



# Book Asian Godfathers

## Money and Power in Hong Kong and Southeast Asia

Joe Studwell  
Profile Books, 2007  
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### Recommendation

The Western world views the economies of Southeast Asia as “Asian tigers,” and sees Hong Kong, Malaysia, Singapore, Indonesia, Thailand and the Philippines as hubs of free trade and innovation. Not so fast, warns Asia expert Joe Studwell. What appear to be sleek, streamlined economies are more like rickety old jalopies that creak with cronyism and secretive monopolies. In this enlightening, searing attack, Studwell pegs Asia’s ruling tycoons or “godfathers” as charming billionaire throwbacks who ruthlessly control business empires with the permission of corrupt, ever-shifting governments, prospering as the populace struggles. Studwell does a masterful job of synthesizing a sprawling topic. *BooksInShort* recommends his book to anyone who’s considering investing in or doing business in Southeast Asia.

### Take-Aways

- Southeast Asia cultivates a myth of free trade and economic openness. In fact, its governments support closed monopolies.
- Hong Kong, Singapore, Malaysia and other nations tightly control their domestic economies, benefiting the “godfathers,” and harming laborers and consumers.
- Godfathers use cozy relationships with politicians to keep lucrative monopolies.
- These tycoons control gambling, supermarkets, sugar and many more industries, including banking, which is nearly unregulated.
- Godfathers aren’t organized crime figures, but they wield far-reaching power.
- Godfathers are often charming polyglots who can navigate a variety of cultures.
- These secretive billionaires create myths about their humble beginnings.
- Godfathers set the vision for their empires, and then delegate the execution to either a “chief slave” or a foreign “gweilo running dog.”
- The region’s stock markets perform poorly due to cronyism, corruption and a dearth of competition.
- Southeast Asia’s political and economic systems are its real disease. The godfathers are the symptom.

### Summary

#### Building Wealth for Billionaires While the Masses Struggle

The Southeast Asian nations of Singapore, Malaysia, Thailand, Indonesia and the Philippines – plus the city of Hong Kong – have produced a large number of billionaires. *Forbes* magazine’s ranking of the world’s richest people lists eight Southeast Asians among the 25 wealthiest people on the planet. These titans of industry and finance include Li Ka-shing of Hong Kong, Robert Kuok of Malaysia, Dhanin Chearavanont of Thailand, Liem Sioe Liong of Indonesia and Kwek Leng Beng of Singapore. In recent decades, Southeast Asia has produced scads of billionaires and multimillionaires. Its capitals boast soaring skyscrapers, high-tech factories and every component of modern infrastructure, all reflecting the high growth rate of the “Asian tigers.”

“The structural sleight behind this book [is] using these colorful, obscenely rich and interesting people to tell a bigger story about history, economics and development.”

Indeed, the Asian tiger moniker helped create a myth of fast rising, efficiently run economies. Yet for all the economic success enjoyed by a few extremely wealthy oligarchs, the rising tide hasn't lifted all boats. Most workers struggle. In Southeast Asia, a \$500-a-month laborer is considered well-paid. Why is there such a contrast between the godfathers' riches and their nations' poverty? Blame Southeast Asia's unusual path to economic development. In the U.S. and Europe, billionaires tend to get rich through innovation; they create brands or boost productivity, and vanquish their competitors. Then they are rewarded for their ability to succeed in a Darwinian capitalist environment. Not so in Southeast Asia. Innovation is rare, competition is scarce and cozy political relationships are the rule. The surest path to riches is to cultivate well-placed politicians who have the power to grant monopoly concessions.

“The godfathers are simply the products of Southeast Asia's political environment and, ultimately, it is this environment that itself is the region's big problem.”

The rise of the Southeast Asian godfathers follows the colonialism of the 19th and early 20th centuries, in which Europeans claimed to import a superior political and economic culture to Asia. In the past century, the rise of self-government in the region has created a less-than-ideal business climate where politicians do little to foster competitiveness. The U.S. endured a similarly imperfect structure in the early 20th century, when the robber barons ran roughshod over the national economy. Likewise, powerful men who profit from growth but don't lead it now drive Southeast Asian economies. The godfathers aren't tigers. Their publicly traded companies tend to underperform their competitors. Their corporations are not global brands. Instead, they satisfy themselves with renting the labor of their industrious citizenry to foreign-owned manufacturing plants.

“The Southeast Asian economy is the product of a relationship between political and economic power that developed in the colonial era.”

Unlike Don Corleone of *The Godfather*, these tycoons aren't necessarily “godfathers” because of their ties to organized crime, although many of them own gambling enterprises and some have been tied to drug smuggling. Rather, they're godfathers because of the “traditions of paternalism, male power, aloofness and mystique that are absolutely part of the Asian tycoon story.” Womanizing, bullying and back-room dealing – as well as cosmopolitan charm – are their indispensable weapons as they carry out four strategies that keep them dominant:

## **Godfather Strategy No. 1: “Get in Character”**

Whether they speak many languages, perpetuate myths of humble birth or maintain strict secrecy, the Asian godfathers play roles that fall into easily defined patterns. They are masters at straddling cultural and political divides, relying heavily on the good graces of relevant political leaders. Since unstable regimes are Southeast Asia's norm, the godfathers support current leaders in public, but do not pledge true loyalty. Thailand, for one, has had 18 coups and 33 prime ministers in its postcolonial era. A top executive for Thai godfather Dhanin Chearavanont puts it this way: “We back everyone.” So the godfather prominently displays a picture of the current military leader, and when that leader is overthrown, quickly replaces the picture.

“A political elite grants to members of an economic elite monopoly concessions...that enable the latter to extract enormous amounts of wealth without a requirement to...drive sustainable economic development.”

In Indonesia, where Suharto ruled 31 years, godfathers didn't need to be quite so politically agile, but they did learn the risks of being too closely aligned with a despised ruler. Liem Sioe Liong made his wealth based on monopoly concessions granted by Suharto. But during the Asian financial crises, corruption-weary Indonesians stormed the godfather's home, looted it and painted it with the words “Suharto's dog.” In addition to political agility, godfathers must master cultural shape shifting. Immigration throughout the region has made multilingual skills necessary. Godfathers typically speak several languages – English, Mandarin, Cantonese, a couple of other Chinese regional languages, and Thai or Japanese. These tycoons also play the field sexually. While family is at the center of the godfather's business structure, and the godfather's children inevitably work in the family business, the loyalty doesn't extend to the godfather's wife. Henry Fok and Stanley Ho of Hong Kong both had numerous wives. Generally, godfather culture rewards hard work with “multiple mistresses and copious amounts of extramarital sex.”

“It is smaller-scale local businesses, and the hard work and thrift of ordinary Southeast Asians that has driven development.”

These tycoons create myths that invariably portray them as coming from humble backgrounds, and rising to success based on pluck and hard work. In reality, the godfathers were scarcely shoeshine boys who rose to the top. They started out in privileged positions and maneuvered their way to even greater riches by learning to play a corrupt system. Myths aside, the godfathers typically are part of a four-generation cycle. In the first generation, the godfather's father establishes a toehold that offers entrée into high society. The second generation – the godfather himself – parlays these advantages into wealth. The third generation – the godfather's children – struggles to maintain what the godfather has built. And by the fourth generation – the godfather's grandchildren – the empire crumbles. Godfathers also have been known to marry into moneyed families. Hong Kong godfather Cheng Yu-tung married into a jewelry fortune. Opportunistic, yes. Rags-to-riches, no.

“The Asian godfathers reflect rather than shape local economies.”

The godfathers are experts at strict secrecy and not just for security reasons. They grant little media access and, when they do open up, they expect fawning coverage. Even as they portray themselves as financial geniuses, their fortunes often rely on monopoly control of various industries. With such constant role playing, the godfathers face an identity crisis, manifested to a degree in their preoccupation with status and titles. Hong Kong tycoons Fok and Ho make employees call them “Dr. Fok” and “Dr. Ho.” They are partial to evangelical Christianity. Today, certain billionaires from Hong Kong, Malaysia and Indonesia proudly call themselves born-again Christians.

## **Godfather Strategy No. 2: Find the Cash Flow**

With their towering skyscrapers and bustling ports, Southeast Asian nations present a face of modernity and rigorous competition. Yet, contrary to the carefully cultivated myth that portrays the godfathers as innovators, most build their empires by planting themselves firmly in the gushing spigot of lucrative businesses that throw off cash without interference from pesky competitors. Many Asian godfathers rely on gambling monopolies. Fok and Ho years ago obtained the gambling licenses for

Macau, which became the world's third-richest gaming center. Malaysian godfathers Ananda Krishnan and Vincent Tan also built their wealth on gambling monopolies. Krishnan controlled racetrack betting; Tan ran a lottery.

“At the heart of the average godfather’s empire is a concession or license that gives rise to a monopoly.”

Gambling isn’t the only monopoly activity that generates money for the godfathers. Such basics as agricultural products and food also enjoy government protection that dates to the first days of independence. Competition is rare in any segment of the region’s markets. Cartels and tight government controls are the rule. Ironically, the outside world views these economies as bastions of free trade. No less a personage than Nobel economist Milton Friedman once lauded Hong Kong’s commitment to economic freedom. True, goods shipped through Hong Kong are free from tariffs and exchange controls, but its domestic economy is “a patchwork of *de facto* cartels.”

“The big domestic businesses run by the Asian godfathers grew up on a diet of protected markets, cartels and noncompetitive tenders for public works.”

Take the supermarket cartel, for instance. K.S. Li’s “PARKnSHOP” and one other chain control Hong Kong’s grocery business. Li and one other chain likewise dominate drugstores. When French grocer Carrefour tried to crack the duopoly, it quickly learned that competition wasn’t welcome. Apartments and office buildings controlled by Li refused to allow Carrefour’s trucks to make deliveries. The duopolists warned their suppliers that if they did business with Carrefour, they would lose the business of the dominant chains. After \$120 million in losses, Carrefour had little choice but to give up its attempt to break into the Hong Kong market.

“The truly great godfather never allows himself to be identified with only one side of a potential political argument.”

In Singapore, also, the economy’s reputation for encouraging free trade doesn’t transfer to the products its citizens buy every day. Monopolists tightly control electricity, gas, water, telecommunications and even banking. In Singapore and Hong Kong, the lack of competition in the banking industry means banks can charge high fees and provide subpar service.

“Culturally, the godfathers are chameleons who tend to be well-educated, cosmopolitan, polylingual and thoroughly insulated from the humdrum cares of their supposed kinsmen.”

Once a godfather nails down his cash flow, he can turn his attention to other matters. Malaysia’s Krishnan has masterfully parlayed his gambling wealth and power into bigger deals. He’s the dealmaker behind the 88-story Petronas Twin Towers in Kuala Lumpur. In a masterly stroke, Krishnan gained a 48% stake in the real estate development, valued at billions, without putting up a penny of his own money. Godfathers often use their monopoly cash cows as platforms for vertical integration. Malaysian sugar baron Robert Kuok grows sugar, refines sugar, makes sugar-packing bags, trades sugar and ships sugar. Vertical integration also allows tax dodges. Kuok can reroute income from the tax-paying sugar industry into the untaxed shipping business.

### Godfather Strategy No. 3: Hire a *Consigliere*

Delegation is another crucial task for godfathers. They put in long, sometimes superhuman hours, but they also tend to focus on the big picture. The godfathers set strategy and schmooze, guiding the direction of their far-flung concerns and lubricating the political relationships that fuel their empires. They attend weddings and funerals. Much of their deal making happens on the golf course. Hong Kong tycoons Li and Cheng Yu-tung, as well as Malaysia’s Kuok, among others, are avid golfers for whom the links serve as a sort of workplace. But when it comes to executing the details of their overarching visions, the godfathers delegate to trusted advisers, who fit one of two descriptions:

- “The chief slave” – This person, who comes from the godfather’s ethnic group, puts in extreme hours as the tycoon’s go-to guy and chief hatchet man. The godfather thinks nothing of phoning the chief slave at 3 a.m., but he also rewards his factotum with a pay package worth millions, not to mention a “sense of power and proximity to the godfather.” The hours take their toll. Kuok’s chief slave died at Kuala Lumpur’s airport.
- “The gweilo running dog” – This *consigliere* is a European or American (*gweilo*, the Cantonese word for “ghost man,” is a nickname for a foreigner). Though many godfathers hire *gweilos* and pay them well, not every tycoon can bring himself to trust an outsider. Li, an exception, has hired numerous *gweilos* to run his various interests. Instead of being suspicious of outsiders, he looks at how they can enhance his wealth.

“Their job, like that of any businessman, is to make as much money as possible, with as little fuss as possible, in the environment that prevails.”

While these lieutenants are well-remunerated, the vast majority of the godfathers’ workers are only “corporate cannon fodder.” Given the lack of competition in their industries, the tycoons have little incentive to hire and cultivate motivated employees. Their business model hinges on finding a monopoly that provides cash and then slashing costs.

### Godfather Strategy No. 4: Dip a Hand in the Till

The tycoons’ brilliant deals include winning permission to open their own banks. These financial institutions become “personal piggy banks,” with the added bonus that depositors fill their coffers. This is a rich opportunity, partly due to Asia’s high savings rates. Depositors save in spite of low returns. Meantime, the government’s minimal oversight of banking lets tycoons waste depositors’ cash in questionable ways. In the Philippines, illegal insider lending has spurred cascades of bank crises, yet no one has been prosecuted.

“In a region where US\$500 a month is a very good wage, this embarrassment of riches of the few provides a remarkable contrast.”

Southeast Asia’s too-cozy banking system also explains why its stock markets routinely underperform the rest of the world. The availability of cheap capital from the godfathers’ banks has spoiled the markets. The godfathers have little incentive to provide investors with appreciating stock prices or dividends. Tycoons who are adept at fleecing shareholders dominate the markets. The godfathers give profitable deals to their private companies and share the dregs with their shareholders. Kuok’s Singapore-listed Pacific Carriers, Ltd., once earned such poor returns that wags said its acronym stood for “Please Cut Losses.” After hurting shareholders with subpar returns and driving down PCL’s value, Kuok discounted its value and took it private in 2001. Two years later, he took a chunk of it public again in Kuala Lumpur.

# About the Author

Journalist **Joe Studwell** edits the *China Economic Quarterly* and is a director of a research firm. He has covered China for *The Economist* and wrote *The China Dream: The Elusive Quest for the Greatest Untapped Market on Earth*.

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