Not always loved—and at times brutally persecuted—Asia's ethnic Chinese are enriching themselves and everyone else in their adopted homelands. The biggest potential beneficiary of their dynamism: China.

The bamboo network

By Andrew Tanzer

LIKE ISRAEL, but on a far larger scale, China is benefiting mightily from the talent, wealth and connections of the children of its diaspora. Dhanin Chearavanont, a second-generation Thai of Chinese descent, is one of the wealthiest men in the world, his food, manufacturing, telecommunications and real estate interests worth by FORBES' estimate over $5 billion. Since China first opened to foreign investment in 1979, Dhanin has poured investment money into the land from which his father, who began as a small shopkeeper, emigrated around 1921.

"I saw that they were moving away from communism and couldn't go back," explains Dhanin. Today his Sino-Thai empire, the Charoen Pokphand Group, operates over 75 animal feed mills across China, breeds 5 million day-old chicks a week there, is China's second leading motorcycle maker and is investing in a $1 billion real estate development in Pudong, Shanghai's showcase economic zone.

For all his wealth Dhanin is only a trickle in a flood. Robert Kuok, the Malaysian billionaire, has already committed $1 billion to investments in the country his shopkeeper and commodity trader father left early this century. Known throughout Southeast Asia as "The Sugar King," Kuok is involved in hotels, office buildings, shopping centers and Coca-Cola bottling plants in China.

Liem Sioe Liong emigrated as a young man in the 1930s from Fujian to Indonesia to work with his uncle in the peanut oil trade. "Uncle Liem," now 78, controls Salim Group, Indonesia's largest conglomerate (estimated sales, $9 billion). He is pouring money into a vast industrial zone and seaport in his native Fujian.

Companies controlled by Hong Kong's Li Ka-shing, the legendary plastic-flowers-to-property multibillionaire immigrant from Guangdong, are involved in billions of dollars of projects in China, including property and port developments.

Unlike many developing countries that depend chiefly on foreign capital and foreign know-how, China has a native supply. It is repatriating talent it once lost for lack of opportunity at home. From Hong Kong to Jakarta, Taipei to Singapore, Bangkok to Kua-

The Bangkok seed shop (circa 1921) started by Dhanin Chearavanont's father after emigrating from China; Chearavanont today

From the shop has grown Charoen Pokphand Group, a vast agribusiness empire stretching from Bangkok to Hong Kong to Jakarta—and now back to the land of Chearavanont's ancestors.

la Lumpur, overseas Chinese are the driving force behind economic development surrounding the South China Sea through their informal business networks. New tendrils are shooting across the Pacific and taking root in Vancouver, Seattle, Los Angeles.

This economy without borders is simply the most dynamic force for economic change in the world. There are an estimated 57 million overseas Chinese, 53 million of them living in Asia, including Taiwan, Hong Kong and Macau. This vast, geographically dispersed community is accumulating wealth at a furious pace and generates an annual economic output of more than $500 billion—equivalent to the gross national product of mainland China itself. This overseas Chinese national product is compounding at 7% to 10% a year.

Numerically and economically, ethnic Chinese control affluent Hong Kong, Taiwan and Singapore, whose combined foreign reserves of $180 billion are equal to that of Japan and Germany together. In each Southeast Asian country, the overseas Chinese share of the private sector is far in excess of their population.

In Indonesia, where ethnic Chinese make up 3% or 4% of the population, overseas Chinese own an estimated 70% of private domestic capital and run more than 160 of the 200 largest businesses. In Thailand ethnic Chinese account for about 10% of the population but control all four of the largest private banks, including Bangkok Bank, the largest bank in the region. Bangkok Bank, a key lender to the region's overseas Chinese community, is controlled by the Sophonpanich family, whose net worth exceeds $2 billion *(see p. 176)*. Ethnic Chinese—not the Japanese—are also the largest cross-border investors in Thailand, Malaysia, Indonesia, the Philippines and Vietnam.

None of this makes the Chinese popular. Enterprising minorities are a handy target for demagogues everywhere and in every era—whether Koreans in the black districts of Los Angeles, Jews in Europe or Indians in Africa. Many of the worst outrages against prosperous minorities abroad were perpetrated by nationalistic regimes of both the right and left wings.

In 1965 tens of thousands of ethnic Chinese were murdered in Indonesia following an abortive communist coup. After the Vietnam War ended in 1975 and the communists took over the south, hundreds of thousands of ethnic Chinese were purged and fled the country.

Ethnic riots erupted in Kuala Lumpur in 1969. Since the early 1970s the Malaysian government has codified discrimination with quotas—there, too, prettified as affirmative action—for the Malay majority, guaranteeing them places in universities and share ownership. The paranoid idiocy continues. Indonesia bans Chinese schools and the Chinese written language in public places and requires ethnic Chinese to take Indonesian names. This April labor unrest in Medan, one of Indonesia's largest cities, erupted into an anti-Chinese riot. A

AP

AP/Wide World

Anti-Chinese mob rule
TOP: **In Medan, Indonesia in April, mobs sacked Chinese-owned businesses and beat a factory owner to death.** BELOW: **The face of Indonesia's anti-Chinese discrimination in 1967.**

Chinese factory owner was dragged from his car and beaten to death by the mob. By contrast, in tolerant Buddhist Thailand, overseas Chinese are relatively well assimilated.

What the demagogues stubbornly ignore is that the less prosperous reap enormous benefits from the energy, drive, intelligence and capital that these clever immigrants of Chinese descent bring. It is quite literally true that what is good for the Chinese of Southeast Asia is even better for the indigenous races and cultures. Without the fresh, yes foreign, attitudes that the Chinese brought, these societies could never have developed to their present levels of prosperity. Over a long period of time these attitudes will become diffused through the entire society. Until then the Chinese will remain economic leaders.

Studying all this should make anyone but doctrinaire left-wingers understand that "exploitation" has nothing to do with the case. As Thomas Sowell has often pointed out, the success of these minorities in adopted lands makes laughable the theory that poverty begets poverty and only governments can help "disadvantaged" people. No one could have been more disadvantaged at the start than the overseas Chinese who migrated as peasants in the late 19th and early 20th century, desperately poor, uneducated in most cases and employed as coolies and farm laborers, often indentured to plantation owners. They rose in society because they brought habits, values and attitudes those societies so badly needed.

Culture, not politics, best explains the rise of the overseas Chinese. In all of these different environments overseas Chinese display strong self-reliance and the Confucian virtues of thrift, discipline, industriousness, family cohesion and reverence for education. They build family enterprises with low debt levels. Social and political insecurity partially explains their obsession with money, but they are also driven to accumulate wealth to perpetuate and enhance the family lineage, which many Chinese can trace back for centuries.

Singapore-born Linda Lim, director of the Southeast Asia Business Program at the University of Michigan's business school, explains this Confucian concept: "The Chinese family is vertical, patriarchal, with obligations to ancestors and to future generations. It never ends. Traditionally, you must always maximize achievement to glorify your ancestors and accumulate wealth for your descendants. It's an obligation to your lineage."

Others may differ in their explanation of the cultural differences that made the Chinese carriers of capitalism and economic development, but whatever the theory, the present-day fact is very clear: It is now China's turn to benefit from the talents it once rejected. Overseas Chinese are kick-starting the mother of all emerging markets. Since Deng Xiaoping launched his economic open-door policy a decade and a half ago, overseas Chinese have invested more than $50 billion in the motherland, accounting for about 80% of all foreign investment and helping to keep the country's debt service ratio to an unusually low level for a high-growth developing economy.

Overseas Chinese have formed more than 100,000 joint ventures in China, building export industries, bringing in valuable management skills and technology and providing international connections. "That's the biggest business school for managers ever created in the world," quips William Overholt, Hong Kong-based executive director of Bankers Trust Co. and author of *The Rise of China: How Economic Reform is Creating a New Superpower.*

The world can, if the world wishes, learn a valuable lesson here. Begin by asking an obvious question: If the Chinese were the carriers of industrial and commercial revolution, why did economic progress so long pass China by? Why did the country remain weak and barely able to feed its huge population until almost yesterday?

The answer is obvious: bad government policy. Government cannot create prosperity, but it can create conditions under which a society's energy

Photographs by Peter Charlesworth/SABA

Scenes of the thriving Chinese community in Penang, Malaysia
The Chinese immigrated after the English arrived in 1786 and, to break the Dutch trade monopoly, declared it a duty-free port.

and talents can flower.

In fleeing their homeland for lands that were then ruled by colonial powers, the Chinese merchants and coolies-turned-merchants were leaving the hostile environment of a Confucian social hierarchy imposed by the imperial court that placed merchants on the bottom rung. Merchants were taxed arbitrarily, treated with suspicion and as inferiors by the mandarins and suppressed by the bureaucratic state, which frequently banned foreign trade by the merchants as a corrupting influence. Wang Gungwu, vice chancellor of the University of Hong Kong and a leading scholar of the overseas Chinese, argues that Mao Zedong's Marxism in effect replaced Confucianism: The state reviled capitalists until the 1980s, when Deng opened up the country for business. So the overseas Chinese are bringing home talents that were suppressed at home for centuries.

Consider the conditions under which waves of peasants, unskilled urban workers and petty shopkeepers, these "underprivileged" masses, migrated from Guangdong and Fujian to Southeast Asia from the mid-19th century. At home there was hunger, civil disorder and oppression by the mandarin elite. Abroad, European colonialism was kicking into high gear and the industrial revolution spurred demand for raw materials such as tin and, later, cash crops like rubber and palm oil. African slavery had been abolished everywhere by the mid-19th century, and so the coolie system—contract labor—rose up, supplying Chinese labor to build railroads in North America, and to work in the mines and plantations of the Caribbean, South America and Southeast Asia. Singapore soon became a transshipment port for coolies bound for the mines and plantations of the Malay States and the Dutch East Indies.

Why did they leave home? Millions were driven out by want. The Manchu dynasty was decaying, the country's social fabric and economy crumbling. Immigration to points in Southeast Asia wasn't random: Chain migration brought relatives and neighbors from the same villages in China. In a typical small village in Guangdong or Fujian, nearly everyone had the same surname and traced common ancestry. Many of the laborers returned to China after completing years of work, but many others stayed, saved their pennies, lived frugally and used their modest capital to open shops or stalls.

In starting businesses, Chinese were typically helped by the clan or mutual help associations they formed everywhere they went. Still important today in Southeast Asia and in Hong Kong, these associations are typically based on family, clan, native locality or dialect, such as Cantonese, Hakka, Hokkien or Chiu Chow.

These associations have acted rather like banks through which Chinese could borrow money, trade information, recruit workers and receive business introductions, even overseas. They help enforce the handshake deals on which much of Chinese business is based. If a businessman violates an agreement, he doesn't get sued, he gets blacklisted—which is far worse. "If you don't honor your commitment, the whole Chinese network will know and you're finished," remarks David Li, chief executive of Hong Kong's Bank of East Asia.

Kraipit Phanvut/Sipa

Kraipit Phanvut/Sipa

Overseas Chinese in Bangkok, Thailand
Relatively well assimilated, they control the four largest private banks, including Bangkok Bank.

John McDermott

There exists a vast web of interlinked, cooperative Chinese firms across Asia, all held together by verbal agreements and trust. Families introduce each other into their networks, have multiple partners, trade deals, share risk and reward. Firms can be both highly competitive and collaborative at the same time, depending on circumstances. A man may be your bitter rival, but a deal is a deal.

Forming partnerships, making deals, is no casual affair. David Ch'ng, convener of international marketing at Australia's Swinburne University of Technology, breaks down the typical networking process into three stages: economic, socioeconomic, familial. In the first stage business is trivial and often done on a contract basis—the partners are feeling each other out. To reach the second stage may take a year or two and typically involves banquets, rounds of golf and mutual factory visits.

To reach the familial stage may take five to ten years, says Ch'ng. Partners are now effectively part of the same extended family and may address each other as brother or uncle. Relations may be cemented by marriage. Nearly all the first-generation tycoons, such as Indonesia's Liem, Malaysia's Kuok and Hong Kong's Li Ka-shing, have the same image: trustworthy, loyal, humble, gentlemanly, skilled at networking and willing to leave something on the table for partners.

It is these informal Chinese networks, rarely contractual in nature and rarely put on paper, that create what our cover describes as "China Without Boundaries." "National boundaries are breaking down, and the overseas Chinese don't leave their business culture whether they're sitting in Bangkok or Taipei or Jakarta," says S. Gordon Redding, director of the University of Hong Kong Business School and author of *The Spirit of Chinese Capitalism*.

By the late 19th century there were wealthy overseas Chinese businessmen in Southeast Asia, such as commodity traders and tin mine owners. The father of the Republic of China, Sun Yat-sen, raised money from overseas Chinese communities for his revolution that overthrew the Qing Dynasty in 1911.

Middlemen under the region's colonial powers, the Chinese businessmen became principals after the Western powers departed following World War II. In Malaysia, Chinese bought shares in some formerly English-owned companies. In the 1960s and 1970s, when Japanese and Western multinationals invested in the region, they often teamed with ethnic Chinese entrepreneurs. Why? Because they found these business people had the knowledge, capital and contacts they needed to operate in an utterly—to them—foreign culture.

"Successful Chinese entrepreneurs are always good at building personal relationships with those in power," maintains Wong Siu-lun, professor of sociology at the University of Hong Kong. "They don't capture the palaces, but they're skilled at getting political protection and building symbiotic relationships."

A classic case of building on personal relationships is Indonesia's Liem Sioe Liong, who supplied food and provisions and befriended Suharto during the war of independence from the Dutch in the 1940s. After Suharto became president in 1967, Liem was able to build his empire largely based on concessions in industries like flour and cement. Today several of Suharto's relatives are involved in ventures with Liem's Salim Group companies.

Corruption? Conflict of interest? In today's American sense, yes, but these are societies where business is done on the basis of personal connections.

In the overseas Chinese world, family enterprise is the basic economic unit. The family is the company, the company is the family. There is no separation between owner and management. The company is tightly controlled by the patriarch, and management positions are traditionally entrusted only to family members; the concept of outside professional management is new and not fully developed. Most company founders prefer incompetent relatives to competent outside professionals, with the result that Chinese companies sometimes go bust. Two years ago Indonesia's second-largest conglomerate, Astra, controlled by an ethnic Chinese family, came crashing down because of a bank collapse attributed to the incompetence of the eldest son.

Even big publicly traded companies and the largest Chinese groups, such as Y.C. Wang's Formosa Plastics and Li Ka-shing's Cheung Kong Group, are closely run by the paternalistic founders and their children. Thus Chinese entrepreneurs tend to excel in businesses with simple organizational structures that can be run by a single decision maker and where fast response time is important.

The current center of the overseas Chinese economy is Hong Kong, with its low taxes, absence of exchange controls and anonymous capital movements. Many overseas Chinese groups list units on the Hong Kong stock exchange, raise funds there and even run their international operations from the crown colony. Robert Kuok moved his domicile to Hong Kong in the 1970s, while a son tends the vast Kuok Group's Malaysia and Singapore operations. Dhanin Chearavanont's brother Sumet is in Hong Kong to oversee Charoen Pokphand's huge China business.

But Hong Kong is in a sense just a waiting room. "China is like this big magnet drawing overseas Chinese in, with their knowledge and capital," says John Kao, a senior lecturer at Harvard Business School. While many overseas Chinese may voice a patriotic duty to invest in their ancestral home, the main motive is profit.

The first stop for overseas Chinese when they "return to replant roots" is their ancestral village, which holds the family identity, so important still. Wealthy Chinese typically revive links with the native village and demonstrate Confucian respect for familial and clan ties by an act of benevolence, such as building a school or hospital. The donations often have a practical element, too, in building relations with village elders that may later pave the way for business investments.

The overseas Chinese networks are rapidly tapping into coastal China for comparative advantage. For example, Grande Holdings, a big Hong Kong-listed electronics maker, produces an increasing ratio of its computer monitors and audio equipment in China's Guangdong province, and conducts R&D in Taiwan and finance and marketing at Hong Kong headquarters.

Carriers of prosperity

THERE HAVE BEEN permanent Chinese communities in Southeast Asia for more than 500 years, the early enclaves made up mostly of traders from the two southern coastal provinces of Guangdong and Fujian. When the European colonial powers brought economic development to the area and linked the economies to the West, the Chinese merchants both benefited from and helped along this early-stage development. Wang Gungwu, vice chancellor of the University of Hong Kong and a leading scholar of the overseas Chinese, says: "Many of the Chinese were restless entrepreneurs who moved from port to port in search of opportunity. From 1800 onwards, Chinese trade followed European flags."

By the 17th century Chinese were trading all over the South China Sea with the Portuguese, Spanish and Dutch, as well as with the indigenous societies. A large Hokkien Chinese community grew up in Manila, after the Philippines was colonized by the Spanish, to serve the silk-for-silver trade between China and Acapulco, Mexico. Taiwan was settled in the 17th century by Chinese merchants, under Dutch encouragement, for China-Japan trade. As the Dutch expanded over the vast Malay archipelago from the 1600s, they realized they needed more skilled labor to run the economy. They turned to the Chinese and encouraged immigration.

Thus human resources that lacked opportunity at home were put to use abroad by the colonialists. Yet another example of people doing good to others by pursuing their own interests. "As outsiders, Chinese were ideal middlemen," explains Christopher Gray, vice president of ChinaVest Ltd., a Hong Kong-based private equity firm. "They weren't part of the traditional economy or part of the Western system, but they could relate to both." The similarity to Europe's Jewish merchants is striking. The Chinese didn't own agricultural land in the Dutch East Indies, but they quickly became wholesalers, retailers, commodity processors and agricultural lenders.

In 1786 the English East India Co. settled Penang and, in 1819, opened up the port of Singapore. To break the Dutch trading monopoly in the Malay archipelago, the English declared both harbors duty-free ports. Chinese merchants responded quickly; both islands still have large Chinese majorities today. Chinese labor was economically vital to the Malay States.

Sometimes accused of exploiting the native populations and of serving European colonial interests, the overseas Chinese have finally come into their own—an economic asset for their ancient homeland and for their adopted homelands as well.

–A.T.

The smartest of the Western multinationals are learning how to tap into and exploit these Chinese networks. McDonald's, for example, teamed up with its Hong Kong partner when it moved into southern China in 1990. From the mid-1980s Nike encouraged its Taiwanese footwear subcontractors to move production to China to cut costs. Today all eight of the factories producing Nike shoes in China are Taiwanese owned and managed, with most of the raw materials and machinery shipped from Taiwan to Guangdong and Fujian provinces through Hong Kong.

Are there limits to Chinese family-based enterprises? Yes. While there are exceptions, the emphasis on keeping ownership and management within the family tends to limit the size and complexity to which a Chinese firm can grow. Scan the profiles of Asian billionaires that begin on page 158, and you'll quickly see that the fortunes of the ethnic Chinese on the list are typically based on property, trading, shipping, hotels, textiles and toys.

With the exception of Taiwan, the overseas Chinese have generally avoided complex, capital-intensive industries like cars, steel and high technology, which require long-term investments and R&D. They have shunned complex service industries and international brand-name development, which require integrated and decentralized decision making. There is no Chinese equivalent of Sony or Procter & Gamble, complex, decentralized organizations.

Accordingly, one of the biggest problems for Chinese entrepreneurs is continuity. A Chinese saying holds that wealth doesn't survive three generations. The second generation typically holds fancy engineering or business management degrees from U.S. universities—witness to their brain power but not necessarily the best training for building a business.

So there's a paradox. Family ties are at once the strength of Chinese business and the weakness. But for the foreseeable future, the opportunities are so great and capital and technology in such demand that China Without Boundaries is on its way to ranking among the world's great economic powers. ■

Big players

Liem Sioe Liong

Net worth $3 billion

Liem Sioe Liong, 78, arrived in central Java from southern China in the late 1930s, toiled with a brother. Break came during the nationalist guerrilla warfare against the Dutch ruling power. Liem tapped his rural trading networks to supply the rebels with food, clothing, medicine and perhaps arms. In the process he developed close ties with an ambitious young lieutenant colonel named Suharto.

Liem and Suharto were already business partners when Suharto tossed out the high-living leftist dictator Sukarno in 1965. From that point on it was roses all the way for Liem. He was given monopolies on the import of cloves from Madagascar and Zanzibar, followed by exclusive rights for flour milling and a virtual monopoly on cement.

AFP

Liem Sioe Liong
Indonesia's richest, most connected.

Indonesia's Muslim majority often resents the hard-working and successful Chinese minority; Liem adopted an Indonesian name, Sudono Salim, and calls his main holding company Salim Group.

With unconsolidated sales of more than $9 billion, Jakarta-headquartered Salim Group accounts for an estimated 5% of Indonesia's gross domestic product. One of his companies, cement maker Indocement, is the largest publicly listed company on the Jakarta Stock Exchange, with a market cap of $4.8 billion. Another, Indofood, is the world's biggest producer of instant noodles and will soon be taken public.

Salim Group has interests in Africa, Europe and America, but Asia is the home front. In Asia Liem participates in the overseas Chinese Bamboo Network *(see story)* in joint ventures with Thailand's agribusiness billionaire Dhanin Chearavanont, Malaysia's Robert Kuok and other ethnic Chinese billionaires.

On this year's agenda for Liem: developing with Kuok a huge hotel and golfing resort on one of Indonesia's islands, bidding for Southeast Asia's largest integrated pulp and paper firm in the Philippines and setting up a $400 million cement factory in Wuhan, China.

Robert Kuok

Net worth $2.1 billion

Eric Ambler didn't write the story of Robert Kuok, 71, but he could have. Kuok's father arrived in Malaysia from China in 1911, opened a grocery store and eventually became a commodities trader. Robert was born in 1923 and went into commodities trading as well, but in 1952 the whole family fled to London after Robert's brother was killed by government security forces in the Malay jungle. The exile ended in the late 1950s, when Robert Kuok returned to Malaysia and established Malayan Sugar Manufacturing Co. Kuok set up sugar cane plantations and sugar mills in Malaysia and Thailand. In partnership with another ethnic Chinese businessman, Indonesian billionaire Liem Sioe (Uncle Liem) Liong, he grew and refined sugar in Indonesia. By the 1970s