chinese sentiments were rather deeply rooted in Indonesia and the Philippines (Robison 1986; Suryadinata 1988). In Thailand, ethnic Chinese were able to assimilate themselves into the Thai economy and Sino-Thai businesses experienced rapid growth under their political, and often *de facto* military, patronage (Suehiro 1985, 1992; Mackie 1988; Hamilton and Waters 1997). In Malaysia, the Chinese managed to establish themselves under a more favourable political and ethnic climate with the political coalition between the Chinese and the Malays during the existence of the National Front (Jesudason 1989, 1997; Jomo 1997). In Singapore, Chinese capital faced serious competition from foreign capital entering one of the most open economies in the region.

The 1970s saw the emergence of major ethnic backlashes in Indonesia and

Table 1 Financial statistics of the 500 largest public companies in Asia controlled by 'Overseas Chinese' in 1994

Country	*Number of companies*	*Market capitalization (in US$billion)*	*Total assets (in US$billion)*
Hong Kong	123	155	173
Taiwan	159	111	89
Malaysia	83	55	49
Singapore	52	42	92
Thailand	39	35	95
Indonesia	36	20	33
Philippines	8	6	8
Total	500	424	539

Sources: Wu and Duk (1995: table 3); see also Weidenbaum and Hughes (1996).

Malaysia. The regulatory regimes became much more restrictive. Domestically, pressure was exerted to enable indigenous people, known as the *pribumi* in Indonesia and *bumiputra* in Malaysia, to acquire a greater share of national economic wealth. In Malaysia, for example, the New Economic Policy (NEP) was launched in 1971 with two key objectives (Jesudason 1989, 1997): to eradicate poverty in general and to achieve better ethnic economic parity. It was essentially an affirmative action enforced by the state to achieve economic parity between the politically dominant Malays and the commercially ubiquitous Chinese by 'restructuring society to eliminate the identification of race with economic function' (Jomo 1997: 238). In order to achieve this parity objective, the Industrial Coordination Act of 1975 required all manufacturing establishments above a certain registered capital to be licensed under the Ministry of Trade and Industry. The initial minimum threshold for shareholders' fund was M$100,000, but this was raised to M$250,000 in 1977 in an amendment to the act, and then recently increased further to M$2.5 million. It was hoped that, by restricting both ethnic Chinese and foreign equity ownership, *bumiputra* ownership of the Malaysian corporate sector could eventually be increased from 2.6 per cent in 1970 to 30 per cent in 1990. At the end of 1990 and 1995, however, *bumiputra* ownership of shares in local companies stood at 19.3 per cent and 20.6 per cent respectively (Jomo 1997: table 9.1). During the same period, the percentages for the Malaysian Chinese grew from 22.8 per cent in 1969 to 45.5 per cent in 1990 and 40.9 per cent in 1995, whereas the percentages for foreign entities and residents were reduced from 62.1 per cent in 1969 to 27.7 per cent in 1995. The NEP has clearly succeeded in reducing the ownership of the Malaysian corporate sector by foreign entities/residents in favour of *both* the *bumiputras* and the Chinese.[6]

With the exception of Singapore, all Southeast Asian countries followed an inward-looking approach to industrialization during the 1970s. The oil boom during the early 1970s provided sufficient foreign exchange to cash-starved countries such as Indonesia and Malaysia to fuel their huge national development budgets and import-substitution industrialization strategies. The Indonesian government, for example, embarked on sizeable investments in capital-intensive, resource-dependent industries, e.g. oil refining, liquefied natural gas, petrochemicals and fertilizers. As a natural corollary to the import-substitution regime, the inward-looking industrial programmes in Indonesia gave rise to a high-cost economy along the following lines (Harianto 1997: 142):

1 Certain Indonesia firms(s), often in collaboration with foreign partner(s), would identify a new activity in which profitable investment might occur.
2 These firms would then approach the Capital Investment Coordinating Board (BKPM) with the proposed project, taking pains to ensure that, once there were definite plans to build sufficient domestic capacity, the activity would be declared 'closed' to further investment and removed from the 'Investment Priority List'.
3 Meanwhile, the firms would lobby for protection for imports and often managed to obtain a mixture of tariff and surcharge protection along with

quantitative restrictions that provided them with the sole authority to import the competing goods.

4 Once the domestic facilities were up and running and had sufficient capacity to supply the domestic market, these firms would petition again for the tariff protection to be converted into an outright ban in the name of 'industrial self-sufficiency'.

In the Philippines, the Marcos government favoured 'crony capitalism' rather than promoting inward investment. In Thailand, the military *coup d'état* created much instability at the expense of foreign investment. In Singapore, foreign capital continued to enjoy promotion from the government. The rapid pace of the industrial restructuring being undertaken in Singapore, however, effectively forced labour-intensive and low-tech manufacturing to relocate elsewhere in the region (Ho 1994, 1995; Yeung 1994). New investment projects in labour-intensive and low-tech manufacturing were explicitly discouraged.

Since the late 1970s, many Southeast Asian countries have experienced unprecedented growth in their domestic economies. During the period 1965–85, Singapore registered the highest average annual growth rate at 7.6 per cent, compared with less than 5 per cent in the four other countries in the Association of South East Asian Nations (ASEAN). Since 1985, the growth pattern has changed considerably. While Singapore has continued to enjoy relatively high annual growth rates since 1987, Indonesia, Malaysia and Thailand have also experienced accelerated growth and structural transformations. This rosy picture of economic growth in Southeast Asian countries, nevertheless, masks some important undercurrents that influence Chinese capitalism in the region. Some of these contextual issues are summarized in Table 2. First, despite growth in domestic economies, the lack of sizeable domestic markets free from state intervention and monopolistic domination has hindered further growth of many Chinese business firms. Late industrialization in many developing Southeast Asian countries has limited the scale and size of domestic markets, making it almost impossible to take full advantage of scale economies in many industries, including cement, automobiles and even home appliances (Suehiro 1985, 1993). In the case of Singapore, market saturation has become a serious threat to the long-term survival of many small- and medium-sized enterprises (SMEs) which are mostly owned by ethnic Chinese. This market saturation is very much a consequence of the domination of the domestic market by foreign capital and state-owned enterprises during its industrialization process (Rodan 1989; Yeung 1998d, 1999a). To a large extent, the early regionalization of Singaporean firms can be explained by this problem of domestic market saturation.

Second, there has been a policy shift during the 1980s and 1990s towards a more open and competitive environment in Southeast Asia (Yoshihara 1994; Lim and Gosling 1997). There is a movement in the governments towards rethinking inward-looking protectionist industrial policies. Many more Southeast Asian countries have begun to pursue export-oriented industrialization since the 1980s. As domestic markets are increasingly open to foreign investment and

Table 2 National contexts of Chinese business firms from Southeast Asia

Country	*Growth and market potential*	*Presence of Chinese business*	*Policy towards Chinese business*	*Leading ethnic Chinese TNCs*
Indonesia	• high growth since 1987 • weak domestic market • many protected industries	• small Chinese population (~5% of total) • long history of Chinese business • presence in virtually all industries	• ethnic-biased *pribumi* policy • political patronage with Suharto	• Salim Group controlled by Liem Sioe Liong • Lippo Group controlled by Mochtar Riady
Malaysia	• high growth since 1987 • emerging domestic market • some protected industries	• large Chinese population (~30% of total) • long history of Chinese business • significant presence in property and financial sectors	• ethnic-biased *bumiputra* policy • New Economic Policy since 1969 • political patronage with Malays	• Kerry Group controlled by Robert Kuok • Hong Leong Group controlled by Quek Leng Chan
Philippines	• unstable growth since 1985 • weak domestic market	• small Chinese population (~1.5% of total) • recent history of Chinese business • limited presence in industries	• ethnic-biased industrial policy • political patronage with Marcos	• Fortune Tobacco controlled by Lucio Tan
Singapore	• high growth since 1987 • small domestic market • large presence of foreign firms and government-linked corporations	• large Chinese population (~78% of total) • long history of Chinese business • significant presence in commerce and property sectors	• no ethnic-biased policy • strong role of the state and its institutions	• Hong Leong Group controlled by Kwek Leng Beng • Far East Organization controlled by Ng Teng Fong
Thailand	• high growth since 1987 • emerging domestic market • some protected industries	• significant Chinese population (~14% of total) • long history of Chinese business • significant presence in commerce and industries	• ethnic assimilation policy • political and military patronage	• Charoen Pokphand Group controlled by Chearavanont family • Bangkok Bank controlled by Sophonpanich family

Source: Yeung (1999b: table 2).

privatization/deregulation policies are being pursued, the monopolistic advantage and subsidies often enjoyed by some leading ethnic Chinese-controlled conglomerates in these countries is quickly dissipating. In response, these giant conglomerates have diversified into overseas operations by establishing new ventures and/or acquiring existing operations abroad complementary to their domestic operations (Yeung 1998e, 1999b; Yeung and Olds 1999).

Third, and perhaps most importantly, anti-Chinese sentiments remain strong and pervasive in the political cultures and public discourses of many Southeast Asian countries (Table 2; see also Yoshihara 1994; Lim 1996). From the 1980s onward, the attitudes of these Southeast Asian countries changed towards more vigorous promotion of inward investments. Although Lim and Gosling (1997: 309) observe that 'economic growth [in the 1980s] has indeed contributed to more harmonious ethnic relations between the Chinese minority and indigenous majority populations in Southeast Asia', the ethnicity issue has not disappeared completely. Instead, it has been supplemented by an increasing influx of foreign capital. Ironically, a large proportion of this foreign capital originates from ethnic Chinese societies – for example, Hong Kong, Taiwan and Singapore. Uneven development continues to be a prominent feature in the contemporary economic landscapes of many Southeast Asian countries (Jomo 1988; Yoshihara 1988; Jesudason 1989). Recent riots in Indonesia have demonstrated that the issue of ethnic inequality remains central to the stability and continued growth of many Southeast Asian countries. Ethnic-based economic policies aiming at improving the economic well-being of the *pribumi* in Indonesia and the *bumiputra* in Malaysia have effectively forced many ethnic Chinese business firms to reconsider their future growth strategies. Upon consolidating themselves in their domestic economies, many Chinese business firms in Southeast Asia have begun to consider seriously diversifying their operations abroad in search of new investment opportunities that are unavailable or costly in their home countries as a result of state regulation. Well-known examples are the Salim Group from Indonesia, the Kuok Group and the Hong Leong Group from Malaysia, the Charoen Pokphand (CP) Group and Bangkok Bank from Thailand and the Sy Group from the Philippines (Table 2; see also East Asia Analytical Unit 1995). In doing so, their strategies and processes of internationalization have also been shaped by the changing configurations of Chinese business practices in their 'home' countries (Yeung 1999b).

The social organization of Chinese capitalism in Southeast Asia

Historically, the so-called 'spirit of Chinese capitalism' rests with their ability to network together to form a relative coherent socio-economic group to survive discrimination in the host countries (Redding 1990, 1995, 1996; Harianto 1997; Jomo 1997; Yeung 1998c). In Chinese business, relationships are seen as a means to an end: Chinese businessmen find it advantageous to rely on particularistic ties in their local and overseas business activities because of the restrictive institutional context of Southeast Asia. Wong (1988: 109) argues that 'particularistic ties and multiplex relationships are likely to figure prominently in situations of imperfect competition'. Redding (1990: 34) also cautions that 'explaining networking in terms of purely ethnic reasons would be simplistic. There are reasons of hard economic and business expediency as well as ethnic loyalties behind much of this behavior'. He suggests a set of institutional influences on the 'Overseas Chinese':

1 They have commonly lived in social environments which were resentful of them and at times openly hostile, thus forcing them defensively to rely on their own resources.
2 This in turn has caused a heightened sense of co-operation within the Overseas Chinese group generally.
3 This has further reinforced the natural tendency to identify with China and to derive a cultural identity from it.
4 The formative experience of moving countries was often a time of great family hardship and fostered values related to economic survival, such as a work ethic, thrift and pragmatism. These are natural extensions of traditional Chinese folk values.

I argue that imperfect competition is the most important contextual influence on the social organization of Chinese capitalism in Southeast Asia. In Southeast Asia, imperfect competition arises mainly from institutional barriers and the central role of host-country governments in economic and business affairs. Some of these institutional barriers indeed predated the independence of Southeast Asian countries. The specific organization of Chinese capitalism can be traced historically to the fact that they could not rely on the colonial state to provide the legal enforcement necessary for successful business transactions (Jomo 1997). This institutional constraint, nevertheless, did not improve significantly in the post-colonial era. Instead, the lack of legal protection was replaced by a new form of political hostility towards ethnic minorities. As discussed earlier, host Southeast Asian governments (except Singapore) were historically hostile towards the ethnic Chinese. As a result, relationships based on particularistic ties and political-economic alliances function as a means to achieve 'closure' to outside competitors and to overcome their peculiar form of insecure psyche, known variously as 'the siege mentality' (Yoshihara 1988; Redding 1990), 'the refugee mentality' (Kotkin 1992)[7] and 'the trader's dilemma' (Menkhoff 1993). Closely knit networks provide one of the best organizational solutions to overcome these institutional barriers and fear and insecurity in the personal psyche. These networks are based on personal relationships, centred particularly around the family and its immediate circle of social actors (e.g. close friends and patron-clients). These 'family members' command the absolute trust vital to survive the formative years of living abroad in hostile host countries (e.g. Braadbaart 1995). Apart from falling back on trusted family members, ethnic Chinese in Southeast Asia also rely on family business as a natural extension of the entrepreneur's strategies of 'family-ization' (Chan and Chiang 1994: 297) through which 'outsiders' are socialized into the family to form an exclusive and élitist inner circle of relations. Because of this strategy of 'family-ization', the Chinese effectively build a strong fortress, through networks of personal and business relationships, against possible hostile actions by individuals or states in host countries. This mode of social organization is sometimes criticized as inward-looking, particularly from the viewpoint of host countries (e.g. Mahathir 1970). But it is also one of the strongest competitive advantages of Chinese business in an era of turbulence and changes because its flexibility allows it to adapt quickly to new situations and emerging opportunities.

It is important, however, to view Chinese capitalism as constituted by a dynamic set of social institutions capable of constantly adapting to changing circumstances (Olds and Yeung 1999). As Brown (1995: 9) notes, '[t]he importance of the Chinese networks still endures, but the complex changes they have undergone are crucial'. In Southeast Asia, significant changes in the Chinese business system have facilitated the cross-border operations of ethnic Chinese firms (see Lim 1996). One of the foremost changes has been the softening of the power of the older generation (Greenhalgh 1994; Whyte 1996). Many features of the Chinese families in the past that appeared to hinder modern economic life have been altered, in particular traits such as high fertility, extreme subjugation of women and the autocratic power of the senior generation. The softening of the power of the older generation implies that founders of family firms need to provide more incentives and autonomy for their grown children (most commonly still their sons) within the firm in order to be successful, both as a firm and as a family. In this regard, the internationalization of domestic operations provides one of the best opportunities to train these upcoming younger successors and to unleash their entrepreneurial potential, albeit in a foreign setting.

Moreover, differences in Southeast Asian states contribute to spatial variations of the industrial configurations of Chinese business (Hamilton 1996a). In Singapore, Chinese firms tend to engage in more Western management practices because of their alliances with Western TNCs and firms actively promoted by the state. The Local Industry Upgrading Program (LIUP) initiated by the Economic Development Board (EDB) of Singapore, for example, facilitates collaborative ventures between local Chinese SMEs and their TNC counterparts (see Perry and Tan 1998). In other Southeast Asian countries, Chinese business firms are able to identify the initiatives of nation states and pool capital and appropriate technology, e.g. in the privatization of major public-sector industries in Indonesia, Malaysia and Thailand during the 1980s and 1990s. In order to secure privileged access to these government-related opportunities, many Chinese firms are engaged in patron–client relationships with leading political and military leaders. As shown in Table 2, an unintended consequence of this quest for privileged access to government contracts is the narrow focus of large Chinese business conglomerates in Southeast Asia on commercial and trading activities as well as infrastructural development, rather than export-oriented manufacturing, which is the leading platform of globalization for major global corporations. These former industries offer much faster return to investment than manufacturing industries. As a prominent Sino-Indonesian businessman put it aptly, '[m]y whole business is basically . . . intermediating between places [i.e., trading] and time [i.e., banking]' (quoted in Harianto 1997: 140). Increasingly, these Chinese business firms also come together to form regional consortiums in order to pool resources to compete with foreign capital. Hamilton (1996b: 337) argues that 'Chinese capitalism is not confined to a political space the way many other forms of capitalism have been. Rather, Chinese capitalism fills an economic space.' They play a major economic role in the new forms of Southeast Asian capitalism (Hefner 1998).

Challenges of economic globalization to Chinese business in Southeast Asia

It appears from the above two sections that, as economic globalization extends its planetary reach into the Southeast Asian region, the Chinese business systems could no longer remain a set of static 'cultural artefacts'. Instead, economic globalization and its challenges have been contested vigorously by dynamic strategies of key actors in Chinese capitalism, namely Chinese firms and their political-economic alliances. Chinese capitalism, in this sense, is highly dynamic and capable of meeting the challenges of globalization. In this section, I shall develop this idea of contesting globalization through two case studies of how Chinese firms and host nation states in Southeast Asia have negotiated the recent economic turmoil in Asia. The first case study is related to the over-exposure in Indonesia and the subsequent collapse of Peregrine Investment Holdings, based in Hong Kong. The second case study is concerned with the recent decision by the Malaysian government to allow non-*bumiputra* Malaysians and foreigners to take up more stakes in the local economy.

Before we examine these two cases, it is useful to review briefly the nature and extent of the recent Asian economic crisis and its relations to the advancement of economic globalization. Starting with the devaluation of the Thai baht in August 1997, the financial turmoil has already run down the Indonesian, the Thai and the Korean economies. These three different generations of the Asian newly industrialized economies have all asked the International Monetary Fund (IMF) for financial bailing out. During the second half of 1997 and first half of 1998, many Asian economies have seen their currencies depreciating rapidly against the US dollar,[8] their stock markets tumbling, their banks and other non-bank financial institutions in serious troubles and their annual growth rates plummeting downwards. In the words of the Prime Minister of Malaysia Dr Mahathir Mohamad, the economic turmoil caused by the devaluation of Southeast Asian currencies has 'reduced the [Asian] tigers to whimpering kittens and forced them to seek help from international agencies' (*The Straits Times* 3 March 1998). To some neoliberal observers (e.g. Montes 1998), these phenomena are clearly an inevitable outcome of economic globalization because global financial integration has made capital flows much more mobile and the regional impact of a local crisis much more rapid and serious. In this reading of the Asian economic crisis, little power and autonomy are given to the domestic actors in these Asian economies, i.e. firms and states. Instead, the Asian economic crisis is seen as an externally imposed disciplinary action by economic globalization on what otherwise may be deemed 'corrupted' and 'naughty' Asian economies.

The blame has been placed on excessive deregulation of the financial markets in the first instance that allowed Asian firms to engage in massive foreign borrowing (see Higgott 1999). In the absence of government control of domestic companies, banking supervision or even any policy co-ordination on borrowings and investment, it gave rise to the real problem – 'illiquidity rather than insolvency'. This massive increase in foreign debt since the early 1990s and the rush of foreign financial institutions to call in short-term loans have led to the rapid escalation of the financial crisis. In other words, what appears to be a local currency crisis in Thailand, due to over-borrowing and 'bubble' tendencies, has led to an Asia-wide financial crisis. The process has seriously undermined the 'high debt model of Asian development', which is often referred to in the Western press as 'crony capitalism' (Wade and Veneroso 1998). To this press, the Asian economic miracle first legitimized by the World Bank (1993) came to an end on 25 June 1997 when Thailand's new finance minister first managed to discover the true state of his country's foreign exchange reserves and the problems in its financial system (*The Straits Times* 15 January 1998; see also Garnaut 1998). To those 'ultra-globalists', excessive exposure to economic globalization has brought an end to the 'Asian miracle'. To what extent, then, does this recent economic meltdown affect Chinese capitalism in Southeast Asia? How does it put Chinese business firms under siege? We shall first look at the case of Peregrine, a victim of the Asian financial crisis and the pitfalls in Chinese capitalism.

Chinese business under siege: a case study of Peregrine Investment Holdings

On 12 January 1998, Peregrine Investment Holdings Ltd, Asia's leading home-grown investment bank with 1,700 employees, announced that it was filing for liquidation, making it the latest casualty of Southeast Asia's economic meltdown (*The Straits Times* 14 January 1998). On the very same day, the Hang Seng Index, the barometer of the Hong Kong Stock Exchange, fell by 8.7 per cent in one day. The collapse of the Hong Kong investment house was the first major bankruptcy in Hong Kong since the territory reverted to Chinese rule on 1 July 1997. Peregrine fell victim to a single massive bad loan in Indonesia and it was undone by the very practices it had come to personify – highly risky ventures, questionable partners and reliance on personal, often political, connections. It is a relevant case to demonstrate the impact of economic turmoil on the social practice and organization of Chinese capitalism.

The story of Peregrine's collapse involves a highly suspect bond issue and such a key political mover as Mrs Rukmana, ex-President Suharto's daughter and the vice-chairman of the ruling Golkar Party in Indonesia. Among other business interests, Mrs Rukmana controls an Indonesia toll company and it was when she decided to lend her name and patronage to a local taxicab entrepreneur as part of an equity swap that Peregrine's doom began. The taxicab franchise holder is Mr

Yopie Widjara, an ethnic Chinese Indonesian educated in Australia, with grandiose plans and a reputation, among those who know him, as a smooth-talking wheeler-dealer. Peregrine agreed to loan him US$260 million in the form of an unsecured 'bridge loan' (a third of Peregrine's capital) as the cost of underwriting bonds in his PT Steady Safe taxicab company. He had big dreams of becoming 'a transportation czar' by creating a series of car ferries linking the islands of Indonesia's sprawling archipelago. For Peregrine, the story started spinning out of control when the financial crisis hit Asia in the summer of 1997. Peregrine was stuck with bonds no one wanted to buy, as its traditional Asian investors turned away. The devaluation of the Indonesian rupiah in July 1997 further aggravated the situation when PT Steady Safe stock became almost worthless overnight: from a high of 3,240 rupiah per share before the currency crisis in 1997 to about 300 per share in dollar terms in January 1998. Peregrine, as a result, could never expect PT Steady Safe to be able to repay its 'bridge loan'.

On 18 November 1997, Peregrine announced that Zurich Centre Investments (ZCI), an arm of the Zurich Group, would take a 24.1 per cent stake (US$200 million) in Peregrine, making it the largest shareholder of Peregrine. Mr Philip Tose, Chairman of Peregrine, said that the Swiss investment 'not only strengthens our substantial capital base but also deepens our relationship with a well-respected multinational company that brings to Peregrine extensive financial services knowledge and technical expertise' (quoted in *Business Times* 18 November 1997). On 9 January 1998, however, the deal with the Zurich Group fell apart as the depth of Peregrine's problems became apparent. The pull-out by the Zurich Group and Peregrine's failure to seek a new buyer meant that Peregrine became insolvent just about one decade after making its first debut in the Asian financial market.

The Peregrine case serves to demonstrate the risk of engaging globalization and the limits to Chinese business networks. It has been argued that personal and business networks provide the organizational capabilities which enable Chinese business firms to compete with other global corporations on a worldwide basis (Yeung 1997b, 1998c). Firms are involved in complex webs of network relationships because they want to benefit from co-operation with each other (Dunning 1995, 1997). Because of this quest for mutual benefits through co-operation in network relationships, discrimination against 'outsiders' is justified and widely practised. In other words, network relationships function as a means to achieve 'closure' to outside competitors. Networks of personal and business relationships are the primary means of sustaining competitive advantage in Chinese-dominated economies in Asia, notably Hong Kong, Singapore, Taiwan and mainland China (Hamilton 1991). This 'closed' nature of the Asian market makes it very difficult for 'outsiders' or foreigners to penetrate even though they may offer the most competitive prices or quality products (*The Economist* 26 November 1994: 17; Braadbaart 1995).

In Peregrine's case, because of its eighteen founding shareholding companies and reputable local partners, it was able to build up significant relationships with existing and potential clients which gave rise to its distinctive competitive advantage. It exploited the 'network' concept from both fronts: first, it managed to establish its regional network of operations to serve clients from existing networks and to serve potential customers in host countries. The strength of the Peregrine Group was predicated on its local presence through extensive networks of partnership. Second, the Peregrine Group developed extensive networks of personal and business relationships which form the core competencies of the group. The ability to develop the group's activities in the major countries of Asia was considerably enhanced by the core strategy of establishing partnerships with prominent industrial and business entities.

The group's Asian partners provided an important insight into and understanding of local markets and allowed for rapid market penetration. These partners often assisted in the development of local businesses and participated in certain of the group's investments. This network gave the group a strength and breadth which few other regional investment banks could match. One senior staff member from Peregrine once commented that they had 'serious, deep relationships throughout Asia' with key figures such as Li Ka-shing, Gordon Wu, CITIC Pacific managers and the generals who ruled Myanmar. When CITIC decided to buy a stake in Hongkong Telecom in 1993, it called Morgan Stanley for advice on the financing. However, CITIC's stake in Peregrine automatically qualified the latter to have a role in the deal, ending Morgan Stanley's hope for an exclusive role (*Far Eastern Economic Review* 9 May 1996: 72). Mr Philip Tose, Chairman of Peregrine, further added that the Peregrine way was to 'sit down over a cup of tea with the top guy; there isn't documentation; the deal is done' (quoted in *The Economist* 12 November 1994: 24). For example, when Li Ka-shing's Cheung Kong Holdings decided to do a huge share placement in Hong Kong in early 1996, the proposed plan was declined by Morgan Stanley after twenty minutes of evaluation. But when Cheung Kong went to Peregrine (Li was a large shareholder of Peregrine), the smaller but much more aggressive Hong Kong brokerage found its match. Without any hesitation, Peregrine stepped in to assume the risk and lead-manage the US$679 million deal (*Far Eastern Economic Review* 9 May 1996: 70).

It is clear that Peregrine was relying too much on network relationships and 'crony capitalism' which eventually brought down the whole group. The point here is that the reliance on *guanxi* or network relationships and political-economic alliances, a defining characteristic of Chinese capitalism in Southeast Asia, did not always give Peregrine victory. After its failed ventures in Vietnam and Myanmar, Philip Tose admitted that 'We got a little too big-headed. We thought we could do anything in Asia, and Myanmar and Vietnam were mistakes. We were in businesses that we didn't really understand. We thought we had people who knew those businesses that we backed. And when they began to go wrong, of course we didn't have any expertise to put them right' (*Asia Inc* December 1997/January 1998: 31). Although accelerated economic globalization and the recent economic turmoil in Asia have put Peregrine under siege to the point of no-return, does it mean that globalization has become an irreversible process swallowing localities and nation states and undoing any geographical differences?

As the case of Malaysia unfolds, the reality is far from that. Instead of universal victimization and homogenization caused by globalization, we observe localities actively contesting globalization and global forces.

Contesting globalization: Chinese business and the relaxation of equity ownership restrictions in Malaysia

As discussed earlier, the Malaysian government has been pursuing an ethnic-biased *bumiputra* policy since the NEP in 1971 to enable indigenous Malays to take control of the Malaysian corporate sector. Its logic rests in attempts at 'ethnic bypass' in which the *bumiputras* collaborate with foreign partners in order to avoid excessive dependence upon the ethnic Chinese in Malaysia (Jomo 1997). Under the *bumiputra* policy, there was a 30 per cent ceiling on shareholdings by foreigners, whereas a minimum of 30 per cent of any local company's stake must be owned by the *bumiputra* Malays. This policy was unpopular, particularly among the Malaysian Chinese who saw the *bumiputra* policy as a political instrument to contain their control of commerce and industry. It was also highly contested by foreign companies operating in Malaysia. For example, the issue cropped up recently and threatened to scuttle World Trade Organization talks on trade liberalization. The US was upset that Malaysia would not allow insurance giant American International Group to retain 100 per cent control over its long-established local subsidiary in Malaysia. Despite sustained pressure from the US, Malaysia refused to budge (*The Straits Times* 11 February 1998).

As a consequence of this *bumiputra* policy, many Malaysian Chinese have been engaging in the so-called 'Ali-Baba' system in which the *bumiputra* Malays act as the frontmen, 'Ali', to register the company and take up the position as majority shareholders. The Chinese, as the real owners, 'Baba', are registered as 'minority' shareholders. In return for the Malays' 'service', they are paid directorship fees, but they exercise no real power in running the company. Meanwhile, if the *guanxi* or relationship between the Chinese and the Malay partners is good (i.e. loyal and trustworthy), this nominal 'Ali-Baba' system is maintained. If their relationship is shallow, say because they do not have prior co-operative experience and possess only relative trust, the Chinese 'Baba' may require the Malay 'Ali' to take up a 'loan' from the Chinese equivalent to the monetary value of the equity shareholding that the Malay 'Ali' has legally registered under his/her personal interests. In this way, the risk of cheating by the Malay partner is hedged against by his 'indebtedness' to the Chinese 'Baba'. Another method is by selling non-voting shares to local *bumiputra* partners so that, on paper, the Malay 'Ali' holds majority equity shares whereas, in practice, the Chinese 'Baba' has effective control of the company. These methods of inter-firm collaboration in circumventing government regulations on ethnic equity ownership are particularly effective and widely practised in Malaysia, as well as Indonesia and Thailand (Yeung 1998c).

Since the late 1970s and early 1980s, when significant numbers of NEP-driven Malay businessmen began to enter the business world, the Malay 'Ali' partners in Chinese business firms have played a much more active role in the growth and development of their associated companies. Take the example of Robert Kuok, a leading Malaysian Chinese businessman with business holdings in sixteen countries (Heng 1997). His Malay partners were selected on the basis of their ability to facilitate business dealings with state institutions. Tan Sri Taib Andak, a former English College schoolmate of Kuok, served as a director of Federal Flour Mills controlled by the Kuok Group. Tan Sri Andak had a successful bureaucratic and banking career as chairman of the Federal Land Development Agency (FELDA) and Malayan Banking before joining the Kuok Group. When Kuok established Perlis Plantations which enabled him to have a significant presence in the global commodity markets, Andak's patronage was evident in the role played by FELDA in facilitating the purchase of public land for cane-sugar cultivation and the involvement of the Perlis state government as Kuok's major business partner. FELDA also became Kuok's partner in the sugar refinery built next to the plantation. The Kuok Group is only one of the many leading Chinese business groups in Malaysia which have enlisted Malay former top civil servants, politicians and businessmen and even royal families to serve on their boards of directors. By the mid-1990s, it was clear that the NEP has effectively provided more than a 'breathing space' for the Malay *bumiputras* to engage in commercial activities and businesses through either direct establishments of *bumiputra*-owned enterprises or indirect partnership with Chinese business firms. Almost three decades of the NEP have also hampered the growth of Chinese-owned SMEs and the venturing of Chinese business firms in industries and sectors reserved specifically for the Malay *bumiputras*.

The recent Asian economic crisis and the stock-market plunge, however, have crippled many Malaysian companies, including those owned by Malay *bumiputra* entrepreneurs. This unintended consequence of Malaysia's participation in economic globalization has forced the National Economic Action Council (NEAC), the high-powered council established by Prime Minister Mahathir to get the Malaysian economy back on track to high growth rates, to consider what previously was unthinkable – allowing non-*bumiputra* Malaysians and foreigners to own larger shares in local companies (*The Straits Times* 21 February 1998, 24 July 1998). Although Malaysia has suffered from global financial integration when it saw the ringgit and local stock market plunge heavily in October 1997, the state has continued to contest globalization by engaging in stronger regional co-operation to promote mutual financial stability (see Higgott 1999). Malaysia has also resisted the temptation to ask the IMF for financial assistance. The recent opening of the Malaysian corporate sector can thus be seen as a pragmatic response by Malaysia to meet the challenges of economic globalization. To Malaysia, there is no way out of the crisis, but to relinquish the control of certain companies for the good of the economy. The move would signal to the world that Malaysia is willing to do even the politically sensitive to turn the economy around. It must be noted, however, that this is not the first occasion for Malaysia to liberalize its economy (Jomo 1997). The deep crisis of the mid-1980s also accelerated the economic liberalization first started by Prime Minister Mahathir who came to power in 1982. In 1986, the Malaysian government discreetly 'suspended' its New Economic Policy and inaugurated a range of measures to liberalize the investment climate and attract foreign investors, in particular those from Japan and Taiwan. This liberalization movement of the mid-1980s, nevertheless, was not quite as radical as the current one in 1997/8 because Malaysia, like many other Asian countries, is badly affected by the recent Asian economic crisis.

Deep in today's crisis, the fundamental problem of many local *bumiputra* companies in Malaysia is that the ringgit devaluation and stock market plunge have led to high costs of importing materials and intermediate products for production and financial strain through the lack of working capital. As revealed by the head of the NEAC and newly appointed Minister with Special Functions, Tun Daim Zainuddin, the Asian economic crisis has impacted more on *bumiputra* companies than others. The market value of equity held by these *bumiputra* companies has dropped by 54 per cent since the onset of the crisis in July 1997. The overall *bumiputra* equity ownership in publicly listed companies at market value has also fallen from 29 per cent in June 1997 to 27 per cent in February 1998 (*The Straits Times* 24 July 1998). To resolve this problem of capital shortage, the new move in early 1998 allows non-*bumiputra* Malaysians to inject new capital into ailing *bumiputra* companies to save them from bankruptcy. In certain strategic industries (e.g. banking, automobiles, aerospace and shipping industries), the 30 per cent ceiling on foreign ownership continues to be effective. The 30 per cent *bumiputra* corporate ownership requirement would now be calculated on an economy-wide basis, rather than on the basis of individual firms. In the manufacturing sector, the Malaysian government has lifted equity and export conditions since 1 August 1998 on all new manufacturing projects, including those meant for expansion and diversification. Before this policy change, only industries exporting over 80 per cent of their products were given the flexibility of having 100 per cent equity ownership. Local Malaysians and foreigners are now allowed to engage in 100 per cent-owned new manufacturing projects which are received before 31 December 2000 (*The Sunday Times* 2 August 1998). This exemption is not applicable to activities and manufacturing of products where Malaysian companies already had the capabilities and expertise.[9]

This relaxation of equity ownership restrictions in Malaysia effectively means that those cash-rich Malaysian Chinese are posed to benefit from the crisis of globalization by taking control, at much lower costs now, of many local companies previously majority-owned by the *bumiputra* Malays. They have thus become the indirect beneficiaries of the economic crisis in Southeast Asia. Although some critics regard the ownership relaxation as a political statement rather than a policy change, the NEAC has promised that non-Malays and foreign investors who take stakes in ailing local companies will not be pressured to give up their shares once the economy recovers (*The Straits Times* 28 February 1998, 24 July 1998). The Deputy Prime Minister, Datuk Seri Anwar Ibrahim, also announced recently that 'if a company decides to allow equity participation by non-bumiputras, we would allow it and that would become a permanent feature' (*The Straits Times* 10 April 1998). The new move is expected to have a significant impact on the social organization of Chinese business and ethnic relations in Malaysia. For example, there may be less reliance on the 'Ali-Baba' system of shareholdings because the Malaysian Chinese can own a majority or all of the shares of any local company. The reliance on 'crony capitalism' may also be reduced because many Chinese capitalists realize that reliance on political-economic alliances may not be sufficient to bail them out in times of crisis.

Conclusions

This paper has shown that, while economic globalization has almost reached and affected every corner of the global economy, it remains, as an ongoing process, highly contested by such key actors as individual citizens, business firms, nation states and so on. On the one hand, nation states continue to exert their influence over national economies. On the other hand, capital, represented institutionally by firms and corporations, is highly sensitive to geographical differences. It is also strongly embedded in places for material reproduction. Capitalism has its *place* in a world of accelerated globalization. As such, economic globalization should not be seen as a universal process of liberalization without its limits. Through the case of the recent economic crisis in Asia and Chinese capitalism in Southeast Asia, this paper has attempted to put the above argument into its empirical context. I have shown that Chinese business is a dominant form of capitalism in Southeast Asia because of not only its financial position in host Southeast Asian economies, but also its complex and yet intricate social organization. This ethnic-centred mode of capitalism has been operating in Southeast Asia for over a century now, but its strengths and weaknesses are increasingly apparent when the region has recently suffered from a serious economic crisis. In other words, economic globalization has posed serious challenges to Chinese business in Southeast Asia.

In particular, I have examined two contrasting cases in which economic globalization has impacted on Chinese capitalism differently. In the case of Peregrine Investment Holdings, a leading Asian merchant bank strongly embedded in the Chinese business systems in Hong Kong, it has as much benefited from the practice and social organization of Chinese capitalism during the good years in the late 1980s and the early 1990s as it has suffered from the very same practice early this year. Economic globalization has thus put Peregrine under siege when a bad loan, issued on the basis of trust and *guanxi* or relationships, turned into Peregrine's very undoing. In the case of Malaysia's recent relaxation of its twenty-seven-year-old *bumiputra* equity ownership restrictions, it seems that globalization is a highly contested process through which there is a continuous tug-of-war between nation states and broader regional and global forces. Through its recent move to allow non-*bumiputra* Malaysians and foreigners to own a higher stake in the Malaysian corporate sector, the Malaysian government is actively counteracting the impact of the regional economic crisis by attracting much-needed capital from within and outside Malaysia. In this way, some Chinese business firms, which emerge relatively unscathed from the crisis in

Malaysia, have become the beneficiaries of the economic meltdown driven by globalization. It must therefore be noted that economic globalization does not necessarily put Chinese capitalism under siege. Rather, the challenges posed by globalization, with its inherent limits and opportunities, can be more effectively met by the dynamic transformations in any business systems.

What then is the future of Chinese capitalism in Southeast Asia in an era of economic globalization? First, it means that there is a caveat to any advantage enjoyed by Chinese business firms. These firms can be locked into the 'tunnel vision' of their founders and/or patriarchs who may take a irrational, opportunistic expansion path. The viability of such a culturally embedded organization for survival in an era of economic globalization is increasingly questionable. This is because '[t]he need to act in an increasingly internationalized business world imposes forms of behavior that erode Chinese exclusivity' (Brook and Luong 1997: 16). Although, for example, Peregrine had very strong alliances and connections throughout Asia, the activation of these networks and connections came with system risks because of its very lack of transparency and poor information flows. It becomes very important for ethnic Chinese firms not only to develop and exploit networking, but also to manage networks carefully. These Chinese firms need to develop a management system to assess risk objectively. This requires the development of professionalism in management through horizontal and vertical management systems. The head of Peregrine's 'debt team' is an American, Mr Andre Lee, who came to Peregrine from Lehman Brothers. Under Mr Lee's direction, Peregrine won the contract to sell the PT Steady Safe bonds, after agreeing, incredibly, to underwrite them to the tune of a US$260 million 'bridge loan'. Although Mr Lee's superiors at Peregrine most certainly were involved in all his decisions, the case still shows the lack of a management system whereby risk is objectively assessed and handled with professionalism. Of course, in times of good fortune and a world of greed, the story is spun to make the greed sound like a good investment. The Peregrine case therefore is an excellent, albeit tragic, reminder to top managers in ethnic Chinese firms that greed and lack of professionalism can undo the very fortune accumulated through the very same tactics.

Second, since many ethnic Chinese firms still rely on family control and management, it is perhaps important to address their portfolio and competitiveness in the regional and global marketplace. For example, the recent turmoil in Asian markets has acted as a serious wake-up call to many Chinese business groups. Some of these Chinese family firms have too much exposure in financial and property markets, making them highly vulnerable and risky in times of economic and political crisis. It becomes vital for them to diversify their investment portfolio in order to reduce too much exposure to any single sector. Moreover, tight family control and management can be a potential source of strength in certain sections (namely banking and finance and property development). Shifts in the global economy, however, are exposing the weaknesses of many Chinese business groups. Sources of value-added activities come increasingly from technology and marketing which are mostly associated with manufacturing industries. We find many mega Chinese conglomerates in financial and property markets. But we find very few world-class manufacturing firms owned by ethnic Chinese (see Hamlin 1998). Moreover, a further liberalization of markets in Southeast Asia will be likely to intensify competition from internationally efficient corporations which also master all phases of respective production chains. With the removal of protectionist barriers, in particular non-tariff barriers, Chinese business firms in Southeast Asia may not be competitive in the wake of global competition. There will be much restructuring and consolidation in the traditional labour-intensive industries dominated by Chinese business firms. One viable option is for these firms to compensate for their lack of technological capabilities by entering into joint ventures and partnerships with foreign firms.

Finally, it seems rather unlikely that the future of Chinese capitalism in Southeast Asia can continue to be sustained by the kind of political-economic alliances with host states which used to enable ethnic Chinese to accumulate capital rapidly through the granting of monopoly and franchising rights. The 1997/8 economic crisis in Asia has not only bankrupted several authoritarian states, but also seriously threatened pre-existing alliances between Chinese capitalists and ruling power élites. The downfall of the Suharto regime in Indonesia, for example, has led to the end of an era of political-economic alliances between the First Family led by ex-President Suharto and his Chinese businessmen cronies (e.g. Liem Sioe Liong and Mohammad 'Bob' Hasan). Although his successor, Dr B.J. Habibie, may not put too much pressure on these alliances, he is certainly going to learn from the lessons of the May 1998 riots in Indonesia and to reduce the dominant position of Chinese capitalism in Indonesia. The May 1998 riots in Indonesia have been the worst since the riots in the mid-1960s, reminding us of Reid's (1997: 65) recent remark that '[i]f the economies [in Southeast Asia] falter, domestic political conflicts again get out of hand, and desperate politicians look for scapegoats and saviors, the dangers of violence remain real'. It must be noted, however, that the recent Indonesian riots did not result from desperate politicians' search for scapegoats, but rather from the spontaneous reaction of the Indonesian poor to the rapidly deteriorating economic conditions in Indonesia. Ethnic Chinese in Indonesia once again became the scapegoats for the Indonesian poor to vent their frustrations with the social and economic realities. To a large extent, the outbreak of the unrest was attributed to the lack of an affirmative action programme to reduce income imbalances between the *pribumi* and Chinese Indonesians. Post-riot Indonesia is likely to see the persistence of ethnic tensions and the restructuring of Chinese capitalism in the form of capital flight and withdrawal from the domestic economy.

Elsewhere in Malaysia, the recent 'bending' of its affirmative New Economic Policy in favour of increasing foreign and Chinese ownership of Malaysian companies may indeed increase ethnic tensions. It is clear that the relaxation of the NEP is still not accepted widely by the *bumiputra* community which seriously questions the rationale for allowing *bumiputra* shares to be sold to foreigners and non-*bumiputra* Malaysians. The wider implication for the future of Chinese business in Southeast Asia is that coalitions with the ruling élite will no longer provide a sure key to corporate success. Rather, Chinese business firms must turn to their core competencies in terms of skills, technology and expertise to compete effectively against global corporations entering a region badly damaged by the recent economic crisis. And yet, the contradiction is that these Chinese business firms will face more political pressures from within the regional economies to redistribute wealth for national security purposes. This contradiction is likely to be deepened with the advent of economic globalization in Southeast Asia. As it stands, Chinese capitalism, with all its inherent strengths and weaknesses, has a long way to go before it can successfully meet the challenges of globalization.

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Notes

1 See Taylor (1997) and Kiely (1998) for examples of neoliberal policies practised by the IMF and the World Bank. A more recent example can be found in the IMF guidelines for 'bailing out' ailing Asian economies. For the politics of globalization rhetorics in the Philippines, see Kelly (1997).

2 Because the Asian economic turmoil is still ongoing, observations in this paper may be confirmed or refuted over time.

3 The term 'Overseas Chinese' may be contentious to some scholars of ethnic Chinese who are living outside mainland China. See Wang (1991) for an authoritative account of the origin and status of ethnic Chinese living outside mainland China.

4 The crucial role of ethnic minorities in the development of trade, money management and capital accumulation is common in most of the Old World. As Reid (1997: 34–5) notes, '[k]ings and magnates needed such minorities, found them less threatening than their own subordinate populations, and encouraged them, rather than the upstart majority middle classes, to take on crucial brokering roles'.

5 This paper excludes the former Indo-Chinese countries from its discussion of Southeast Asia because of the lack of literature on these countries.

6 The next section will examine the impact of the recent Asian economic crisis on this *bumiputra* policy.

7 Interestingly, Kotkin (1992) has used the same argument to underscore the worldwide success of several other diaspora groups such as the Jews and the Indians (see also Cohen 1997).

8 Except Hong Kong where a pegged rate of US$1 to HK$7.8 has been defended at the expense of high domestic interest rates and heavily squeezed credits. In Southeast

Asia, the Indonesian rupiah has depreciated against the US dollar by as much as 72 per cent. Other Southeast Asian currencies have depreciated about 30–40 per cent (*The Straits Times* 3 March 1998).
9 These include paper packaging, plastic packaging, plastic injection moulding components, metal stamping, metal fabrication and electroplating, wire harness, printing and steel service centre.

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