PART I

The Foundations of Understanding

Introducing the Overseas Chinese of Southeast Asia

One generation passes away, and another generation comes; but the earth abides forever. . . . That which has been is what will be, that which is done is what will be done, and there is nothing new under the sun.

—Ecclesiastes

The epigraph summarizes the history of the Overseas Chinese and the Chinese merchant classes. The Chinese merchant classes struggled against periodic campaigns of persecution in China to gain prosperity and their dreams of a good life for their families and children; the Overseas Chinese merchants struggled against periodic campaigns of persecution in their various new homelands to gain prosperity and their dreams of a good life for their families and children; and today, the Overseas Chinese struggle against periodic campaigns of persecution in many of their present homelands to gain their dreams of prosperity and a good life for their families and children. Though our book focuses on the corporate giants and their strategic evolution, we emphasize that the great majority of the Overseas Chinese who must face the travails of their people are not the superrich of Asia but those who are still struggling and, basically, "fighting the good fight."

The Overseas Chinese, contrary to what the name would imply, do not form one people, but groups of diverse people. Like the mainland brethren they left behind, they differ by regional groupings, cultural groupings, and linguistic groupings to a much greater degree than most U.S.-born American citizens do, and almost as much physically as Americans do. Like the other great imperial populations of the latter half of the 20th century, Russia and the U.S., the Chinese people, and particularly their overseas populations, have shown great proficiency in creating and accumulating wealth when their governments permitted them to do so. This combination of courage, skills, and intelligence has created something most of the Chinese emperors of the past passionately avoided: an overseas colonial empire. The colonial empire does not constitute the traditional political empire of old but appears more akin to the economic empire that many accuse the U.S. of building. In some few instances such as Singapore and Taiwan (we will speak of Taiwan as an autonomous state although the Mainland Chinese government considers it a province), the Overseas Chinese serve as this empire's political barons; but in every instance, they dominate as the commercial emperors of this New Asian Empire. As we discuss later, despite the hardships spawned by the 1997 Asian crisis and the 2002 Severe Acute Respiratory Syndrome (SARS) crisis, most of the Overseas Chinese companies remain intact and have displayed a hearty vigor as well as adaptability in the face of external shocks.

Westerners frequently view the Chinese people as one homogeneous population, and the Chinese as always having been under the sway of an all-powerful central imperial bureaucracy until the arrival of the Europeans. Neither belief holds true. The Chinese people constitute a population of diverse religions, subcultures, and ethnic groups. Western China contains one of the earliest, and best-preserved, burial sites of a Caucasian population anywhere in the world. The local population in the region continues to manifest such physical characteristics as lighter, brown-colored hair and freckles more frequently than the norm for other Asian populations.

Frequently, the Chinese empire formed a domain in name only. Warlords from different areas would rise to challenge the center, sometimes supplanting the center. Invaders would breach Chinese defenses and create their own empires, introducing elements of their own cultures as they assimilated into the Chinese population. The center would collapse and China would break down into warring realms of various sizes and power. Frequently, the provinces would simply ignore the center's directives when they wanted to and were able to do so.

The merchant classes of the southern coastal regions would most frequently ignore the center's directives. These southern, coastal people dominated the various waves of Overseas Chinese who emigrated from China over the centuries. When the Chinese emperors periodically tried to block overseas commerce, contacts, and emigration, the southeastern Chinese provinces continued to press forward with their trading and emigration to wherever opportunities seemed to abound. In efforts to stop international trade and contacts, various Chinese emperors embarked on prohibitive measures (this is a very short and incomplete list):

- In 1424, the Ming emperor Hung-hsi banned foreign expeditions of any kind and scuttled an imperial fleet to emphasize his point.
- In 1661, the Manchu emperor K'ang-hsi banned travel and evacuated coastal regions of China to about 10 miles inland.
- In 1712, K'ang-hsi requested foreign governments to repatriate Chinese emigrants so they could be executed.
- From 1717 until his death, K'ang-hsi once again initiated a ban on travel. The emperor died in 1722, but his successors continued the ban until 1727, when they lifted it after 10 years of dismal failure.
- Not long after K'ang-hsi, European intrusions into China and Southeast Asia, and constant rebellions against the Manchu emperors by other ethnic Chinese, denied the emperors this kind of freedom of action.

- In 1959, Mao Tse-tung called on the Overseas Chinese to return home. Of the many millions of Overseas Chinese, Mao's ships picked up 100,000 seeking to come home (Hall and Kirk, 1988).

In 1911, the Overseas Chinese communities finally responded in kind to the Manchu dynasty's many punitive campaigns and policies against them and their mainland brethren: they financed Sun Yat-sen's overthrow of the Manchus. The Overseas Chinese were, and remain, the epitome of capitalistic humanity.

Patterns of Chinese Migration

The Overseas Chinese whom we discuss and who form the focus of this book are these capitalist traders. Though people generally think of the Overseas Chinese as traders, other groups also make up the Overseas Chinese communities. Wang Gungwu (1992), in his book *China and the Chinese Overseas*, discussed four patterns of Chinese migration. He identified the four patterns as:

1. The trader pattern
2. The coolie pattern
3. The sojourner pattern
4. The descent or re-migrant pattern

The trader pattern

The trader pattern represents those Chinese of commercial or professional classes who went overseas for reasons of business or employment. These people usually worked for their personal benefit or for domestic Chinese businessmen's benefit, usually but not always as relatives of some sort. If their overseas efforts met with success, more relations and associates would follow and work to expand the businesses further.

The coolie pattern

The coolie pattern represents another group of Chinese who sought their fortune overseas. These individuals usually originated from the peasant classes, or were landless laborers, or the urban poor. They went overseas on labor contracts, and many returned to China when their contracts came to an end. A large number, however, stayed to build their fortune and future in a new home. This pattern has supplied the bulk of today's Overseas Chinese population.

The sojourner pattern

The sojourners of the Overseas Chinese communities left China to act as representatives of the Chinese culture and way of life. They appeared during a time when Chinese governments were trying to reexert their control over the increasingly wealthy Overseas Chinese communities. The sojourners perceived their duty as lobbying local governments for the rights to establish Chinese schools to educate the children of local Chinese in the Chinese language and in accordance with Chinese customs. They also sought to encourage local Overseas Chinese to remain faithful to their culture and country, and importantly to their government.

The re-migrant pattern

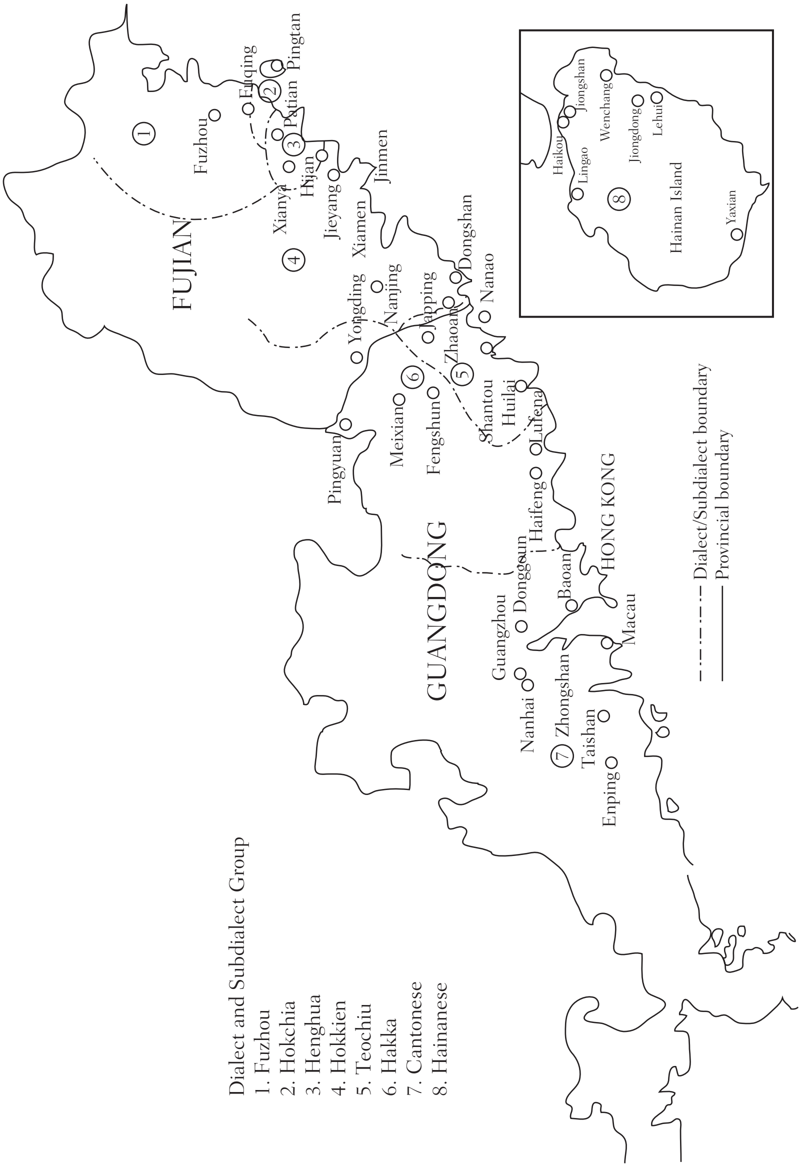
A growing number of Overseas Chinese do not speak the Chinese language, have never set foot in China, and have even emigrated from the countries in which their ancestors originally settled. These ethnic Chinese, socially and frequently even culturally, form members of their local national societies in every way imaginable.

Though we focus primarily on those Overseas Chinese who began to build their fortunes as merchants, the greatest number of today's Overseas Chinese commercial aristocracy in Southeast Asia descended from people who fit into the coolie and sojourner patterns. Regardless of which pattern the present-day Overseas Chinese businessmen and women descended from, they are supreme business practitioners, resourceful and daring, yet rarely so daring as to be foolhardy.

Who Are the Overseas Chinese?

The bulk of Southeast Asians are, at least in part if not primarily, of Chinese origin (waves of Chinese emigration to the countries of Southeast Asia have occurred for literally thousands of years); yet generally only those people migrating to Southeast Asia in the last one or two waves of migration are considered Overseas Chinese. Most Southeast Asians considered this group to be those who arrived in their new homelands sometime in the later years of the 19th century or in the 20th century. Guangdong's and Fujian's coastal regions (to the immediate north and northeast of Hong Kong), as well as Hainan Island (between the Gulf of Tonkin and the South China Sea) dominated the last few waves of immigration. Figure 1.1 shows these coastal regions and the island. Eight primary groups of Chinese emigrated from these areas at this time (as enumerated by dialect and subdialect groupings) to the several countries of Southeast Asia:

FIGURE 1.1: *Origins in China of the Main Dialects and Subdialects of the Overseas Chinese*



1. Fuzhou
2. Hokchia
3. Henghua
4. Hokkien
5. Teochiu
6. Hakka
7. Cantonese
8. Hainanese

When the groups left China, they tended to settle among their own people in the countries to which they went. Hence, one or two of these Chinese communities tend to dominate the Overseas Chinese populations of individual Southeast Asian countries. One

TABLE 1.1: *The Overseas Chinese in Southeast Asia*

Country	Chinese as Percentage of Total Pop.	Linguistic Groups as a Percentage of Chinese Population					
		Hok	Can	Teo	Hak	Hai	Other
Brunei	15.0	[a]	[a]	0.0	[a]	0.0	0.0
Cambodia	2.1[b]	2.0	10.0	77.0	3.0	8.0	0.0
Indonesia	3.1	50.0	1.5	7.5	16.5	0.0	14.5
Laos	1.0	0.0	15.0	70.0	0.0	10.0	5.0
Malaysia	23.7	31.7	21.7	12.1	21.8	7.0	3.0
Myanmar	3.0	30.0	20.0	0.0	0.0	0.0	50.0
Philippines	2.4	85.0	15.0	0.0	0.0	0.0	0.0
Singapore	76.8	40.0	18.0	23.0	9.0	7.0	3.0
Thailand	14.0	7.0	7.0	56.0	16.0	12.0	2.0
Vietnam	2.2	6.0	56.5	34.0	1.5	0.0	0.0
Taiwan	98.0	[c]					

Notes: Hok = Hokkien; Can = Cantonese; Teo = Teochiu; Hak = Hakka; Hai = Hainanese.

[a] *Although the Chinese population of Brunei is known, and it is dominated by the Hokkien. the precise breakdown is uncertain.*

[b] *For Cambodia, these are very rough estimates.*

[c] *The Taiwanese population is predominantly Hokkien and the Taiwanese dialect is considered a variant of the Hokkien dialect. Though Taiwan is not a part of Southeast Asia, it is included because of its importance to the region through cultural and economic ties.*

or two of the linguistic groups may also dominate particular trades and professions. Table 1.1 presents a breakdown of the Overseas Chinese populations of the various Southeast Asian countries. For two of them, Cambodia and Myanmar, the figures are estimates. During the Pol Pot regime in Cambodia, the Chinese, primarily city dwellers, suffered especially badly and reliable figures for their population do not exist. Myanmar has never released reliable figures on its Overseas Chinese population.

As Table 1.1 shows, the Hokkien and Teochiu people tend to dominate in most Southeast Asian countries. Historical and geographical reasons contribute to this dominance. Throughout its history, China has alternated between outward-looking expansionist regimes and inward-looking isolationist regimes. The Hokkien and Teochiu homelands lacked good farmlands but possessed relatively good ports on their coasts. Their physical distance from the historical Chinese capitals also allowed them to escape the center's notice, with the help of local authorities. Hence, under isolationist Chinese regimes that discouraged international trade and contacts, the Hokkien and Teochiu people could openly use their seafaring skills for domestic trade and fishing and had a substantial incentive to do so. Conversely, expansionist regimes that supported international trade also encouraged Hokkien and Teochiu efforts to build trading relationships. Wealth would flow into these groups' homelands through their presence in Chinese trading circles. When circumstances changed again and isolationists dominated policy, the Hokkien and Teochiu could not surrender the prosperity they had gained through trade, and they circumvented the central authorities whenever and however they could. With only subsistence farming possible, trade with other regions within China served essential needs for these groups. They used their domestic trade and shipping, and their contacts in local and central governments, to cover their activities and maintain an international trading presence. The manner in which this presence evolved had several important effects on the how the Overseas Chinese have historically conducted their business.

ADMIRAL CHENG HO

Patron Saint of Chinese Trade and Internationalism

The Ming Emperor Yung-Lo (reigned 1402–1424) was the last true internationalist among China's pre-communist rulers. The great admiral Cheng Ho served as the primary instrument of his international exploration, and to a limited extent maritime imperialism. Cheng Ho was a eunuch of Mongolian ancestry and a Muslim who, during Yung-lo's reign, led six great voyages (he made a total of seven). The voyages averaged two years each in length, and there are recorded visits to 30 countries, as well as Hormuz at the entrance to the Red Sea, and Jeddah on the west coast of the Arabian Peninsula.

Cheng Ho's voyages did not resemble the sailing of two or three lonely ships as the European voyages of exploration did. Rather, his were major fleets with better than 20,000 men, upwards of 60 of the largest wooden capital ships ever made, and fleets of support vessels numbering more than 200 ships. During his trips, Cheng Ho established treaties with foreign powers such as Malacca (in present day Malaysia), where he established a Chinese naval base, presented gifts to foreign rulers, and accepted tribute from them; collected many strange and exotic creatures for the Imperial Menagerie; acquired new skills; and kept an eye out for new and potentially valuable trade goods and markets that Chinese merchants could profitably exploit. He also showed the military capability and skills of the Chinese navy by defeating and capturing or killing several rulers who challenged his fleet or refused to pay tribute to his Emperor; among them were the ruler of Ceylon, whom he deported to China after settling a pretender in his place; and the ruler of Sri Vijaya (in Sumatra), who was sent to China for execution (he was a Chinese pirate who had usurped the local throne).

Cheng Ho's voyages ended on the death of Yung-lo: during his one-year reign, Yung-lo's son Hung-hsi made a clean sweep of various court factions and placed almost complete power firmly in the hands of the Confucian-dominated bureaucracy. The bureaucracy ordered all imperial records of Cheng Ho's voyages to be destroyed.

Thanks to his accomplishments, Cheng Ho is primarily viewed as having functioned in the development of trade and scholarship. Wherever you find a large number of Overseas Chinese, you will find temples and statues dedicated to this patron saint of their enterprise and vision.

In Table 1.1, the large "Other" category for Myanmar arises because the largest group of ethnic Chinese in this country originate from traditional homelands spanning the common border of Myanmar and China. The ethnic Chinese population along Myanmar's border with China has both historically lived in Myanmar and migrated across the poorly controlled border rather than emigrating from the coastal regions of China.

Table 1.2 presents the total population of the countries under consideration, together with the total Chinese populations. The table clearly reveals the substantial populations of these countries. Indonesia alone forms the fourth most populous nation on earth. The proportion of the Overseas Chinese varies from nation to nation but overall remains relatively small at just over 10 percent. Though the Overseas Chinese form a relatively small percentage of local populations, they command their local economies.

TABLE 1.2: *The Total and Chinese Populations of Southeast Asia and Taiwan*

	Total Population	Chinese Population	Percentage Chinese
Brunei	374,577	56,186	15.0
Cambodia	13,995,904	300,000[a]	2.1
Indonesia	234,693,997	7,310,000	3.1
Laos	6,521,988	200,000	3.1
Malaysia	24,821,286	5,280,000	21.3
Myanmar	47,373,958	2,000,000	4.2
Philippines	91,077,287	2,200,000	2.4
Singapore	4,553,009	3,496,711	76.8
Thailand	65,068,149	8,323,115	18.2
Vietnam	85,262,356	1,051,734	1.2
Taiwan	22,858,872	22,401,695	98.0
Total	596,601,383	51,413,830	8.6

Notes: Figures are compiled from the U.S. Census Bureau, World Population Estimates and the CIA World Fact Book 2007.
[a] This is a gross estimate due to the predations during the Pol Pot era and poor records in Cambodia.

Table 1.3 sketches the Overseas Chinese communities' economic influence in the Southeast Asian economies. As the table reveals, except in the Chinese-dominated countries the percentage of Gross National Product (GNP) generated by the Overseas Chinese in each country far outstrips the relative proportion of the population. Even in Singapore, a predominantly Chinese country, the percentage of GNP generated by the Overseas Chinese is greater than their share of the population. Historically, many people have recognized the Chinese merchant communities' energy and drive. One of Louis XV's ministers once complained that "what France needs is a touch of the Chinese spirit" (Fernandez-Armesto, 1995, p. 296).

The Overseas Chinese companies are especially important to East Asian economies. In Thailand, Malaysia, Singapore, and Taiwan, the companies and their affiliates that were listed on the stock exchanges accounted for 24.3, 24.9, 39.6 and 56.2 percent, respectively, of these exchanges' total market capitalization in 2002 (Chang, 2006).

TABLE 1.3: *Economic Participation of the Overseas Chinese in Southeast Asian Economies*

Country	Chinese as Percentage of Total Population 2002	Percentage of Gross National Product Generated by Chinese 2002
Brunei[a]	29.3	40.0
Cambodia	2.3	10.0
Indonesia	3.3	10.0
Laos	3.1	9.4
Malaysia	25.7	42.0
Myanmar	4.0	12.0
Philippines	2.8	8.4
Singapore	76.8	81.0
Thailand	11.0	33.0
Vietnam	1.5	4.5
Southeast Asia	5.3	30.0

Note: [a] *In Brunei, Chinese often do not hold citizenship, and businesses are held in partnership with local citizens.*
Source: Table compiled from de Vienne (2004).

De Vienne (2004) argued that those countries in which you find the largest number of Overseas Chinese generating the greatest proportion of national GNP form a direct line from Southern China to the Indian Ocean. This line also represents the maritime leg of the myriad trade routes collectively called the Silk Road and suggests that this leg of the Silk Road was dominated by Chinese traders.

What Is a Network?

Most know that the Overseas Chinese operate in networks; but a common perception erroneously assumes that these networks stem exclusively from clans or families. Strachan (1976) argued that perceptions of loyalty and trust normally associated with family or kinship groups permeate business groups (such as the Overseas Chinese) in contrast to other collections of firms under common financial control. Indeed, trust constitutes the primary factor required for the formation of the networks; hence, members of a familial clan are often preferred members of networks. Granovetter (2005) stated the importance of identifying the axes of solidarity for formation of these business groups. Three other traditional foundations for Overseas Chinese networks are the localities of origin, the dialects or subdialects spoken, and the traditional guilds (though one or a few locality-based groups tend to dominate individual guilds). Increasingly, with the Overseas Chinese companies' growth; the Southeast Asian economies' enhanced complexity; the region's interconnectedness with other, global, economic regions; and more diverse and dispersed investments, simple trust is becoming the primary determinant of who is and is not a member of a network. Here is a summary of the types and bases for the development of Overseas Chinese networks:

Network Type	**Basis for Network**
Clan grouping	By family surname
Locality grouping	By locality of origin in China
Dialect grouping	By dialect or subdialect spoken
Guild grouping	By craft practiced
Trust grouping	By prior experience or recommendation

Ultimately, a "network" constitutes a tool. This tool builds trust, speeds decision making, facilitates high-quality decision making, builds customer satisfaction, and in the final analysis generates competitive advantages for network members. These benefits accrue whether speaking of a network comprising separate and independent companies or executives within the same firms. Ram Charan (1991, p. 49) described networks in this fashion: "Networks are designed to empower managers to talk openly, candidly, and emotionally without fear, to enrich the quality of their decisions, to test each other's motives and build trust, and to encourage them to evaluate problems from the perspective of what is right for the customer and the company rather than from narrow functional or departmental interests." He was referring to internal networks within firms, but he could just as well have been referring to the external networks of the Overseas Chinese. The Overseas Chinese networks serve several functions. They consist of independent individuals of all kinds, businessmen and women from companies with and without ownership links, government bureaucrats, professionals and academics, private investors, and just friends.

On the surface, the Overseas Chinese form classic external networks. However, the networks also display interconnectedness, derived from one of the four traditional bases for network formation listed just above, which transform them into internal networks. An individual has a place within a clan, linguistic, locality, or guild group, and also within the fifth, nontraditional trust group. Thus, the Overseas Chinese networks actually approximate external networks with some characteristics of internal networks.

Charan's categorizations of networks shed light on the Overseas Chinese networks. First, Charan stated: "Networks are designed to empower managers to talk openly, candidly, and emotionally without fear." Family (clan), friendship (locality, linguistic, or guild group), and trust form the building blocks of Overseas Chinese networks. Intense trust in the people with whom one deals enables one to communicate with them "openly, candidly, and emotionally," without fear that what one tells them will be used to one's detriment or future embarrassment. Embarrassment forms a special risk in Chinese societies, which place great emphasis on "face." Thus the networks constitute tools of empowerment for their members. The networks allow their members to discuss important information, and through this discussion generate the best possible decisions for the networks' managers and companies. As later chapters will elaborate, given Asia's business environments, informed decision making is of crucial benefit for members of the networks. In reality, strategic decisions sometimes go wrong, for both networks and non-network-based institutions such as Western multinational corporations. For example, Apple at one time dominated the personal computer industry, fought a valiant rearguard effort once IBM entered the business, but chose the wrong strategy; until Steve Jobs led Apple back to success through innovative new products, it had severe problems maintaining profitability under the old business model. General Motors, still one of the world's greatest manufacturing concerns, is struggling to maintain market share. Its U.S. market share has fallen to 24 percent (Maynard, 2007), and it is presently facing the prospect of seeking government support to avoid bankruptcy. The Overseas Chinese firms have made similar strategic mistakes.

Second, Charan argued that with respect to their members, networks exist "to enrich the quality of their decisions." This refers to the networks' ability to transmit and analyze information that considers the entire set of implications and meanings accompanying the information. Without the richness of openly available and acquirable information that managers can find in Western industrial democracies, information serves as a tremendous competitive advantage to companies operating in Asia. By depending on, and expanding, the ability to acquire information through a network, managers increase their chance of acquiring information that will resolve the business puzzles confronting them, and give them tangible advantage against competitors.

Third, Charan stated that networks exist "to test each other's motives and build trust." Both halves of this statement have crucial importance for the Overseas Chinese networks. For several reasons we consider later in the book, in regard to Chinese culture members need to test trust in the networks. Importantly, trust does not constitute a transferable asset in the Chinese culture; consequently, Chinese business relationships often do not yield personal recommendations and endorsements. If one network member vouches for an outsider, then the network will give the outsider the benefit of the doubt, but only because the endorser assumes responsibility for the outsider's trustworthiness. If the outsider fails the trust placed in him, he jeopardizes his honor as well as the honor and judgment of the individual who vouchsafed him. The endorsing member of the network will lose face and incur debt. Hence, networks' members test motives to build trust to where it can form the sole basis for substantial investment decisions.

Finally, Charan argued that for its members a network can "encourage them to evaluate problems from the perspective of what is right for the customer and the company rather than from narrow functional or departmental interests." Though Overseas Chinese networks incorporate members who own or represent independent entities, this statement still has validity when one replaces the phrase "narrow functional or departmental interests" with "narrow personal or company interests." For an Overseas Chinese network to prosper and continue, all its members participating in a particular business enterprise must benefit from it. Without such mutuality of benefit, essential mutuality of interest and trust cannot exist. The network will collapse in a frenzy of vengeance for true and imagined deceits, and in the network's firms freezing into inaction due to inability to trust their information.

Mutualities of interest and trust increase when the networks consist of groups of people who, for the most part, have common experiences and worldviews, and who have worked successfully together, preferably over an extended period. Most members also use mutuality of interest in another fashion, building a focus for activities that eliminate the need to recheck constantly what other members do in joint projects. This lax surveillance constitutes both a strength and a weakness. However trusted an individual and consistent his or her past behavior, potential gains or costs may tempt the person to break with network partners or to break faith. Because of the high level of implicit trust, the members can initially break faith without being easily detected.

High costs can accrue to such breach of faith, especially if not detected quickly. An example came to light on June 25, 1997, when Thailand's newly appointed finance minister, Thanong Bidaya, went to the Thai central bank with his top three aides and demanded to see its financial records. The collapse of the Thai baht occurred seven days later, when the Thai government was forced to unpeg the baht from the U.S. dollar (Nanto, 1998).

Prior to the crisis, the Thai Finance Ministry had guaranteed the Thai banks and financial institutions' financial creditworthiness. As some Thai institutions' creditworthiness became suspect owing to an increasingly high level of debt to foreign lenders, the ministry reiterated guarantees to calm local markets, foreign lenders, and currency speculators. To ensure its ability to honor guarantees, the Finance Ministry requested confirmation from the Thai Central Bank on the foreign currency reserves that the bank held for the Thai government. The ministry, under Thanong's predecessor, Amnuay Viravan, could not get a response. Finally, Thailand's prime minister, Chavalit Yongchaiyudh, lost patience and appointed Thanong, president of the Thai Military Bank, as the new minister of finance.

When he took office, Thanong and his three top aides in the ministry immediately went to the currency office and personally inspected the bank's books. What they found exceeded their worst nightmares. Reported reserves should have covered almost 60 days of Thai imports; in actuality, they could cover only two days' imports. The Central Bank's chief currency trader had tied up most of its currency reserves in forward contracts. Additionally, the Central Bank had already lent more than US$8 billion to struggling Thai banks and finance companies. The largest Thai finance company, Finance One, was on the ropes and teetering badly even after having already received more than US$1.4 billion in government loans. With no more funds to lend, the Finance Ministry informed Finance One and select news media that funds had dried up. The same message went out to 15 other troubled financial institutions.

The Central Bank's officers had not reported the true state of affairs six months earlier to the government and public because the officers would have lost face. When the ministry's call for confirmation of foreign currency holdings arrived, the Central Bank's officers could not bear the embarrassment of admitting their losses, and they simply refused to respond. Once the new finance minister came and inspected the books personally, the jig was up. He transmitted his findings to the government. The revelations shattered the Thai people's confidence, as well as that of local and foreign investors, leading to collapse of the Thai economy and financial markets and eventually to the East Asian currency and financial crisis.

Although Charan adequately presented the network organization's benefits, there are important flaws in his thesis. As Charan stated (p. 52), "Companies don't build networks so that managers will 'like' or behave like 'family.'" In truth, companies don't build networks at all; *people do*. Companies can build teams, and teams can prove enormously effective management tools, but teams are not networks. Companies can also create environments to formally recognize networks and encourage them to flourish, and by so doing, use networks to accomplish the companies' goals and objectives.

In actuality, networks have always existed within companies, whether in Asia, Africa, Europe, or the Americas. There have historically been informal networks of individual executives and blue-collar employees (usually composed exclusively of one or the other type of employee). These networks generally consisted of friends and associates within the companies and most frequently formed informal communications networks that more than rivaled the companies' own formal communications networks in efficiency and influence. As the networks created informal and unrecognized structures, companies rarely used them deliberately in their plans. In fact, if the companies adopted policies that network members perceived as seriously detrimental to the interests of one, a few, or all the networks' members, the networks would frequently move to frustrate senior management plans and goals. The key elements in these networks' development, however, involved a perceived mutuality of interest, trust, and if not friendship, then some reciprocal respect. Companies cannot build networks because they cannot mandate creation of trust, friendship, or respect. As noted earlier, companies may build teams, and within teams networks may arise. However, teams cease to exist once companies decide to use team members for other projects and reassign them. Networks appear much more permanent; they continue after projects end. Networks also serve their own purposes when team members are formally working together, and beyond.

This discussion of the Overseas Chinese networks emphasizing personal trust and facilitation of transactions between limited numbers of favored individuals and companies may seem to approximate the *Godfather* trilogy of movies. However, the Overseas Chinese networks are not criminal organizations, just people who historically could rely on no one but themselves, or on no organizations or institutions but their own.

In our earlier historical discussion of the various Chinese governments' isolationist tendencies, we indicated that the networks maintained China's international trade presence; and the networks, through their contacts, knowledge, and information, frustrated the central governments' attempts to cut China off from the world entirely. The networks played a similar role in the communist era. In a different way, although the present Chinese government has a definitely internationalist orientation, the networks are playing a comparable role today.

NETWORKS IN HISTORY

A Partial List of Networks That Have Influenced Business over Time

The Overseas Chinese networks forming the subject of this book have received much media attention and greatly influenced Southeast and East Asia's economic and business development. Yet they form only one of myriad networks. Networks have existed throughout history. We present here some prominent past- and present-day networks.

- **Overseas Indian networks.** The Overseas Indian networks are a growing force in Southeast Asia and elsewhere. They show many of the same managerial traits as the Overseas Chinese with a slightly greater tendency to depend on family members and friends as the source of their network partners. Indian networks also tend to have less diversified investments than the Overseas Chinese.
- **Hispanic *grupos.*** The Hispanic *grupos* are competent and fierce competitors. They develop through family and friendship ties. The *grupo* usually centers on a major enterprise. Growth appears diversified, but it usually follows some form of backward or forward expansion up or down a value chain. Once the *grupo* builds two or more companies of substantial size, the companies may spin off. The famous Monterrey Group of companies in Mexico represents just such a pattern among its component *grupos*.
- **The old school tie.** Though possibly losing influence, school tie networks have played a tremendous role in economic and business development in the United Kingdom and United States. Most premier university programs in the two countries offered (and still do) more than just a good education. The universities offer ways to meet and build bonds of friendship and trust with other members of society with the education, training, and mutuality of interests to advance the national economies without seriously endangering the social status quo. As education within these countries improves and becomes more generally available to the masses, and as the two countries continue to push globalization, the school tie networks have proven their effectiveness but have also become weaker within their home country.
- **Japanese inter- and intra-firm networks.** Most Western businessmen and women have heard of the inter-firm

Japanese networks, the *Keiretsu*. These organizations have proven ferocious competitors in the international arena. Despite present difficulties in the Japanese economy, the best of the nontraditional *Keiretsus*, formed around companies such as Sony, Toyota, and Honda, continue with strategies to maintain their competitive position regardless of governmental actions. Many readers may not know that several of the major Japanese companies also promote creation of class-based (*class* referring to the graduation year in which the executive was hired) networks within their managerial group. The companies encourage creation of these networks by not promoting individuals in the early years of their career, instead promoting entire classes at once. Thus, with the promotion of any one individual depending on the success of all, the individuals have an incentive to work together.

- **Criminal networks.** Criminal networks exist in all societies and countries. They have irretrievably negative effects and represent a substantial tax on legitimate businesses.
- **Secret societies.** Secret societies, influential throughout the history of the Overseas Chinese, also constitute networks and exist in all societies and nations. The Masonic Order and Magnus Dei are two particularly influential secret societies in Western countries.
- **The Greek *phylae* and *phratry*.** Greek society consisted of *phylae*, or familial clan groups, and their component parts, as well as *phratry*, or groups of allied clans. As the population of Athens grew, the city expanded its four original phylae to 10.
- **The Roman *clientela*.** A vast *clientela* ruled the West's most centrally controlled ancient empire, Rome. In the

clientela system, clients allied themselves to patrons in a pyramid of patronage, each with an influential senatorial family at the apex. The clients pledged their support for their patrons' political and military ambitions, in return for favors. At the height of the Roman Empire, these networks extended throughout Europe, Asia Minor, and North Africa.

- **Islamic clans.** The Western concept of nationhood did not exist in the early Islamic period. The early Arabian empires centered in Damascus, and later in Baghdad and Cordoba, drew on personal loyalty on the part of networks of individuals and clans, owed to increasingly fewer and more influential Islamic clans and individuals, until finally reaching the central focus of the royal family, the caliph, and a few other individuals as well as clans strong enough to challenge the caliph and his allies.
- **The feudal system.** The feudal system of Europe formed one of the most successful network systems of all time. It maintained and enhanced European civilization through difficult periods with a substantial degree of uncertainty and danger, and significant chances that European society as a whole would collapse entirely.

Source: From Haley, Haley, and Tan (2004).

Next, we discuss the role of the Overseas Chinese in Southeast Asia and the world economy. In Chapter 3, we will compare the two preeminent Oriental Asian cultures of China and Japan to understand better the origins of the Chinese business culture and see why the networks, which thwarted the central Chinese authorities' wishes, never seriously challenged Japanese central authorities.

The Role of the Overseas Chinese in Southeast Asia

As we have noted, the Overseas Chinese play a substantial economic role in Southeast Asia. This role goes significantly beyond the numbers in Table 1.3. The Overseas Chinese serve as facilitators for much of the flow of trade and investment in Southeast Asia. Through their traditionally high savings rate and financial institutions, the Overseas Chinese contribute the capital that funds investment and growth; through their distribution channels and retail institutions, they provide the goods that satisfy the needs and wants of local populations; through their philanthropy and social organizations they generate the very limited safety nets that the poor in Southeast Asia have; and through philosophical, social, and cultural organizations, transmitted for centuries through migrants from China, they have helped to render cohesion and social structures for the people of Southeast Asia to successfully withstand the onslaught of colonial cultures and maintain their cultural identity. We now proceed to consider these issues in greater detail.

The Overseas Chinese maintain one of the highest savings rates in the world. Because of their history, the Overseas Chinese believe in two basic strategies. First, they keep a significantly larger proportion of their capital in liquid form than most would consider desirable in the West. Second, they have historically believed in spreading their investments widely, making sure that the loss of any single investment will not severely damage their financial position. Their high savings generally ensure that well-managed financial institutions can withstand even the worst economic periods. Today, there are substantial concerns about the severe weakness of Asian financial institutions from Japan and China. Yet despite the problems that have beset the region over the years and decades, banks from Taiwan, Hong Kong, and Singapore have maintained their economic strength and not only survived but prospered.

Though not consistently throughout the region, the Overseas Chinese prefer to maintain control over distribution of their goods.

Perhaps this practice originates through their historical role in trade and distribution of goods; regardless of the reason, most goods sold in Southeast Asia go through the hands of Overseas Chinese intermediaries at some time in their passage between manufacturer and end user. Hence, because of the lack of market data in the region, the Overseas Chinese merchants of the region define, to a great extent, the perceived needs and wants of the region's markets.

Philanthropy is one of the basic tenets of Confucianism. Successful people have a duty to provide charitable contributions of goods, services, and cash. Throughout Southeast Asian countries, one encounters hospitals funded primarily through Chinese social organization contributions, free and subsidized food and medications distributed by Chinese merchants and associations during periods of severe economic dislocation (as happened in Indonesia during the difficulties of 1997 and 1998), and various other kinds of charitable activity. In the 1950s, Chinese societies all over Asia contributed to founding a Chinese university, Nanyang University in Singapore. Special efforts are made to relieve the suffering of the elderly, for whom the Chinese have deep respect.

As we noted previously, many waves of Chinese immigrants entered Southeast Asia over the centuries. Myriad other influences have also merged together to form local Southeast Asian cultures. If one considers the situation found in Malaysia, the truth of Southeast Asia becomes evident. The Overseas Chinese make up a substantial minority population of about 24 percent. The government and the majority of citizens consider Malaysia an Islamic country, yet the government permits the Chinese population to send their children to Chinese schools (though it does so under increasingly stringent limitations). Side-by-side with Islamic mosques, one finds Chinese and Hindu temples, and Malay, Chinese, and Indian (another substantial minority) social organizations inextricably intertwined in providing services to the Malaysian populace. The Chinese philosophical, social, and cultural organizations did not solely impart the cohesion and social structures that enabled the Southeast Asian people to withstand colonial onslaughts and maintain their cultural identities; yet they exercised at least as much influence as any other Asian culture and institution in doing so.

WU PING-CHIEN (THE GREAT OFFICIAL)

Ideal of the Chinese Merchant Class

WU PING-CHIEN, better known as Howqua (Chinese for the Great Official), was probably the richest man in the world during a time of true financial giants. He prospered during a period of time when the Astors and Rothschilds dominated, and Jim Bowie was the largest private land holder in the known world. During the first half of the 19th century, Howqua controlled the greatest part of all the world's trade with China. Because China would not permit importation of any bulk items from other countries, traders came to Howqua with silver and gold.

He had a reputation for scrupulous honesty and tremendous generosity. When American traders with whom he had conducted business in the past offered him promissory notes, he tore them up and reminded them that he knew them as honest men. If prices for goods he was purchasing rose after the signing of a contract, he paid the new, higher price. He fought valiantly and, in the end, futilely, to stop the British from smuggling opium into China. He paid a substantial portion of the reparations China was forced to incur after the Opium Wars—out of his own pocket, after already having paid for the improvement of Chinese fortifications before the war. He paid for a thousand and one public benefits and infrastructural improvements in Canton, his home province, and through all this, he suffered the persecution and ridicule of the Chinese bureaucracy's Confucian mandarins. The mandarins falsely charged his son with opium smuggling and gave Ping-Chien the nickname Howqua, or Great Official. The title served as a prestigious honorific for a bureaucrat, but only as mockery for Ping-Chien, a member of the merchant class (the lowest of Chinese social classes).

Ultimately, of all the great officials of China in the last century, history remembers only Howqua, the greatest of the Chinese merchants. His portraits hang in many places, including the East India Hall of Fame in Salem, Massachusetts, where one may see the portrait shown in Figure 1.2.

FIGURE 1.2: *Wu Ping-Chen (Howqua, or Great official)*

Source: This portrait of Howqua resides in the East India Hall of Fame in Salem, Massachusetts. (From Haley, Haley, and Tan, 2004).

The Role of the Overseas Chinese Worldwide

The Overseas Chinese play a large and ever-widening role in the international arena. Among the brands of Overseas Chinese companies, one finds such names as Acer Computers, the largest presence in the computer industry of any company headquartered outside the U.S. or Japan; Creative Technology, which holds dominant market share in the computer sound-card industry with its Sound Blaster brand; San Miguel Beer from the Philippines; Tiger Medical, makers of Tiger Balm; several banking concerns, such as United Overseas Bank, Overseas Chinese Banking Corporation, Hong Leong Bank, and Dao Heng Bank; hotel and resort properties, such as Shangri-La Hotels; industrial concerns such as Formosa Plastics; and even some Chinese companies engaged in overseas trading, the business that created the wealth of the great Overseas Chinese companies, such as Kuok Brothers, which at one time controlled 10 percent of the world's sugar trade, and Li & Fung.

The Overseas Chinese role in international trade, however, goes beyond the companies they personally control. The Overseas Chinese form a tremendous conduit between Western companies and the liberalizing, formerly communist countries of Asia. Through their contacts within the governments of these countries, and their networks within those countries, they frequently facilitate investments that could languish from a clash of cultures or lack of knowledge. Examples of such an occurrence happened when Daimler-Benz asked the government of Singapore to intercede on its behalf in 1996 with the government of Vietnam (Kraar and Woods, 1996), and when Coke brought Robert Kuok in as a partner in its Chinese investments to help make them profitable. In Vietnam, Daimler-Benz was stuck with a significant sunk cost in an investment that had stalled for an extended period of time. The Singaporean government, thanks to its "Singapore, Inc." self-image as middleman to the world (as described in Haley, Low, and Toh, 1996), actually constitutes one of the great

Overseas Chinese enterprises (see Tsui-Auch, 2006). Soon after that request, Singapore's Senior Minister Lee Kwan Yew visited Vietnam and got the investment back on track for Daimler-Benz.

Following Chapters

In succeeding chapters, we present a short discussion of Confucianism, its centrality to Chinese culture and life, and its impact on traditional Chinese business philosophy and practice. We then discuss how the history of the Overseas Chinese has combined with Confucianism and the environment to mold the people one meets and does business with today. In the process, we describe the present strategic decision-making environment in Asia, and its evolution. Next, we describe the decision making of the Overseas Chinese. Though many say the Overseas Chinese do no strategic planning, we explain the basic concepts and philosophy that underlie their decision making, demonstrating its similarity to well-accepted Western conceptualizations of strategic planning. We conclude by discussing the implications of the Overseas Chinese model of planning for their strategic partners (and competitors). In doing so, we present the views on strategic planning and decision making held by some of the most influential and private of the New Asian Emperors, together with those of leading members of the next generation.