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Overseas Entrepreneurship in Southeast Asia

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Chapter One

Introduction

A. Statement of the Problem

Two, largely competing, schools of thought seek to explain the success of the East Asian newly industrializing countries (NICs). The 'statist school' attributes the success to a strong development state that solely defined the aims of and directed the path to development. The 'culturalist school', on the other hand, gives credit to an ethnically homogenous, hardworking and disciplined population adhering to Confucian values. As Southeast Asian countries, particularly Indonesia, Malaysia, Thailand, and lately the Philippines, are fastly developing and are now widely regarded as the region's second-generation NICs, the search for explanations to this recent development is underway, a task which this study is devoted to. Using the Philippines as a case study coupled with sufficient references to Indonesia, Malaysia and Thailand, this study argues that a major contributing factor to Southeast Asia's phenomenal development is the towering presence of a particular type of ethnic entrepreneurship in the region, the Overseas Chinese entrepreneurship.

B. Hypothesis

Overseas Chinese entrepreneurship, exercised by a group belonging to a discriminated ethnic minority, is an indispensable component of the capitalist development of Southeast Asia.

Most of the existing literature on Overseas Chinese businesses are devoted to an analysis of why they have been successful. Explanations range between "cultural", "environmental", and a mixture of both, the latter being an attempt to 'bridge' the first two, rather opposing, theories. This study strongly rejects the "cultural school" and leans towards the "environmental school", by emphasizing the major role of the state in the development efforts of Southeast Asian countries. State is widely defined to include both the post-indepenent state as well as the colonial governments in the countries covered in the study. By allowing the now resident Chinese entrepreneurs to participate in the tedious process of economic development, albeit with restrictions as in the case of Indonesia and Malaysia, the post-indepenent state merely unleashed the accumulated entrepreneurial drive and creativity of the Chinese capitalists.

C. Theoretical Framework

Entrepreneurship - An Important Factor in Development

Lack of adequate entrepreneurship is often cited, and widely accepted, as a serious bottleneck in the development efforts of developing countries. Leibenstein noted that the inability of many developing countries in attaining the targetted results of their economic plans can be partly explained by the fact that "entrepreneurship is not a normal input whose contribution can be readily de-
temined, predicted, planned for, or controlled”.¹ Whereas the availability of goods and services, barring government intervention, is usually regulated by the law of supply and demand, the supply of entrepreneurs is highly inelastic, that is, it does not respond to the simple law of supply and demand. Furthermore, the number of individuals capable of fulfilling the entrepreneurial tasks appears, according to Kilby "to be sharply circumscribed by an inheritance of deprivation for sizeable segments of the population, by narrow commercial traditions (italics mine), and by brief exposure to 'technological culture'".² And even if entrepreneurs were easy to have, the daunting tasks that await them are enough to prevent them from even starting small enterprises. Kilby pointed out, for example, that the residual tasks of business leaders in underdeveloped economies are far greater than those in developed economies since the former lack well-integrated markets, particularly financial and factor markets, and decision-making is often impeded by political instability.³

During the colonial era, the exercise of entrepreneurship in most, if not all, colonies was the reserve of the colonial powers with the possible exception of a few indigenous elites who were part of the colonial apparatus. In the case of colonial Southeast Asia, migrant ethnic entrepreneurs, the Overseas Chinese, existed and operated alongside, in most cases in cooperation with, the colonial entrepreneurs. After independence, most Southeast Asian countries undertook the task of promoting indigenous entrepreneurship by encouraging and assisting local entrepreneurs, through subsidized credit, guaranteed market prices and tax breaks, establish their own businesses. Corrollarily, the state assumed major entrepreneurial functions particularly in the production and distribution of goods and services which require huge financial outlays, such as energy, water, transportation and telecommunication. Thus, post-colonial Southeast Asia witnessed the mushrooming of state enterprises and state-sponsored local enterprises. Despite all the good intentions, the exercise unfortunately produced dismal results. Instead of producing the desired risk-taking and innovative entrepreneurs, many of those state-sponsored indigenous entrepreneurs turned out to be plain rent-seekers and state enterprises were inefficient, corrupt and distributors of political largesse. Thus, instead of contributing to development, these entrepreneurs became bottlenecks of development themselves. In developing countries therefore, there is not only a shortage of entrepreneurs but an acute shortage of non-rent-seeking entrepreneurs who will bear the brunt of introducing, developing and sustaining productive activities necessary to attain economic development.

Entrepreneurship Defined

Recognizing the difficulty of arriving at a universally accepted theory of development, Leibenstein⁴ identified two important elements which are crucial in the development process. Firstly, per capita income growth requires a shift from less productive to more productive techniques per worker, the creation or adoption of new commodities, new materials, new markets, new organizational forms, the creation of new skills as well as the accumulation of new knowledge, and secondly, all these

¹ Harvey Leibenstein. 1968. Entrepreneurship and Development. in: American Economic Review, No. 58, p. 78
³ Ibid.
⁴ Leibenstein 1968, p. 77
processes require an interaction between the creation of economic capacity and the related creation of demand (collectively referred to by Leibenstein as 'capacity creation') so that some rough balance between capacity growth and demand growth takes place. Leibenstein then stressed that the entrepreneur in his role as "gap-filler and input-completer is probably the prime mover of the capacity creation part of these elements of the growth process".  

Richard Cantillon, an Irishman living in France, was said to be the first to identify the entrepreneur and its risk-bearing function in the early 18th century. He noted that "the entrepreneur buys factor services at 'certain' prices with a view to selling these products at 'uncertain' prices in the future. He thus attributed to the entrepreneur the function of bearing noninsurable risks (italics mine)." A few decades later, Jean Baptiste Say broadened the entrepreneurial function to include bringing together the factors of production (italics mine) and the provision of continuing management in addition to the indispensable risk-bearing function. It was, however, Joseph Schumpeter who, with the publication of his classical work on the theory of economic development in 1934, assigned entrepreneurship a critical role in economic growth. He wrote: "The carrying out of new combinations of the means of production we call enterprise; the individuals whose function is to carry them out we call entrepreneurship. This may be described as the fundamental phenomenon of economic development." Schumpeter is likewise credited for adding a new component to the entrepreneurial function, innovation, thus his emphasis on 'carrying out new combinations' (italics mine).

Functions of an Entrepreneur

The task of bringing together the different factors of production is undoubtedly easier to accomplish under perfect market conditions, that is, when all the factors of production are known and are available, and when the production process itself can be undertaken. Under such circumstances, the entrepreneur merely exercises what Leibenstein characterized as routine entrepreneurship, meaning "the activities involved in coordinating and carrying on a well-established, going concern in which the parts of the production function in use (and likely alternatives to current use) are well known and which operate in well-established and clearly defined markets." Leibenstein, however, argued that a world of perfect markets is never possible hence some gaps in markets, whether in developed or developing countries, are inherent in all cases. Under such imperfect market conditions, the entrepreneur exercises what Leibenstein refers to as the Schumpeterian or 'new type' entrepreneurship (N-entrepreneurship for short). N-entrepreneurship involves "carrying out the activities necessary to create or carry on an enterprise where not all the markets are well established or clearly defined and/or in which the relevant parts of the production function are not completely known." For example, an entrepreneur sees a demand for a particular commodity. To produce it
requires the use of an equipment which, unfortunately, is not available locally and could not be acquired from an external source either due to an import ban. To fill up this market deficiency, the entrepreneur could either strive to gain access to information on how to construct the said equipment or its alternative, or blatantly resort to corruption in order to have the import ban lifted or to have it revised so that the importation of the necessary equipment could be sanctioned. In one or in both instances, the entrepreneur exercises what Leibenstein referred to as gap-filling function, i.e. by making up for market deficiencies. In addition, Leibenstein pointed out the necessity for the N-entrepreneur to possess an input-completing capacity, meaning the ability to marshall all (not one less) inputs required for the establishment "of a firm that produces a marketable product."  

Leibenstein thus defined the entrepreneur as an individual or group of individuals with four major characteristics: he connects different markets; he is capable of making up for market deficiencies (gap-filling); he is an input-completer; and, he creates or expands input-transforming entities, i.e. firms. Unfortunately, entrepreneurship is frequently a scarce resource, Leibenstein noted, for the gap-filling and input-completing capacities required of entrepreneurs are scarce talents.

How Entrepreneurs Emerge

Hagen noted that in all but the most primitive societies there are many small traders or craftsmen-traders who sell their own products, and a smaller number of larger trader-financiers. Almost invariably, Hagen argued, industrial innovators in erstwhile agricultural societies seem to arise most often from trade and next most often from among craftsmen and proprietors in cottage industry. That entrepreneurs often arise from those engaged in trade can be explained by the fact that traders are quick to know what products are being sought after, where these products can be obtained, and how these products can be made available in the market. Traders are thus invariably placed in an 'intermarket operator position', a classic entrepreneurial function.

The question then to ask is: do these innovators emerge randomly from the population? As to the social origins of entrepreneurs, Hagen maintained that economic innovators tend to be "outsiders", individuals who for some reason do not feel securely at home in the society in which they live.

Meanwhile, Bert Hoselitz's observations regarding the importance of culturally marginal groups in promoting economic development (e.g., the Jews and Greeks in medieval Europe, the Lebanese in West Africa, the Chinese in Southeast Asia, the Indians in East Africa) led him to hypothesize that "marginal men, because of their ambiguous position from a cultural or social standpoint, are peculiarly suited to make creative adjustments in situations of change and, in the course of this adjustment process, to develop genuine innovations in social behavior." As the "outsiders" become visibly successful in their commercial endeavour, Kilby added, 'scattered individuals from the elite groups are induced to imitate the technological leaders from the subordinated group whose new wealth threatens the status of the accepted elites and that, by this process innovation gradually

11 Leibenstein, p. 75
12 Ibid.
14 Hagen, p. 221
spreads throughout the society. Hagen, however, maintained that "if the innovators are an alien minority group, lacking deep and acknowledged roots in the society, distaste for their behavior is apt to be such that, if through innovation they threaten to gain too much power, the defensive reaction will not be to imitate them but to expel or suppress them." Apparently not to overestimate the actual economic contributions of an alien minority, Kilby, although not refuting Hagen, stressed that "although ethnic minorities have done little to promote creative social change, they have made important contributions to the development of indigenous entrepreneurial capabilities. Because these marginal groups typically command less capital, a less sophisticated technology, and fewer import licenses that other (corporate) private foreign investors, they have been compelled to employ more labor-intensive, domestic resource-using production techniques. As a result, the activities of these resident minorities have had far greater educative externalities for indigenous entrepreneurs in terms of the diffusion of appropriate technologies and organizational skills."

Under what conditions are creative personalities from the subordinated group directed into modern business activities, Hagen is credited for providing the most complete specifications. First, unless the individual himself comes from the simple folk, he must have overcome that antipathy to manual labor and work with tools which is the principal sign of "super-menial" class status. That this individual could most likely only come from a group other than the local elite, Hagen offered a most plausible explanation:

"Many elite individuals in traditional societies are prevented from using their energies effectively in economic development by their repugnance to being concerned with the grubby material aspects of life. The repugnance includes being concerned with the details of running a business effectively, as well as performing manual-technical labor - 'getting their hands dirty.'"

Furthermore, Hagen maintained that those driven to business endeavors usually find the conditions of relative social blockage in their current places of residence such that it makes an entrepreneurial activity the most attractive of all possible alternative channels to social recognition.

"If traditionally honored roles are not open to an individual or if prowess in them does not win him recognition because of his other characteristics bar him from being honored, and if armed rebellion is impossible because of the preponderance of strength of the new dominant group or because of the growth of effective social sanctions against the use of force, and if migration is not a feasible solution, then the pressure of unsatisfiable values and frustrations maybe expected over a number of generations to inculcate new values. In short, the requisite for economic growth in a traditional society is not merely that upward social mobility by new means is possible but also that upward social mobility by traditional channels is not possible". (italics mine)

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16 Kilby 1971, pp. 14-15
18 Kilby 1971, p. 15
19 Hagen 1968, p. 96
21 Hagen 1968, p. 242
D. Subject of the Study

This study does not encompass the entire population of Overseas Chinese in Southeast Asia but rather on the entrepreneurs among their ranks. Since not all Overseas Chinese are entrepreneurs, it is misleading to assert that they, as a group, are major contributors to development. Although this study aims to make a generalization regarding the role of Overseas Chinese entrepreneurship in the development of the region as a whole, to conduct a detailed analysis in each of the countries is a Herculean task for a study such as this. On the other hand, a detailed country analysis is important in order to obtain a deeper understanding of the subject of this study. Thus, a methodological compromise was devised. A detailed country analysis of Overseas Chinese entrepreneurship is conducted in the Philippines, and a general overview of it in Indonesia, Malaysia, and Thailand. This allows cross-country analyses and provides a more concrete basis for a general conclusion that covers the entire region.

Choosing the Overseas Chinese entrepreneurs in the Philippines as the focus of a detailed country study has three reasons. Firstly, a survey of the existing literature on Overseas Chinese in Southeast Asia revealed that very little had been written so far about Chinese-Filipino entrepreneurs. Secondly, despite being the smallest community in the region, both in absolute number and as percentage to the local population, the Overseas Chinese community in the Philippines has produced big entrepreneurs from among their ranks who, despite having to compete with a sizeable indigenous domestic entrepreneurs of Hispanic origins, were able to gain and defend their ground and collectively now control at least 50% of total listed equity. Thirdly, being a native of the country, I have an easier access to information as well as insights which are important elements of an in-depth country study.

E. Significance of the Study

That alien entrepreneurs have historically played a prominent role in the business life of less developed areas is not surprising. Neither is their success. European and North American expatriates were bearers of a dynamic industrial and business tradition. What is phenomenal in the case of Overseas Chinese entrepreneurs is that they came from a homeland that was traditional and pre-industrial. Moreover, they did not carve for themselves a niche in the economies in their respective countries of residence, as is usually the case with their counterparts in Europe and North America. Rather, they have come to dominate the economy of a region. A no mean feat.

Moreover, the detailed descriptions of Chinese-Filipino enterprises presented in Chapter Two provide a more concrete view of the internal dynamics of such businesses. Of particular significance are the features on two medium-sized enterprises, Uyanguren Hardware Co. Inc. and Cam Food Company, and the retail store in our village, Lim General Merchandising. Their evolution, struggle for survival, expansion, or even stagnation, are documented and are made available in print for the first time, thus making a contribution to the sparse literature on Chinese-Filipino entrepreneurship.
F. Expected Results of the Study

In addition to the major objective of the study which is that of validating its hypothesis, the study aims at formulating a theory of Overseas Chinese entrepreneurship in Southeast Asia as an explanation to the region's enviable economic boom. It is important to stress the point though that Chinese entrepreneurs in Southeast Asia did not introduce capitalist development in the region nor did they "make" the recent capitalist upsurge in the same way that the entrepreneurial bourgeoisie of 19th century Europe or the USA created capitalism there. Such being the case, this study will show how indispensable the contribution of Overseas Chinese entrepreneurship has been in the region's development. Moreover, it is necessary to bear in mind that Overseas Chinese entrepreneurship in SE Asia has a developmental function, i.e. as a crucial component of the region's struggle towards capitalist development, as compared to Overseas Chinese entrepreneurship found in North America and Europe.

The issues that will be addressed in the formulation of a theory of Overseas Chinese entrepreneurship in Southeast Asia are: (a) how did Overseas Chinese entrepreneurship develop and flourish (evolution) in SE Asia? and (b) what is the present nature of Overseas Chinese entrepreneurship (characteristic)?

G. Methodology

The study employs both primary and secondary data. Primary data mainly include those generated from interviews with Chinese-Filipino entrepreneurs, academicians, journalists and others who are knowledgeable on the subject. Secondary data are the results of analyses of corporate reports of Overseas Chinese enterprises as well as business reports of financial institutions (e.g. stock exchanges, business yearbooks), and published as well as unpublished studies, reports, and articles on Overseas Chinese enterprises, immigrant ethnic enterprises, family businesses, and other themes or subject matter that are directly or indirectly relevant to the study.

H. Definition of Terms

The Overseas Chinese that are covered in this study are those who have Chinese parents. This is a straightforward classification that has little, if at all, methodological problems when applied in Malaysia and Indonesia where intermarriages hardly happen. In Thailand, where intermarriage is common, I rely mainly on the classification presented in the existing literature, meaning those who are referred to as Sino-Thais are Chinese offsprings. In the case of the Philippines where intermarriage is likewise common, there is a sizeable Chinese-mestizo population (children of Chinese fathers and Filipina mothers; former president Corazon Aquino belongs to this group) which constitutes a distinct economic class of its own. They are not, however, included in this study, rather only those with Chinese parents.

Ascertaining the exact number of Overseas Chinese who are found all over the globe is similar to the proverbial search of a needle in a haystack. Estimates by published reports vary from a low of 17 million to a high of 40 million. Such a wide range makes it difficult indeed, if not totally impossible, to accurately hit the mark. There is no doubt, however, that Southeast Asia is home to the overwhelming majority of them, some 85% according to a report of the Far Eastern Economic Review.\textsuperscript{23} Numerically constituting a minority, they nonetheless dominate local economies, if not that of the region as a whole. The Salim group of Indonesia’s Liem Sioe Liong, for example, is reputed to generate 5% of the country’s gross domestic product.\textsuperscript{24} Kotkin, on the other hand, noted that the Overseas Chinese control up to two-thirds of the region’s retail trade.\textsuperscript{25} On a more comprehensive scale, the information presented on Table I could serve as an indicator of their share in local corporate wealth.

**Table I: Share of Overseas Chinese Capital in Local Corporate Wealth (in percentage)**

<table>
<thead>
<tr>
<th>Ethnic Chinese in 1991 (millions)</th>
<th>Percent of population</th>
<th>Share of listed equity*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>5.81</td>
<td>3.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.33</td>
<td>29.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>5.57</td>
<td>10.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.14</td>
<td>77.0</td>
</tr>
</tbody>
</table>

* Chinese holdings in listed companies not under state or foreign control, as percent of market value of all shares in such firms.
Source: Sakura Bank, Nomura Research Institute. in: Asiaweek, October 20, 1993

If one were to include the many Chinese big businesses that are not publicly-listed as well as the myriad of medium-and-small sized enterprises which carry the bulk of trading activities, then the actual share of the Overseas Chinese in the country’s wealth would be significantly much higher than the figures presented above.

\textsuperscript{23} 2 December 1993, p. 17
Chapter Two

Overseas Chinese Entrepreneurship and Capitalist Development in the Philippines: A Historical Overview

Pre-Colonial Period

The first overseas Chinese settlement of any size to be founded in Southeast Asia is said to be that in the Philippines in the northern island of Luzon. Located only 340 miles from Swatow, with a good wind, even a junk could reach Luzon in three days.26 Through one of Cheng Ho’s voyages, the place was brought within the sphere of Chinese authority and, in 1405, Ming Emperor Yung Lo sent an official to govern Luzon. Later, as trade with the Philippines proved profitable, a special revenue center in Fujian to deal with traders plying this route.27

The center of trade was the mouth of the Pasig River in Manila where such native goods as beeswax, pearls, tortoise shell, betel, coconuts and vegetables among others, were traded with Chinese porcelain, metalwork, iron, needles, lead products and silk. After trading has been completed, Chinese merchants sailed further south along the coast to continue their business. They did not, however, come to shore. They merely sounded their gongs as signal for the start of trading and the natives would approach by boat so that transactions were done at sea.

Colonial Period

The Spanish Regime

European colonization started in 1521 when Spanish ships, under the command of a Portuguese, Ferdinand Magellan, landed in the island of Cebu in central Philippines. Upon reaching ashore, the Spaniards were met by bow-and-arrow wielding native Filipinos who valiantly fought to protect their land from foreign intruders. With their military superiority, however, the Spaniards easily defeated the Filipinos but, as if with some sense of poetic justice, Magellan was slain during the fight by Lapulapu, the chief of the tribe who waged the fight against the colonizers. For the next 350 years, Spain ruled the Philippines through a combination of the cross and the sword.

The first colonial government was established in Cebu and was moved to Manila only 51 years later, in 1571. Shortly after his arrival, Spanish-governor Legazpi found some 150 Chinese already residing in Manila who, to his surprise, did not resist the newcomers but were instead eager to conduct trade.28 Thereafter, Chinese junks continued coming to Manila as they had been doing prior to the arrival of the Spaniards. In 1574, three years after the establishment of Manila, six Chinese junks arrived. By 1600, the annual number rose to forty. Chinese traders came primarily for the silver of Mexico which they took in exchange for cotton, silk, porcelain, finely carved furni-

28 Wang, ibid.
ture and ‘various trinkets’ for the Manila oligarchy. To be able to pay all these goods, Spanish galleons from Mexico came to Manila loaded with silver coins and buillion in huge quantities that the Mexican dollar became the medium of exchange in the international trade of the Far East.\textsuperscript{29} Probably as a result of the budding China trade, Spanish Governor-General Legazpi established a Chinese trading post for the Chinese, the Alcayceria, in 1580. Whereas in the past, Chinese traders were allowed to transact their business only at sea and for a specific period of time, they were now permitted to trade on land and, above all, to settle permanently.\textsuperscript{30} Blair described the Chinese activities in the Alcayceria as follows:

I was amazed at the splendid buildings Manila possesses. I wish to say only the following which is most important. I refer to the Alcayceria, a place where organized trading is carried out in all kinds of silks and metalwork. There are more than 400 shops, with as many as 8,000 employed in them. Whenever the trading fleet comes from China laden with goods....there are 13 or 14,000 or more. They bring goods as fine as those seen in Europe.\textsuperscript{31}

Indeed, except for the members of the Manila oligarchy, these fine goods were not intended for the domestic market but rather for the European market via Acapulco. The China trade thus provided the basis of prosperity for the Spanish colonizers residing in Manila and laid the foundations for the lucrative galleon trade with Mexico.

The Chinese who settled in the country did not only trade, they also introduced simple food processing techniques such as extracting sugar from sugar cane, and later, the refinement of sugar through the Chinese process of claying.\textsuperscript{32} They also showed the Filipinos how to conduct fruit-growing and truck gardening, i.e. the systematic cultivation of vegetables as market crop. Even the carabao (water buffalo) was brought to the Philippines aboard the junks from China and the art of training it for deep and tidy ploughing was taught to the Filipinos by the early Chinese settlers.\textsuperscript{33}

For as long as Chinese immigration remained uncurtailed, more and more Chinese came to the Philippines. Fray Domingo de Salazar estimated that, in 1586, there were more than 6,000 Chinese merchants in Manila alone. If the fishermen, gardeners and artisans in the suburbs were to be included, then the total would be around 10,000.\textsuperscript{34} So in the early 17th century, there were about 25,000 Chinese residents in the islands, the majority being concentrated in Manila, and with their growing number, they took over practically all forms of economic activities.

Spanish policy towards the Chinese was, from the beginning, torn between economic necessity and political prudence. On one hand, the Chinese were not only indispensable to the China trade, they also catered to the needs of the Spanish community being Manila’s traders, carpenters, tailors, cobblers, locksmiths masons, weavers, and even bakers. On the other hand, the Spaniards were concerned for their safety in the midst of such a well-organized, dynamic and apparently

\textsuperscript{29} Pan, p. 32
\textsuperscript{31} quoted in Fukuda, p. 172
\textsuperscript{33} de la Costa, ibid.
prosperous alien group. Within the first few decades of Spanish rule, the Chinese residing in Manila often outnumbered the Spanish population.\textsuperscript{35} To ensure that the Chinese would not pose a security threat to the Spaniards, their movement was restricted and they were subjected to discriminatory taxation. In 1581, all Chinese in Manila were ordered to live in a place just outside the city walls called the Parian, the present-day Chinatown. Within the Parian, the Chinese were left on their own. Beyond their confines, however, their movements were severely curtailed. They were not allowed to travel freely within the archipelago nor to go beyond specified boundaries around Manila without official permission. They were allowed within the walled city of Manila, where the Spaniards reside, by day but had to return to the Parian by nightfall. These restrictions, however, were not always strictly enforced. Only one provision was consistently enforced throughout the entire period of Spanish rule: the imposition of wide range of taxes on all Chinese residents. The reason was simple. Onerous taxation provided a steady source of income for the Spanish authorities.

One factor that worked, wittingly or unwittingly, to protect the Chinese was the Roman Catholic Church. It gave special encouragement to Chinese Christian converts and insisted that they be granted the right to travel in the islands and be assigned a special status in the community.\textsuperscript{36} So after a bout of any form of persecution against the Chinese community which openly spared the Christian Chinese, the Church had to welcome new converts. In addition, Christian Chinese were allowed to establish separate communities of their own. Despite this combined policy of containment and attraction, the Spaniards were not free from Chinese threats. One source of alarm was the near capture of Manila by a pirate named Lin Feng (Limahong) who, in 1574-75, sailed to and landed in Luzon with 4,000 men borne by a fleet of some sixty war junks. Around 1595, a Spanish governor was assassinated by his own crew of Chinese oarsmen.\textsuperscript{37} With the number of Chinese residing in the island of Luzon exceeding 25,000 in 1603,\textsuperscript{38} Spanish fears and suspicions triggered a Chinese massacre in the same year. Of the survivors, about 500 reputedly returned to China while another 500 remained. Soon after the massacre, the Spanish population in Manila felt the pinch caused by the Chinese disappearance as 'they had no food, no shoes to wear, not even at excessive prices'.\textsuperscript{39} The Chinese, on their part, were ready to come back, knowing too well that only through the Manila galleon could they procure the silver of Mexico. No sooner had the Chinese started their economic activities did the Spaniards start squeezing them again. In 1639, when the Chinese were faced with tax increases, they revolted, costing the lives of some 22 to 24,000 Chinese. When the tumult died, the Chinese were missed again, and again they came back. It did not take long for Fukien ships to arrive with more traders and for the number of Chinese in Manila to rise again. Within the next two decades, their total reached 30,000.

The Spaniards, meanwhile, contented as they were with the handsome profits generated by the galleon trade, did not bother to undertake capitalist production, similar to what their European

\textsuperscript{34} Fukuda, p. 171
\textsuperscript{36} Tate, p. 459
\textsuperscript{37} Tate, p.457
\textsuperscript{38} Wang 1991, p. 90
counterparts in the neighboring Indonesia and Malaysia did. Instead, for almost three centuries, they simply allowed Manila to develop itself into an entrepot, a loading port for goods from China which were shipped onwards to Mexico in galleon ships. Thus, while Indonesia and Malaysia were linked to the world economy through their export crops, the Philippines lived in isolation. The Manila-Acapulco trade consisted merely of goods coming from China and not of goods produced in the Philippines.

By the turn of the 18th century, Britain showed a keen interest in taking part in the flourishing and profitable Manila-Acapulco trade. It wanted to secure a place for British exports alongside Chinese goods which were loaded in galleon ships bound for Mexico. Officially, Spain prohibits rival European powers to trade with its colonies. The distance between Spain and the Philippines, however, made it difficult, if not altogether impossible, to enforce this policy. Corrupt Spanish officials in Manila found in the British trading activities yet another source of wealth. Thus, without Spain’s knowledge, the Manila-Madras trade was sanctioned. British exports, mainly coming from India, were brought from Madras to Manila were they were loaded into the galleon ships bound for Mexico. On their return voyages to Madras, British ships carried a variety of products such as filigree vessels and gold plates made by Chinese artisans in Manila as well as pearls, tobacco, leather and horses which were all procured by the Chinese from all over the country and were then sold to British traders. Clearly, the local export consisted purely of goods gathered all over the islands rather than of produced goods.

The lucrative Manila-Madras trade provided a steady supply of silver for the English merchants who were engaged in it. Soon, British merchants and servants of the East India Company occupied positions of economic importance in Manila said to be second only to the Chinese traders. To secure for themselves the profitable Madras-Manila trade, the British, financed by the East India Company, invaded Manila and occupied it from 1762 to 1764. The Chinese, whose commercial activities flourished with the British trade, sided with the British. Unfortunately for them, Manila was taken back by the Spaniards and those who collaborated with the British were meted severe punishment. The Spanish Governor-General ordered the hanging of all Chinese in Luzon. The royal fiscal of Manila demanded the expulsion of the Chinese not only as a punishment for their collaboration with the British but also for their undue control of the city’s retail trade. As the Spaniards were not willing to take over the tasks that the Chinese did and they believed that the Indians were not capable of replacing them, the expulsion order was revoked and the Chinese returned. By the turn of the 19th century, Chinese commercial dominance was firmly established. In 1848, Chinese shops obtained equal treatment with foreign businesses.

The British occupation of Manila led the Spaniards to the realization that the cultivation of export goods throughout the archipelago could provide an important source of revenue. Up to the time of

39 Tate, p. 457
41 Constantino, p. 116
the British occupation, the colonial apparatus in Manila was financed by the Spanish outpost in Mexico. Increasingly becoming a financial burden, Spanish officials in Manila saw the cultivation of export crops as a viable solution to reduce the colony’s dependence on the Mexican outpost. Nonetheless, it took the Spaniards in the Philippines seventeen years after the expulsion of the British to achieve complete financial independence from Mexico. This was attained through the establishment of the tobacco monopoly in 1781 which made the cultivation of tobacco compulsory on large tracts of land in Northern Luzon even on acreage formerly planted to rice. Aimed at boosting production for export, this scheme brought severe hardship to the population as they had to rely on other provinces for their supply of rice, the staple food, which they used to grow themselves and was always sufficient to meet their needs. In 1785, the colonial government established the Royal Philippine Company which envisaged itself as the sole ‘investor, producer and carrier’ of Philippine agricultural products. This marked the start of the country’s emergence from its economic isolation. Direct trade between Spain and the Philippines was opened for the first time thus weaning the country away from Mexico and reorienting it towards Europe. Restrictions on the entry of European ships were also lifted. In 1813, the galleon trade was terminated and, in 1834, the Royal Philippine Company was abolished with the provision that Manila be opened to world trade. Finally, the Philippines was transformed from a mere outpost of Spain to a direct participant in world commerce.

**Chinese Entrepreneurship in Cash Crop Production**

**a) Sugar**

Alongside its transformation as direct participant in world trade, the country experienced the first systematic introduction and development of cash crops such as sugar, indigo, tobacco, hemp, rice, and coffee. Sugar, which later surpassed abaca as the dominant export crop, was grown in the island of Negros on European-owned plantations using wage labor. In Philippine political economy, sugar growers formed the core of the country’s agro-export elite as well as political elite. Due to restrictions regarding land ownership, the Chinese could not be directly involved in sugar production. Not to be completely left out of the action, it was in sugar trading where the Chinese were active. They provided credit to sugar planters and in turn purchased the sugar crop which was then sold directly to merchants from Manila as crude sugar or molasses.

Foreign firms which could now do business in the country as a result of the formal opening of the port of Manila controlled the export-import trade. Leading the pack were British and American firms which exported the country’s cash crops and imported manufactured goods, among others textiles from Britain, which were then sold throughout the country. Among the export crops, sugar

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43 Fukuda 1995, p. 177
44 Constantino, p. 119
45 Constantino, p. 120
and abaca were the dominant accounting for 75% of exports in 1895 followed by tobacco and coffee combined at about 13%.\textsuperscript{47}

b) Abaca

In abaca production, the Chinese were major players. In the 1820s, the US Navy discovered that abaca made excellent marine cordage. To stimulate its production and to ensure steady supply, American firms operating in the Philippines, who monopolized the abaca export to the United States, extended crop loans to abaca growers. This attracted Spanish entrepreneurs who promptly established large plantations and, by acting as agents of export firms, collected the produce from small Filipino growers. They were, however, faced with serious competition from the Chinese who, instead of giving crop advances, opened sari-sari stores in abaca growing regions and exchanged rice and other goods, usually household items being sold in the store, for abaca. This system was favorable to the small growers who usually did not have enough money to tide them over until the next harvest. In addition, the Chinese offered the growers better prices for their abaca should they accept payment in goods instead of cash. With this scheme, the Chinese easily dislodged their Spanish competitors.\textsuperscript{48} Another method employed by the Chinese was to become harvester of hemp themselves. They leased small plantations that were already cultivated and planted, harvested the crop, stripped it, and sold it to exporters. This system, according to one observer, enabled the Chinese to generate quick profit without being involved in the preliminary work of planting abaca.\textsuperscript{49} On the whole, a good deal of land and labor was shifted from rice to export crops over the 19th century so that, after 1855, the Philippines became a net importer of rice mainly from Saigon.\textsuperscript{50}

**Chinese Entrepreneurship in Trading**

British and American merchant houses operating in the country were based in Manila or in one of the very few port cities such as Cebu and Iloilo in the Visayas. They therefore needed agents to secure and ensure a steady supply of export goods as well as to distribute imports. Who else could perform this function well as the Chinese whose years of trading with the local population had already taken them to every nook and cranny of the archipelago and have thus established their own clients. This marked the beginning of the Chinese’s indispensable role as compradors.

As little capital was readily available within the Chinese community prior to 1900, Chinese business was financed most notably by the British, the first and probably among the biggest foreign trading nations in the country, either by granting credit and capital or by acting as guarantors of Chinese notes held by Spanish banks.\textsuperscript{51} This led to the formation of an Anglo-Chinese alliance which eventually came to dominate the country’s export-import trade. An one Spaniard aptly de-

\textsuperscript{48} Constantino, p. 122
\textsuperscript{50} Reynolds, p. 181
\textsuperscript{51} Wickberg, p. 279; Pan 1990, p. 134
scribed it: “From the commercial point of view, the Philippines is an Anglo-Chinese colony with a Spanish flag.”

While not every Chinese could gain direct credit from banks, many, if not most of them, participated in the newly-opened lucrative trading business opened to them through a system which the Chinese instituted. Known as the cabecilla system, the network has a wholesaler (cabecilla) at the center who was usually be located in the same place as that of the foreign business houses which he did business with. The wholesaler, in turn, had several agents scattered across the archipelago who operated sari-sari stores (miscellaneous or pop and mom stores) which served as outlets for imported goods that were advanced by the cabecilla to the retailer usually on credit. In return, the agents procured crops for the wholesaler for the latter to sell to the foreign exporters. Pan noted that it had been the prudent practice of the cabecilla to employ relatives as his agents, usually young nephews or cousins who were minors and as such were not legally liable for debts under Spanish law. These agents in turn should not reveal the name of his cabecilla to his local creditors so that collection of debts are confined to the agent’s area. As the so-called relatives who the cabecilla employed as his agents include not only blood relatives but those coming from the cabecilla’s village as well, it is plausible to think that there had been no shortage of agents, and that the majority of the Chinese were, in one way or another, parts of the cabecilla or distribution system.

While sari-sari stores were established mainly as an important node of the cabecilla system, they eventually became central to the lives of the local population. Particularly in rural areas where cash was (and still is) always short, the locals could easily get their daily necessities such as rice, salt, sugar, cooking oil, and canned goods from the Chinese sari-sari store on credit. Farmers were also granted credit and crop advances. Thus, sari-sari stores did not only serve as frontier institutions to open new areas to Chinese economic penetration, they likewise serve as source of much-needed credit for the locals who, in the absence of state financing institutions, would find it difficult to secure credit from private banks, if at all existent. This system of extending credit to farmers and to those who have proven their credit-worthiness persists up to the present in practically all rural areas in the Philippines, a practice which partly contributed to the timely completion of my university education.

Aside from their generosity in extending credit, Chinese sari-sari stores are better patronized by the locals than their Filipino competitors because they are proven to offer much lower prices. Some Chinese shops are known for giving away some items for free. For example, when one buys a cupful of vinegar, a free clove of garlic is handed back to the customer together with the vinegar. The ability of the Chinese to sell their goods at much lower prices can be explained through their successful execution of their intermediation function.

The cabecilla system can be likened to what Leff refers to as “an institutional innovation for internalizing the returns which accrue from interactivity operations in the imperfect market conditions of

52 Recur cited in Wickberg, p. 280
53 Pan, p. 134
54 Wickberg, p. 280
the less developed countries”. The group, in this case the cabecilla and his whole army of agents, have, to borrow the words of Leff, “appropriated as gains the quasi rents of the output which Leibenstein envisaged would otherwise be foregone due to imperfect factor markets and insufficient entrepreneurship”. Thus, by internalizing the returns among themselves, Chinese traders are able to accumulate sizeable profit. As businessmen, the Chinese are faced with the question of what to do with his profit. Limlingan noted that there are two alternatives of dealing with (capital) surplus: retain it for oneself or pass it on to the consumer. The Chinese prefer to pass the surplus to the consumer. Certainly not based on altruistic motive, this strategy results to even greater profits. For by passing the surplus to the consumer, the Chinese is not only able to sell their goods at a much lower price, turn-over of goods is consequently high and therefore realizing more profits. This explains the Chinese’s much vaunted low margin/high-turnover strategy, a practice that had already impressed Bishop Salazar of Manila as far back as the 16th century. Moreover, this strategy would remove from the market place the less efficient businesses thus leaving the Chinese to establish a de facto monopoly. Lower prices also have positive social results as they tend to counteract whatever negative attitudes the local population might harbor against the alien trader. The ‘economic basis’ for their social acceptance is buttressed by the adherence of some Chinese, whether as a matter of conviction or simply as a matter of convenience, to the Christian religion.

To illustrate this, I will now cite an experience involving my grandmother with one of her Chinese creditors.

In the Philippines, baptism is considered such a sacred rite that a request for one to stand as baptismal sponsor should not be turned down. After the baptismal rite, the sponsors and the parents of the child are united in a peculiar kind of social bond, called the compadrazco system, which morally obliges each one to extend help, whenever requested, to each other as well as to anyone who is referred to for help by any of the members. Because of its exclusivity, those belonging to a compadrazco system, particularly if it encompasses the elder and respected members of a community, enjoy a certain degree of social acceptance. Mariano Lim (Mariano being his Christian name) requested my grandmother to stand as sponsor for his son’s baptism. Being a good, practising Christian, my grandmother obliged. In a way, this elevated the relationship between Mariano and my grandmother from that of an ordinary creditor and debtor to two (morally and socially) equals. Since my grandmother, together with my grandfather, were among the eldest and therefore most respected members of the village, Mariano, in his status as kumpare (how a male member of the compadrazco system is addressed; the female member is addressed kumare) of my grandmother, gained social acceptance and certain amount of respect from the villagers. On the other hand, although my mother was, as Mariano’s debtor, in an economically disadvantageous position, the fact that she is Mariano’s kumare, she believed that Mariano respects her social status and, more importantly, that she treats her fairly.

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57 Limlingan, p. 76
Towards the end of the Spanish rule in 1898, the Chinese, being a major player in the expanding cash crop trade, had already secured a sizeable share in the Philippine economy. Expectedly, this had serious repercussions on their position vis-a-vis the native population. Following the opening of Manila to world trade in the first half of the 1800s, the country experienced economic growth which eventually spawned the emergence of indigenous Filipino enterprises. Thus, whereas the Chinese had been hitherto a problem only for the Spaniards, they now pose a serious competition to the Filipino enterprises that developed during this period.

b) The American Regime

Three centuries of Spanish rule ended through the Treaty of Paris in 1898 when Spain, after its defeat in the Spanish-American War, ceded the Philippines to the United States. Shortly thereafter, American big business lobbied for large scale importation of Chinese labor, a scheme which was regarded to facilitate economic exploitation of the country through the use of cheap Chinese labor, and undoubtedly, influenced by practice of European colonizers in the neighboring countries of employing coolie labor. The proposal was rejected by the US Congress in line with the so-called American policy of ‘Philippines for the Filipinos’. In addition, there was fear in the US that the Philippines would be used by the Chinese as a jumping board to America. No amount of restrictions, however, could halt Chinese immigration. In 1899, some 40,000 Chinese were estimated to be residing in the Philippines. The American census of 1939 placed the total at 117,487.\(^{58}\) And their number continued to rise. Between the end of the Japanese occupation in 1949 and the middle of 1956, it was estimated that about 200,000 Chinese entered the country illegally.\(^{59}\)

Like their Spanish predecessors, the Americans regarded the Chinese as aliens and were thus denied citizenship rights as well as access to land. Chinese residents, however, were far better off under American rule. They were not subjected to arbitrary taxation and conversion to Christianity was not made a condition for their stay.

Chinese Entrepreneurship in the Secondary Industry

Meanwhile, the country’s foreign trade which was reoriented from Britain and Spain to the United States grew, led by exports dominated by sugar. A 25 percent preference in the American market for Philippine products was granted until 1909, free entrance within quota limits until 1913, and full free trade thereafter. With a heavy reliance on export crops, it is not surprising that the growth of secondary industry in the country from 1902 to 1918 was confined almost entirely to rice mills and sugar mills.\(^{60}\) Seventy-five percent of the country’s 2,500 rice mills were Chinese-owned.\(^{61}\) even as buying, storing, and trading of rice were under Chinese grip. Grain storage was an important fa-

\(^{58}\) George Henry Weightman. 1986. The American Colonial Policy Towards the Chinese: A Legacy and a Problem for the Commonwealth. in: Pilipinas, No. 7, Fall, p. 33
\(^{60}\) Reynolds 1985, p. 181
ility since there were no storage facilities in the rural areas and the small quantity of grain which the farmers had did not make the transport to the city centers worth their while.\textsuperscript{62}

The Chinese were likewise dominant in wood processing. They accounted for over 10% of invested capital in the lumber industry\textsuperscript{63} as well as 40% of the industry's annual output, and nearly all sawmills in the country.\textsuperscript{64}

Starting in 1918, the next twenty years saw the beginnings of import-substitution in light consumer goods. By 1939 the islands were producing dairy products, soy sauce, canned fruits, matches, liquor and beverages, leather products, paints and varnishes, fertilizers, agricultural implements, clothing, footwear, glass products, and furniture. But food, beverages, and tobacco still formed two-thirds of manufacturing output and textiles were virtually absent.\textsuperscript{65} American investment went mainly into export industries - mining, plantations, sugar centrals - or into public utilities. Very little went into manufacturing. In 1939, American investment totalled $537 million, followed by the Chinese at $200 million (largely in wholesale and retail trade), and about $100 million by the Japanese,\textsuperscript{66} the bulk of which was concentrated in abaca production in the southernmost island of Mindanao. As share of total investments, in 1932 Chinese capital at 21% stood second to the Americans' 34%, with Spanish capital trailing third at 19% (see Chart I).

**Chart I: Capital Investment in the Philippines in the 1930s**

![Chart showing capital investment by country](chart.png)

R = rentier as opposed to entrepreneurial investments  

The country's emerging import-substituting light industries likewise saw the active participation of the Chinese. They owned several salt-works and a large number of small and medium-sized factories engaged in food processing as well as in the production of tobacco and leather goods.\textsuperscript{67} In the case of tobacco, Chinese sari-sari stores in the rural areas again served as collection points for the harvested tobacco usually acquiring it through barter. The shipment of tobacco to Manila was in Chinese hands. In contrast to non-Chinese wholesalers who stayed in town centers and had to pay

\textsuperscript{63} Weightman 1960, p. 129  
\textsuperscript{64} Tate 1979, p. 463  
\textsuperscript{65} Reynolds 1985, p. 182  
\textsuperscript{66} Reynolds, p. 183  
\textsuperscript{67} Tate, p. 463
for the transport of tobacco to them, the Chinese bought at production sites, transported it themselves to town centers where it was sold to another Chinese who then shipped it to Manila where it was sold to foreign buyers or to Chinese cigar and cigarette factories. Yoshihara, in his study on Philippine industrialization, noted that many small cigarette factories were established by those who had been handling tobacco leaves themselves.

**Among the Earliest Chinese Enterprises**

**a) in Processing**

The earliest attempt at copra processing was done by a Chinese immigrant from Amoy named Lu Do who came to Cebu in 1889. Extracting coconut oil by hand, he started a small soap and candle factory. In 1907, his only son Lu Ym improved his father’s coconut oil factory through mechanization, enabling the factory to produce as much as 10 tons of coconut oil daily. In the next two decades, 3 more machines were acquired so that by the time of Lu Do’s death in 1933, the factory’s daily production capacity was already 50 tons. In 1936, the company acquired new, automation facilities from Germany’s Krupp, enabling the daily production of coconut oil to rise up to 500 to 600 tons. Two years later, Lu Ym passed away. The business was taken over by Lu Ym’s eldest son, Cayetano, who was only 19 years old then. His two younger brothers, Paterno and Cipriano, assisted him. The sons expanded the company by acquiring 10 more expellers and 12 water-powered oil expellers. They even hired an American engineer, a certain M. Blink, to supervise production. With a much improved capacity and production techniques, the brothers expanded their operation, and in 1938, they moved into the manufacture of edible cooking oil and margarine, and, copra export. Domestically, they cornered the Visayan and Mindanao markets, the latter being the country’s biggest copra producer. The Second World War, however, did not only halt the brothers’ progress, it wrought havoc to a business that was painstakingly erected by three generations. After the war, the brothers rebuilt their business and as the economy improved, their business started to prosper as well. Paterno, the only surviving brother who was 77 years old in 1992, had entrusted the details of running the family business to the fourth generation. Nonetheless, major decisions are said to be still made by him.

Today, Lu Do and Lu Ym Corporation is the biggest coconut oil processing firm in the country with 80% of its product intended for export: 40% goes to the US, 20% to Japan, South Korea, and China, and the remaining 20% for the local market. In terms of profit, it is ranked 20th in the country’s top 1000 corporations.

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68 Wickberg 1962, p. 282
69 Yoshihara Kunio. 1985. Philippine Industrialization. Foreign and Domestic Capital. Quezon City: Ateneo de Manila University, p. 100
70 Information presented here is taken from the English translation of an article on ‘Outstanding Chinese Businessmen in Cebu’ in the Chinese edition of Forbes Magazine, March 1992
b) in Banking

Moving into manufacturing was a logical step for Chinese traders who were faced with the decision of what to do with their accumulated capital. There were those, however, who went into banking. Foremost were Dee C. Chuan, then considered to be one of the richest merchants in the country who apparently made his fortune in the lumber industry hence his ‘title’ - the ‘lumber king’, and Albino SyCip who was involved in the family trading business, Yek Hua. Together with other Chinese businessmen and with some capital from outside (the sugar merchant of Java and founder of Southeast Asia’s first business empire- Oei Tiong Ham (see section on Indonesia, chapter 3) was an important subscriber), Chuan and SyCip founded the first Chinese bank, the China Banking Corporation in 1920. It was the third commercial bank in the country, the other two being the state-owned Philippine National Bank and the privately-owned Bank of the Philippine Islands which was a quasi-government bank during the Spanish colonial rule but the bulk of its paid-up capital came from the Catholic Church. Situated in Manila’s Chinatown, the bank was primarily set up to cater to the financial needs of Chinese entrepreneurs. Relatedly, the establishment of a Chinese bank is what Yoshihara refers to as an offshoot of competition with Western financial institutions. He pointed out to the fact that Chinese traders had to rely on Western banks for their banking needs. To solve the language barrier, Chinese compradors were employed by Western banks to serve as financial intermediaries. As the market economy expanded, enough capital was available within the Chinese community thus paving the way for the setting up of a bank, to meet the community’s financial needs.71 The devastation caused by the Japanese occupation did not spare the bank. In January 1942, it was placed under liquidation by the Japanese forces. Fortunately, the bank’s funds were deposited in the United States through the US Treasury Department weeks prior to the occupation.72 This enabled the bank to rebuild itself after the war. In 1995, the bank celebrated its 75th anniversary and announced the raising of its capital to $116 million, a sizeable sum indeed considering that it only had $19.6 million in total resources from accounts credited by the US Treasury Department.73

Filipinos’ Reaction to Growing Chinese Economic Dominance

As mentioned earlier, incipient anti-Chinese sentiment among the Filipinos started during the first half of the 1800s as Filipino enterprises began to emerge as a result of the country’s economic upswung brought about by its flourishing international trade. The first step taken to strike a blow at Chinese businesses, the Filipinos instigated the adoption of the Bookkeeping Act of 1921 which aimed at compelling the Chinese to maintain their records in either English, Spanish or a local dialect. In vehement opposition, the Chinese, marshalling support from overseas Chinese outside the country, took the case to the US Supreme Court where they scored victory as the Court declared the Act unconstitutional.

72 Sun Star Daily, 16 August 1995: B-17
73 Ibid.
When the Philippine Commonwealth was established in 1935 which granted the country internal autonomy and total independence scheduled for ten years later, the Filipinos started enacting legislative measures directed against the Chinese. The Commonwealth Constitution itself, which was retained after independence, excluded the Chinese from owning land, exploiting natural resources, or operating public utilities. And in an attempt to break up the Chinese monopoly in rice and corn distribution, the National Rice and Corn Corporation (NARIC) was established in 1936. In what was regarded to be a lack of technical apparatus as well as commercial know-how on the part of the government, NARIC ironically ended up selling rice to Chinese stores. Relatedly, the National Trading Corporation was set up in 1940 which aimed at breaking the stranglehold of foreign retailers of the domestic economy, a move clearly directed against the Chinese who dominated the retail business since the Americans were hardly engaged in this sector. In 1941, an ordinance was passed by the Manila municipal board which granted priority to Filipino applications for license to operate a stall in the city’s public markets. The outbreak of the Pacific War, however, delayed its implementation until 1948.

Japanese occupation of the archipelago during the Pacific War caused temporary setback to Chinese business activities. As in other parts of Southeast Asia, the Chinese in the country were considered suspect by the Japanese who regarded them as active supporters of China during its war against Japan. After the war, however, the Chinese recovered quickly. Weightman noted that the postwar restoration of major commercial sections of most Philippine cities was done with Chinese capital. It did not take long for the Chinese to regain their dominance in the retail trade which was estimated at 85% by the last American High Commissioner in the Philippines.\footnote{Weightman 1960, p. 140}

**Post-Colonial Era**

After the country gained its independence from the United States in 1946, the Filipinos renewed their campaign, which was interrupted by war, to legislate the Chinese out of trade completely. The first in a series of anti-Chinese legislations was the Import Control Act of 1950 which favored the Filipinos in the allocation of foreign exchange. This was intended to emasculate the Chinese’s dominant position in the import-export trade. The most serious blow was dealt with the enactment of the Retail Nationalization Act in 1954 which stipulated that: “No person who is not a citizen of the Philippines, and no association, partnership, or corporation the capital of which is not wholly owned by citizens of the Philippines, shall engage directly or indirectly in the retail business”. While the law prohibited all foreign nationals from engaging in retail business, it was clearly aimed against the Chinese since it was they who dominated the business. As an accompanying piece to the Retail Nationalization Act, the National Marketing Company (NAMARCO) was set up to import goods duty free and sell them to licensed Filipino dealers for distribution. These goods were instead resold by some Filipino dealers to the Chinese instead of selling the goods themselves. The law was not, however, without a negative impact on government revenues. The Treasurer of Manila reported that for the fiscal year 1955, the city’s revenue was expected to drop by more than
half a million pesos because the biggest taxpayers, the Chinese, had closed shop. Although there were no legal impediments for the Chinese to apply for Philippine citizenship, those who tried found the process not only long and laborious, it was very expensive as well. Hence many of them tried to hold their ground by finding ways to circumvent the law. They used dummies or names of their Filipino common-law-wives. Others resorted to a time-tested solution: bribery. There were those who took their capital out of the country and invested it elsewhere particularly Hong Kong.

The Import-Substitution Stage

It should be noted that the nationalization law affected only those who were non-naturalized Chinese engaged in retail trade by the time of independence. In comparison with their naturalized compatriots, they were the majority. Meanwhile, those who were already engaged in light manufacturing during the American occupation were not directly affected by law. The nationalization of retail trade did not turn out to be that detrimental to Chinese business interests as what the legislators and the Filipinos in general had intended. For while the Chinese were barred from one economic activity, another, and an even more lucrative undertaking was opened to them - manufacturing - where their participation was not only prohibited, it was in fact de facto encouraged. To attract investors in manufacturing, the government offered several incentives, among them, low-interest loans from government banks, protection from foreign competitors by severely restricting the latter’s entry, and despite import control, permission to import necessary inputs such as capital goods, intermediate goods, and raw materials. Thus, by moving into manufacturing from trading, the Chinese was ironically transformed from a disfavored to a protected investor.

This new development strategy bode well for the Chinese who, with their accumulated capital from trading, did not find the shift to manufacturing financially difficult. As a matter of fact, nearly 90% of those who moved to manufacturing were traders before the war. As a natural consequence of their trading activity, many of them went into the production of good which they once imported and sold in the domestic market. Foremost were the textile traders who shifted to textile production and since then have dominated the industry. One exception among the major figures in the industry was Tee Chiong Pec of Eastern Textile Mills. He came to the Philippines in 1909 and among his many business activities, textile trading was a major one. In 1940, he returned to China and set up a textile mill in Shanghai which he was forced to abandon after the Communist victory in 1949. In Hong Kong where he fled, he went into the export business and two years later returned to the Philippines. In an apparent combination of technical know-how and capital, he founded the Eastern Textile Mills together with his cousins and nephews who were all pre-war textile traders.

By the early 1960s, Chinese share in manufacturing was already significant. According to official statistics, of the enterprises which employed more than 10 workers, 35% were Chinese-owned, and, in another study of 284 enterprises employing more than 100 workers, 37% were likewise

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75 Appleton 1960, p. 159
76 Limlingan 1986, p. 107
77 Yoshihara 1985, p. 90
78 Yoshihara, p. 92
Chinese-owned. Furthermore, Yoshihara’s study of 250 manufacturing companies which belonged to the country’s top 1000 corporations (based on gross receipts) in 1968 showed that 163 of these were domestic companies, of which 80 were Chinese-owned and 83 by Filipinos. The study likewise noted that the manufacture of coconut oil, some food products, tobacco, textiles, plastic products, footwear, glass and certain types of metals such as tubes and pipes, wire rods, nails, bolts, and containers was dominated by the Chinese, whereas the Filipinos dominated sugar, industrial chemicals, fertilizers, cement, rolling mills, galvanizing plant and tin plate.

**Among the Newest Entrants in the Tertiary Industry**

**a) in Transportation**

Quite a few Chinese had ventured into the transportation sector such as in the shipping industry. Sea transport is one of the best and cheapest ways to transport people and goods across a country, which, being an archipelago, consists of more than 1000 islands and islets. One enterprising and pioneering Chinese in this sector is William Chiongbian who founded the William Lines in 1949 which, by the end of 1993, was the most profitable inter-island shipping company ranking first in gross revenue generated as well as net income among the country’s seven biggest shipping companies. The eldest son of Fujian immigrants, Chiongbian was born in the province of Misamis Occidental in the southermost island of Mindanao in 1914. His father, who was engaged in copra trading, operated a cargo/passenger service using a chartered motorboat. Son William worked for his father. In 1939, following the untimely death of his father, William, together with his younger brother Alex, had to work hard to liquidate the debts of their deceased father. During the war, William supported his family by bartering sugar, dried fish, and cigarettes on board his chartered outrigger which enabled him to sail easily from one island to another. With dogged determination and money earned from trading, William acquired his first ship in 1945. Sunk and later repaired by the US occupation forces, this ship launched the William L. Chiongbian Shipping. Later, he purchased two F-boats from the US Naval Base. Two years later, he added five FS ships to his fleet and, in 1949, he incorporated his business giving birth to William Lines, Inc.. Three more ships were acquired in 1950 and in that same year, William Chiongbian was voted ‘Shipping Man of the Year’. In 1966, William passed the management of the company to his children, the company he singlehandedly founded and presided over its growth and expansion for more than two decades. At the close of fiscal year 1992, based on gross revenues, William Lines, Inc. ranked first in the shipping industry and 86th in the country’s top 1000 corporations.

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80 Yoshihara 1985, p. 37
81 Company Prospectus dated 11 April 1995, p. 37
82 The information presented here is taken from “William L. Chiongbian: The Dreamer. The Legend”, 78 pages, undated and written by retired Judge Francis J. Militante. A copy was given to me personally by William Chiongbian on 14 August 1995.
83 Company Prospectus, 11 April 1995
b) in Banking

The early 1960s likewise marked the entry of a Chinese-Filipino entrepreneur, a latecomer, into the banking sector. George S.K. Ty, son of a Chinese immigrant, made do of his relatively meager inheritance from his father, who was said to have left his prime assets, mainly land, to Ty’s stepmother and half-brothers since he was not quite the favorite among his father’s children, by investing it in Metrobank. Founded in 1962, the bank was initially a mere financial appendage of the Ty-family companies which were grouped around Wellington Investment.84

In the early 1970s, Ty, upon the recommendation of the bank’s former president at that time, opened branches in the provinces making it the first private commercial bank to directly compete with the government-owned Philippine National Bank.85 Since the bank’s primary clientele are medium-sized Chinese-Filipino businesses, the majority of them being situated in remote areas, opening provincial branches brought banking services nearer to its market. And as their clients prospered, so did the bank. Aptly described by the taipan himself: "The businessman who was borrowing 100,000 pesos from us in the 1980s now borrows tens of millions, even hundreds of millions."86 In 1994 Metrobank, with its registered profit of $103.2 million outranked the state-owned Philippine National Bank with the latter’s $81.9 as the largest in terms of profit.87 More significantly, it surpassed the century-old Bank of the Philippine Island which is controlled by Filipinos of Spanish-descent. This feat, remarked a foreign banker, ‘signals the ascendency of the country’s Chinese-Filipino elite over the traditional, mostly Spanish-descended oligarchy’.88

The financial operations of Metrobank have expanded overseas. As early as 1970, it opened its first international branch in Taipei and since then, it claims to be the only Philippine bank authorized by the Taiwanese government to operate in the country.89 Today, the bank has two branches in Taipei, one in Kaohsiung, and, another one in Taichung. With a collective loan portfolio of $140 million, these branches are at a vantage position to capture the banking business of Taiwanese investors coming to the Philippines.90 In addition, it is said to be actively participating in the booming business between California and Taiwan through the facilities of a subsidiary, the International Bank of California.91 In the region, Metrobank belongs to the circle of the biggest institutions, with a ranking of 28 among ASEAN’s top 50 banks in terms of assets.92 With Metrobank as its flagship, Ty has expanded its business empire to include life and non-life insurance, leasing, stockbrokerage, real estate and property development, as well as distributorship of Toyota cars with its 35% stake at Toyota Motor Philippine Corporation.

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85 Tiglao, p. 61
86 Tiglao, p. 62
87 Asiaweek, 15 September 1995, p. 94
88 Tiglao, p. 61
90 Tiglao, p. 63
91 Ibid.
92 Asiaweek, 15 September 1995, p. 98
Export-Oriented Industrialization

As the more than ten-year import-substituting industrialization had saturated the domestic market with locally-produced manufactured goods and sustained growth became more difficult to attain, the government undertook a shift in its industrialization policy. Export-oriented industrialization was launched and foreign investments were encouraged. In 1967, the government, through the provisions of Republic Act 1586, declared it the policy of the state ‘to welcome and encourage foreign capital to establish pioneer enterprises that are capital-intensive and would utilize a substantial amount of domestic raw materials in joint venture with substantial Filipino capital whenever available’. Encouraged by liberal incentives offered by the government, foreign investors responded. Private direct investments, which by the end of 1970 amounted to $25.1 million, grew 23 times by the middle of 1976. The Americans, followed by the Japanese, were the major foreign investors.

For the Chinese community, the 1970s marked a turning point in their economic participation basically brought about by changes both in the international as well as in the domestic political climate. The United States restored diplomatic relations with China in 1979, a move which former Philippine President Marcos viewed necessary to follow as he tried to undercut the communist-led insurgency that raged and nearly ravaged the Philippines’ countryside. Marcos’ dilemma, however, was that by establishing relations with Communist China, he would antagonize the Chinese-Filipino community which has a close and long-standing relations with Taiwan and is therefore understandably strongly opposed to China. On the other hand, Marcos needed the community as his power base since the wealthy Filipino elite particularly the Spanish mestizos were withdrawing their support to his government. Shrewd a politician as he was, Marcos found a solution which brought him optimal benefits. In 1975, he liberalized the country’s citizenship laws. Whereas naturalization normally required court proceedings that could last for 10 years, the new law required only administrative measures to gain citizenship. This resulted to massive naturalization of the Chinese who, in gratitude to Marcos, were said to have remained his loyal supporters particularly during the dictator’s dark days. Reports had it that while many Spanish mestizo and Filipino businessmen and professionals fled the country to the United States and Canada in the early 1980s, most Chinese-Filipinos stayed and expanded their business. Another study showed that, from 1980 to 1990, the share of those owned by Filipinos and Spanish-Filipinos among the country’s top 1000 corporation in 1990 registered a decline in comparison to that of those owned by Chinese-Filipinos. So that just as a good portion of Filipino capital was leaving the country, Chinese-Filipino capital somehow helped kept the economy afloat during the years of financial and political turmoil immediately preceeding the collapse of Marcos’ regime.

Unlike their counterparts in Malaysia and Indonesia, who because of the governments’ bias in favor of the indigenous population, a bias aimed at correcting the economic imbalance between

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them and the Chinese community, naturalized Chinese-Filipinos enjoy the same rights and privileges as the indigenous Filipinos. Thus, as a result of massive naturalization, restrictions against Chinese participation in agriculture and retail business were lifted. Chinese-Filipino businesses consequently grew and expanded. One proof to this is the fact that the assets of Chinese-Filipino companies doubled during the period from 1978-1988 accounting for 23% of total assets of the country’s top companies even as they were estimated to control 146 of the country’s top 494 corporations, excluding the six largest government-owned companies and privately run utilities. In another study, of the 259 corporations belonging to the top 1000 in the country on the basis of a 1980 listing, it was found that 33.6% of the top manufacturing firms as well as 43.2% of top commercial firms were all Chinese-owned.

Naturalization also brought the Chinese-Filipinos another advantage. As Filipino citizens, they were eligible to become local partners of foreign investors. This gave a further boost to their already prosperous businesses. Of the foreign investors who usually sought Chinese-Filipinos as their local partners are the Japanese and the Taiwanese. Tsuda’s 1976 preliminary study of Japanese-Filipino joint ventures showed that 26% of Japanese capital’s major local partners were Chinese-Filipinos. It should be noted that Japanese capital in the Tsuda study represented no less than Japan’s six ‘modern zaibatsu’ - Dai-ichi Kangyo Bank Group, Mitsui, Mitsubishi, Sanwa, Fuyo, Sumitomo - and seven konzern - Toyota, Matsushita, Nippon Steel, Hitachi, Toshiba, Honda, Nissan (Tsuda’s classification). Tsuda’s list of their Chinese domestic partners read like a who’s who in the Chinese-Filipino business community.

The links of Chinese-Filipinos with Taiwan, cultural as well as political, have a long history. In 1954, Kuomintang agents initiated the founding of the Filipino-Chinese Chamber of Commerce in an attempt to unite and gain control of the politically disparate Filipino-Chinese community. Despite several attempts in the succeeding years by pro-Peking elements within the community, the Chamber remains up to present staunchly pro-Taiwan. As the Philippines undertook the difficult task of luring foreign investors back to the country after the fall of the dictator Marcos in 1986 which left behind a tottering economy, Taiwan responded. In 1989, Taiwanese investments (based on approved projects) ranked only second to that of Japan, representing 18% of total approved investments. This did not, however, reflect the accurate picture since much of Taiwanese investments are concluded privately with their Chinese-Filipino counterparts and are therefore not captured by official statistics. A Taiwanese official in Manila admitted that a very important reason why the Philippines is attractive to Taiwanese businessmen is the availability of ready associates in the Chinese-Filipino business community who speak the same dialect, Fukienese, as the Taiwanese.

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96 Tiglao 1990, p. 68
97 Limlingan 1986, p. 4
98 Tiglao 1990, p. 69
99 Tiglao, p. 69
Consistent Major Players in Development

Chinese-Filipinos have undoubtedly always played a significant role in the country’s economic development. Constituting a mere 2% of the population, they wield an economic clout unerringly disproportionate to their size. The Palanca study of the country’s top 1000 corporations based on gross revenue for the year 1990 provides a most recent picture of their share of the country’s economic pie. To start with, they account for one-third of the country’s largest corporations. In terms of industry distribution, Chinese firms account for half of the trade sector, a third of the manufacturing sector, and a fourth of the finance sector. In trade, they continue to dominate the wholesale and retail business as well as in import-export. In manufacturing, Chinese-Filipinos continue to dominate the production of goods they specialized in prior to the war. These are textiles, garments and leather products, food and beverage, and, steel and metal products.\textsuperscript{100} In finance, the combined assets of all Chinese-Filipino commercial banks account for 25.72% of total assets in the entire commercial banking system, that is, including two government commercial banks and four foreign banks.\textsuperscript{101} Chinese-Filipinos are likewise dominant in other branches in the tertiary sector. The inter-island shipping industry is dominated by four huge Chinese-owned shipping lines led by William Chiongbian’s William Lines even as the major share of the country’s official carrier, Philippine Airlines, is the hands of taipan Lucio Tan. Cebu Pacific Air of taipan Gokongwei and tycoon Manuel Gatchalian's Manila Air are the newest Chinese-Filipino owned air carriers in the industry. Telecommunications’ monopoly, long entrenched in the hands of one Chinese-Filipino, was dismantled by President Ramos in 1994, a much welcomed move to liberalize the economy. One of the current significant players in the telecommunications industry is taipan John Gokongwei. In the fastfood business, Filipinos, despite their known ‘love affair’ with American food, have so patronized Jollibee, a Chinese-Filipino fastfood chain which markets Filipino-style hamburger, that they have effectively dislodged the industry’s leader McDonald’s which is licensed nationwide by a Chinese-Filipino. Jollibee meanwhile has expanded its operations by setting up subsidiaries in Hong Kong, Brunei and Indonesia.\textsuperscript{102}

\textsuperscript{100} Palanca 1993, p. 6
\textsuperscript{101} Go Bon Juan. Ethnic Chinese in Philippine Banking. undated and unpublished. A copy obtained from the library of the Philippine-China Resource Development Center in March 1994.
Conglomerates, Large Tycoons, Very Affluent Traders and Manufacturers, Rich Sari-Sari Store Owners

It be would wrong to think that Chinese-Filipino businesses are homogenous. Just like in other parts of Southeast Asia, they vary in size and business interests. To differentiate them, I classify them into four: conglomerates, huge businesses, medium-sized enterprises, and, retail stores.

Conglomerates

Current literature on Southeast Asian Chinese hardly mention Chinese-Filipino conglomerates. True, they may not be as huge as the Salim (Indonesia), Kuok (Malaysia) and Sophonphanich Thailand) business empires but they are, by no means, tiny. The emergence of Chinese-Filipino conglomerates is, however, a relatively recent development dating some 10 to 15 years ago. At present, 6 such conglomerates are considered to be the biggest in the country and their operations now extend beyond national borders. One example of a Chinese-Filipino conglomerate is the JG Summit Holdings which belongs to taipan John Gokongwei, Jr..

JG Summit Holdings, Inc.

A holding company of 28 wholly-owned companies and subsidiaries (see Exhibit II) with business ranging from food and agroindustrial products, textiles and garments, real estate and hotels, telecommunications, petrochemicals, electronic components, power generation, finance, insurance broking, banks, printing services, newspaper, packaging materials, detergent products, and cement, JG Summit Holdings, Inc. was established in 1990 and is owned by the Gokongwei family headed by taipan John Gokongwei, Jr.. Born in Amoy, now Xiamen, in Fujian Province, Gokongwei presides over the biggest diversified conglomerate in the Philippines which registered a total assets of US$1.23 billion in 1993, the year the company was opened to public ownership.

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How They Came and How It All Started

Pedro Gotiaco was a typical impoverished, young Chinese migrant who came to Cebu in central Philippines in search of a better life. Anecdotal evidence had it that Pedro started by selling kerosene. The young Gotiaco fell asleep one day, by the road, from sheer exhaustion of the day’s work. He was awakened by a Vietnamese rice trader who just arrived with a boatload of rice who asked him if he would sell rice for him. The Vietnamese chose him because, as the tale goes, he saw Pedro sleeping with his left hand on his chest, a sign, according to a Vietnamese belief, of an honest man. Having left his rice under the custody of Gotiaco, the trader left Cebu. Upon his return, a complete report was presented to him by Gotiaco. He was impressed by the latter’s honesty that he rewarded him with the unsold rice. This provided Gotiaco with the initial supply to go into rice trading himself. As the business prospered, he established the Gotiaco Hermanos Inc. which traded rice, copra and abaca. Later, he founded a shipping and an insurance company. The latter was said to have had links with insurance companies in Pittsburg and New York.

Gotiaco had three wives. The first was Li Ah Kiet whom he married in China and with whom he had three sons. The eldest, Go Chiong Wie, is John Gokongwei, Jr.’s grandfather. It is not known whether Chiong Wie followed his father, but the second son, Tian Wi came to Cebu to join his father’s business at the age of 20 after graduating from St. Joseph’s College in Hong Kong. Later taking on the name Manuel Gotianuy, Go Tian Wi developed good relationship with Cebu’s politicians and businessmen so that, in 1925, the Chinese government conferred him the title of Consul in Cebu. As to the third brother, Chiong An, his whereabouts seemed to be unknown Gotiaco’s second wife, a Filipina, is said to be the mother of one of the country’s most honored senior politicians, Sergio Osmeña, Sr. who was vice-president of the Philippine Commonwealth. While there are, on one hand, expressed doubts regarding the authenticity of Osmeña’s biological relations to Gotiaco, there are, on the other hand, no evidences available to prove the contrary. The 10th volume of a collection of Jinjiang historical documents published by the Fujian Political Association, however, indicates that Sergio Osmeña’s Chinese name is given as Go Si Bin. Old Cebu businessmen say that to avoid future quarrels over inheritance, Gotiaco had entrusted the young Osmeña to the latter’s maternal grandmother. With his third wife, an Italian-mestiza, Gotiaco had a daughter, Go Sa Ti, commonly known as Dona Matesta. Matesta, having been born in Cebu, was sent to China when she was 15 years old ‘to learn the Chinese ways’. She lived with Gotiaco’s first wife and Gokongwei’s great grandmother, Li Ah Kiet, whose only daughter died at a very young age. After getting married in China, Matesta returned to Cebu. Her five sons later built the Gaisano business empire, a major player in the country’s retail business.

John Gokongwei, Jr. was barely a year old when he and his mother were taken by his father to Cebu. All the other members of the family, four brothers and a sister, were born in Cebu. Gokongwei, Sr. joined the business established by his grandfather Gotiaco. However, his untimely demise

104 Unless otherwise indicated, sources of the information presented here are a) interviews I conducted in Cebu City in August 1995, and b) an English translation of an article on the ‘Outstanding Businessmen in Cebu’ which appeared on the Chinese edition of Forbes magazine in March 1992, pp. 64-69
in 1939 caused by illness followed by the Second World War which wiped out the fortune the old man Gotiaco had established brought untold economic difficulties to his family.

Following the death of her husband, John’s mother took all the children, except John, back to their ancestral home in Amoy. John Jr., then barely 12 years old, stayed behind and, under the care and tutelage of his grand-uncle Manuel Gotianuy in Cebu, started learning the ropes of business. In 1940, a year after his family left and coinciding with the start of the Japanese occupation in the country, John’s younger brother Henry returned to Cebu and joined John in small trading which the latter started with a bit of seed capital extended to him by a Chinese bank acquired through the assistance of his uncle. Aboard rented wooden canoes, John Jr. and Henry plied the waters of the Visayas, trading their wares across the islands of Cebu, Leyte and Bohol even as they were fleeing from the Japanese. A year after the Japanese surrendered, the Philippines acquired its independence from the United States in 1946. Just as John and his brother Henry managed to do business despite the difficulties and hazards of war, the new political stability certainly bode well for their commercial undertaking. This time they imported used clothing from the United States as well as fruits and vegetables and sold them locally. In 1949, John’s mother together with his 3 brothers and only sister returned to Cebu from Hongkong where they took refuge just on time before the Communist took power in mainland China. With the family together, John assumed the role of the bread-winner.

Meanwhile, the vigorous pre-war campaign of indigenous Filipinos to legislate the Chinese out of trade completely which was temporarily halted by the outbreak of war had re-surfaced. With the intention of emasculating the Chinese’s dominant position in the import-export trade, the Import Control Act of 1950 was passed which favored the Filipinos in the allocation of foreign exchange. At the same time, however, the government launched an industrialization policy based on an import-substitution strategy with the ironical consequence that although doors were shut against the Chinese in trade, doors in the manufacturing sector were opened wide for them. Moreover, just like the indigenous Filipino investors, they enjoyed all government incentives extended to manufacturers who were producing for the local market. Gokongwei reacted to this shift in government policy by going into manufacturing. With liquid assets from his trading activities coupled with government incentives, Gokongwei had, as it were, a good start.

The "Food, Clothing and Shelter Companies": How They Grew

With the benefit, among others, of expert advice from a Chinese engineer in Cebu who had sufficient technical training and experience in corn milling, Gokongwei founded in 1954 a cornstarch factory in Manila, the Universal Corn Products (UCP). This was the start of his entry into what subsequently developed as a huge agribusiness industry. Gokongwei had no difficulty acquiring the necessary equipment required for his operation since the business fell within the import-substitution strategy of the government, hence, the purchase of production machinery from abroad

106 Paras, p. 105
was not covered by import-control limitations. UCP produced not only cornstarch but glucose, corn oil, corn grits, corn by-products, soy meal, soybean oil and animal feeds. To ensure a steady supply of gluten, a basic raw material for the manufacture of animal feeds, UCP went into farming.\textsuperscript{107} As the company grew, expansion into related areas of business became a logical move. Thus, from the production of feeds, the company went into chicken and pig farming. A new company, Robina Farms, was established to take care of this operation. Another logical diversification ensued later with the establishment of Robichem which manufactures veterinary compounds. Thus, in just 12 years after he started his cornstarch business, Gokongwei found himself presiding over a diverse as well as growing agroindustrial group of companies. In 1966 he established the Universal Robina Corporation (URC), named after his eldest daughter, as the umbrella organization of UCP, Robina Farms, and Robichem, a move no doubt intended to ensure effective management of such a huge operation. URC continued to grow and diversify consequently claiming a substantial part of the market. In meat processing, curing, preserving and canning, it comes third behind Concepcion's RFM and Ayala's Pure Foods in terms of gross revenues, accounts nonetheless for 69.05% of the sector's net income.\textsuperscript{108}

Parallel to his success in agribusiness, Gokongwei expanded into a related field, food manufacturing. In 1961 he founded Consolidated Foods Corporation (CFC) with coffee, bearing the name Presto, as its first major product. On the basis of the market study conducted, it was found out that raw material for excellent coffee was not only locally available in abundant quantity but that coffee is an indispensable part of the morning meal in more than half of all Philippine households. Moreover, it was pointed out that coffee could be manufactured locally at reasonable costs and could therefore be marketed at prices generally affordable by most households, a welcome alternative to the more expensive, imported coffee then dominating the market.\textsuperscript{109} Two years later, CFC introduced a new brand, Blend 45, apparently intended to rival Nestle's upmarket brand Nescafe. Blend 45 was such a huge success that CFC decided to drop the Presto label altogether and concentrated on the new brand which, since then, carries the fame of being the country's largest-selling brand of coffee. Having attained its initial success, CFC diversified later into other food products such as chocolate bars and biscuits, and in the early 70s, it went into the manufacture of ice cream, under the label Presto, and instant noodles. Today, CFC produces a wide array of food products: snack foods (the most famous brand being 'Jack and Jill Fun Snacks'), coffee products, instant noodles, chocolates, soft and hard candies, biscuits, ice cream and frozen confectioneries, powdered milk, pasta, cereals and tomato-based products.

To service its growing food manufacturing business, Continental Milling Company (CMC) was set up in the early 70s to undertake flour milling operations. Although its products are sold in the market, a significant portion is used for the manufacture of instant noodles, pasta and biscuits and crackers. Flour by-products such as wheat germ and bran and pollards are used in agribusiness and the rest are sold in the market.

\textsuperscript{107}Paras, p. 105
\textsuperscript{109}Arlene P. Babst. 1976. "Who is Gokongwei?" in: Outlook, July, p. 36
As the price of sugar in the world market plummeted in the mid-1980s causing many sugar mills to close shop, Gokongwei immediately grabbed the opportunity and bought three bank-foreclosed sugar refineries. He acquired the Universal Robina Sugar Milling Corporation (URSUMCO) in 1986 and two years later, the Southern Negros Development Corporation (SONEDCO). The third acquisition is Cagayan Robina Sugar Milling Company (CARSUMCO) which was bought in 1990. Acquiring these refineries at an attractive price was certainly an astute move both in terms of ensuring a steady supply of sugar to the group’s food companies as well as a market supplier of this essential commodity. Gokongwei is at present the country’s biggest sugar producer.\textsuperscript{110}

Gokongwei’s diversification moves continued unabated. While agribusiness and food manufacturing are closely related, in the early 1970s, he entered into what appeared to be a completely new venture, textile production. In reality, however, he simply returned to an old, familiar terrain, bearing in mind that he traded in used clothing after the war. Robitex was formed and specialized in the production of cotton, synthetic and blended fabrics. In the late 1970s, Litton Mills, a manufacturer of denim, twills, knitted fabrics and garments, was acquired. With an eye on the lucrative export market, Brittania was formed in 1989 to operate a garment factory that specializes in exports to Japan, and, in 1990, Westpoint Mills was established to provide the additional yarn requirements of the now bourgeoning textile operations as well as for export. This textile group claims to be a leading manufacturer of high quality denim in Southeast Asia. Proof to this is the fact that it supplies denim to Levi Strauss (Far East) Limited and Levi Strauss (Philippines) Inc. as well as to leading jeans manufacturers in Japan.

Gokongwei is said to fondly refer to his enterprises as “the food, clothing and shelter companies”.\textsuperscript{111} His first crack at property development was in the mid 1970s. The government offered state-bank financing to developers prepared to build hotels for the 1975 IMF-World Bank annual meeting in Manila. He snatched the offer and built the Manila Midtown Hotel under a franchise agreement with Ramada Hotels International which was later terminated in 1981. In yet another brilliant display of his entrepreneurial skills, Gokongwei is said to be one of the few big capitalists who gambled on the country’s political stability after the collapse of the Marcos regime. In 1987, he invested a hefty sum to build a shopping mall in an area which commercial viability was still in question. To finance the construction of the mall, the Robinson’s Galleria complex, he opened his Robinson’s Land Corporation (RLC), which is principally engaged in the ownership, development, sale, lease and management of mixed use commercial complexes, to public ownership in 1989. The mall has been a success and so is the area with land prices skyrocketing from 2000 pesos per square meter to 35-40,000 pesos.\textsuperscript{112} Meanwhile, he added two more hotels to his Manila Midtown hotel, namely the Manila Galleria Suites and the Cebu Midtown Hotel which were completed in 1993 and 1992, respectively.

\textsuperscript{111} Asiaweek, December 22, 1978, p. 21
\textsuperscript{112} Tiglao 1993, p. 68
Investments in Other Fields

Banking
Gokongwei’s growth has been helped, not to a minor degree, by his investment in Far East Bank made in the early 1960s. Not only supplying Gokongwei with a reliable flow of profits, the bank affords him as well a “listening post from which to observe the entire economy” and quite consequently, to be able to make the right business decisions at the right time. He, however, caught public attention when, in 1987, together with Eugenio Lopez, the patriarch of the Lopez family who was disenfranchised by Marcos and who sent Eugenio to jail where the latter survived for five years, jointly purchased the Philippine Commercial International Bank (PCIB). With 19.7% equity share, Gokongwei is the single biggest investor in the bank. With international branches, among others, in Frankfurt and Amsterdam, PCIB is the country’s fourth-largest commercial bank.

Electronic Components
As manufacturers of electronic equipment, mainly Japanese, opened shop in Southeast Asia to benefit from low production costs, Gokongwei promptly established Mark Electronics Corporation in 1980 which is engaged in the manufacture and sale of printed circuit boards, double- and single-sided. Virtually all of MEC’s products are sold to Uniden, Mitsumi and Matsushita which utilize these components in their assembly operations in the Philippines. In 1992, Cambridge Electronics Corporation was established to manufacture double-sided and multi-layer printed circuit boards which are all intended for the export market.

Power Generation
In 1992, Gokongwei teamed up with Lopez again to seize the opportunity offered by a government desperately seeking for a solution to solve the country’s crippling power crisis. They set up the First Philippine Power Corporation (FPPC) which is engaged in baseload power generation for private supply. Under the build-operate-transfer agreement of the government, FPPC will operate the power plant for 15 years from the date of its completion before handing it to the National Power Corporation, the government entity that generates virtually all of the country’s energy requirement. Gokongwei’s share is 20 percent while Lopez’s Manila Electric Company, the country’s largest distributor of electricity, holds 40 percent. Should Gokongwei and Lopez join forces again, as many business observers expect they would, this could become the country’s most powerful business alliance.

The Group’s Express Holdings, Inc. took a 20% stake in Toledo Power Corporation in 1994. Situated in Gokongwei’s ‘homeprovince’ Cebu, the Corporation intends to rehabilitate its power plants which currently supply one-third of Cebu’s power requirements.

113 Tiglao, p. 68
114 Tiglao, p. 66
Telecommunications

In keeping with the government's liberalization policy, President Fidel Ramos finally dismantled the long-entrenched telecommunication's monopoly in the country in 1993. Gokongwei lost no time in grabbing a financially lucrative yet underdeveloped area, precisely because of the existing monopoly, as millions of Filipinos are eagerly waiting for a telephone unit. Digital Telecommunications Philippines, Inc. (DIGITEL), a company established in 1987 to operate a domestic telephone system, sold 57% of its outstanding shares to Gokongwei in mid-1993. In early 1994, Digitel obtained a national franchise allowing it to operate a nationwide and integrated telecommunications system, and in September of the same year, the company was granted a provisional authority to install and operate an international gateway facility, marking Digitel's entry into the lucrative international long distance business. Digitel has, in 1995, forged alliances with Sweden's TELIA AB and Thailand's Jasmine International Public Co. in a move to further strengthen its technical and management capabilities.  

Petrochemicals

Considering petrochemicals as a necessity in the Philippines' bid to join, albeit late, its neighbors Thailand and Malaysia in their feverish race towards industrialization, the country's Board of Investment (BOI) has been desperately wooing petrochem investors with its offer of a six-year income tax holiday plus tax- and duty-free imports of capital equipment. With a solid financial base and US$400 cash in the pocket, the Gokongwei group responded to BOI's call. In February 1994, JG Summit Petrochemical Corporation (JG Petrochem) was incorporated to construct and operate a US$350 petrochemical plant. Not only has the Corporation already acquired the site for the plant, it has likewise acquired a reputable strategic partner, Japan's Marubeni Corporation which has a 20% stake in JG Petrochem.

The project is expected to breakground during the first half of 1995 and be onstream by 1997.

Others

As Chinese-Filipino stockmarket magnate Roberto Coyiuto's exploration firm Oriental Petroleum and Minerals was threatened by a corporate raider, Gokongwei came to his rescue by outbidding the antagonist and took 19.6% control of the firm. He now has four of the company's eleven board seats even as he assumes the roles of chairman and chief executive officer. Another company in distress which Gokongwei rescued in 1995 is Apo Cement Corporation which produces one of the country's most respected cement brands, Apo Cement. Rehabilitation is meanwhile underway with the purpose of doubling the plant's daily output. With the current boom in the construction industry, which is partly responsible for the country's economic upturn, as well as the Group's own cement needs investing in the cement industry appears to be a common business sense.

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115 JG Summit Holdings, Inc. Annual Report 1994, p. 18
117 Far Eastern Economic Review, 5 May 1994, p. 79
Gokongwei vs. San Miguel Corporation: The Biggest Ethnic Strife in Philippine Corporate History

More than a century old San Miguel Corporation, a colossal financial empire belonging to the Soriano family of Spanish-descent, is, to most Filipinos, almost like a national institution. Never mind that its president, Andres Soriano, Jr., is an American citizen. When John Gokongwei, an 'outsider', attempted to secure a seat in the company’s 11-man board, it caused national uproar, at least on the daily papers.

In May 1978, Gokongwei with his 4% share of San Miguel’s stocks, ran as the 12th and the only non-management candidate for a seat in the board. It was his third attempt - all three years in a row - and just like the previous two, he failed. His petition before the Securities and Exchange Commission alleging a disparity between the number of shares said to be represented at the meeting, and, the number, which included proxy votes, subsequently counted did not as well progress. San Miguel Corporation, a beer and food giant, argued that with Gokongwei’s investment in San Miguel worth US$9.5 million (through CFC Corporation and Universal Robina Corporation, both food manufacturing enterprises), Gokongwei is a ‘shrewd competitor whose plan is to undermine the corporation’. Outsiders, however, believe that San Miguel’s objection to Gokongwei is not much his competing business interests as his humble, non-patrician origins. While the Sorianos were born to riches, Gokongwei is a self-made millionaire who earned his bucks the hard way. In short, Gokongwei is not of the same pedigree as the Sorianos, hence he does not have a place in the latter's hallowed board room. Gokongwei did not, however, suffer a complete loss. He fought a heroic battle which significance is aptly described by one of the country’s renowned columnist Teodoro F. Valencia who wrote: “True, John Gokongwei, Jr. failed in his bid to gain a seat in the giant San Miguel Corporation but that was no victory for the SMC management ... (Gokongwei’s) moral victory is undeniable .... What happened to the San Miguel Corporation election of directors was something electrifying to the business community. It was like a full-scale “war” that summoned all the available defenses of the entrenched San Miguel management group. The results were not material. What was spectacular was the battle, the reaction of the stockholders and the management. Mr. John Gokongwei, Jr. won the battle as soon as it started. Nobody had anticipated that anybody would give the San Miguel moguls that kind of a fight (underscoring supplied). The methods employed by the protagonists somehow hurt the corporation itself. The full-page ads of San Miguel Corporation against a substantial stockholder left a bad taste in the mouth. However you want to look at what happened, the giant utilized the weapons reserved for pygmies. The pygmy was the giant ...”

Gokongwei not only scored moral victory from the loss, he profited from it financially as well. His shares which he disposed of after his third failed attempt nearly doubled in value. This had helped him a great deal in modernizing his factories as well in his move to the hotel and department-store business.

118 Asialweek, 22 December 1978, p. 20
119 cited in Babst 1976, p. 41
120 Tiglao 1994, p. 110
Harvard, MIT and Wharton 'Boys' at JG Summit

Having successfully built his business empire primarily through corporate profits over many years (dividends were hardly declared, instead profits were continuously reinvested\textsuperscript{121}) and gains from well-timed stock market transactions of Gokongwei's shares in other listed companies,\textsuperscript{122} it is of little wonder that the taipan did not see the need to go public. In 1989, however, he opened Robinson's Land Corporation to public ownership. While acknowledging the move as a necessity to raise funds for expansion, Gokongwei nonetheless stressed that it was done primarily to make management more dynamic. A listed company, he maintained, "can live longer" for "family companies that go to the second or third generation just disappear because there's no pressure, no new blood" and "public ownership makes a company more vigorous, lean and competitive."\textsuperscript{123} In 1993 JG Summit, the holding company of Gokongwei's group of companies, made its initial public offering followed by Universal Robina Corporation in 1994.

Despite going public, however, JG Summit Holdings, Inc. remains a family enterprise. The Gokongwei family holds 48.1% of the stocks, 31.7% of which belongs to John Gokongwei, Jr.. The Gokongwei Brothers Foundation, likewise composed of family members, holds a 24.3%. Under the Foundation's constitution, shares could not be sold or disposed of outside the Foundation.\textsuperscript{124} Another 12.3% share are held by or in the name of family relatives. Only 15.3% of the total subscribed shares are owned publicly.

The Gokongwei family does not only own the company, it manages it as well. John, Jr., the unquestioned patriarch, is both Chairman of the Board and Chief Executive Officer. Other members of the board are brothers Henry, Vice Chairman; James, President and Chief Operating Officer; Johnson Robert, Executive Vice President; John's son Lance, Senior Vice President; John's sister Lily, Senior Vice President; and, John's old-time friend Ignacio Gotao, Senior Vice President. Aside from their policymaking functions, these family members are likewise responsible for overseeing different parts of operations. Henry looks after commodity food products; James handles consumer goods, textile manufacturing and property development; John Robert takes care of agribusiness, hotels and sugar milling, while Lily oversees their operation in Cebu.\textsuperscript{125}

Entrepreneurial success notwithstanding, Gokongwei saw to it that he, and members of the family, absorb lessons in Western management, apparently to enhance both their entrepreneurial and management skills. The patriarch himself holds a masters degree in business administration from one of the country's prestigious universities and attended the Advanced Management Program of Harvard Business School. His brother Johnson Robert likewise attended a similar management program at Harvard. Meanwhile, youngest brother James, current president of the company and acknowledged successor of John, holds a bachelor of science as well as masters degree in chemical engineering from the Massachusetts Institute of Technology. Son Lance prides in two bachelors degrees in economics and applied science from the Wharton School of Business of the Uni-

\textsuperscript{121} Paras 1994, p. 107
\textsuperscript{122} Asiaweek, 12 August 1988, p. 48
\textsuperscript{123} Asiaweek, p. 49
\textsuperscript{124} see Articles of Incorporation, Gokongwei Brothers Foundation, 24 July 1992
\textsuperscript{125} Tiglao 1993, p. 68
versity of Philadelphia, both completed with highest honors (summa cum laude). Other non-family members of the company’s management team equally boast of impeccable academic degrees. Rafael Buenaventura, a non-executive Director, has a masters degree in business administration from New York University and, like Gokongwei, he also attended the Advanced Management Program of the Harvard Business School. His American training is further reenforced by nearly twenty-five years of work experience with one of America’s biggest banks, Citibank.

Indeed, JG Summit is a family-owned corporation, run and managed by professional, American-trained family and non-family members alike. So, with Harvard, MIT and Wharton-trained executives at its helm, one may ask: what exactly is the management philosophy of JG Summit? Lance’s reply is: "It is a mixture of what is best in both the East and the West". Lance himself completed his secondary education in Singapore before proceeding to Wharton Business School for his university degrees. His father regards Lee Kuan Yew as a role model worthy of emulation by the rest of the world. And like Lee Kuan Yew who, almost singlehandedly, created and molded Singapore to become what it is today, an industrialized island nation-state, Gokongwei decides the direction the company takes. The growth of his business empire has indeed, to a large extent, been attributed to his entrepreneurial genius. Lance stressed that entrepreneurship requires the ability to make quick decisions and to take risks. The Chinese’s love for mahjong, he said, could explain why most Chinese are invariably risk-takers. Nevertheless, not everybody has the talent for business, Lance argued. His father, however, is one of the enviable few who has it. One banker describes Gokongwei as the only one, among all the businessmen he met, who possesses the keenest sense of opportunity cost; one who considers an opportunity lost just as real as losing money. A manager, who has worked with Gokongwei for nearly two decades, describes him as ‘a visionary, one who sees a city in a jungle when others see only little trees.’

Conglomerates: Family-Enterprises Still?

Conglomerates are now opening themselves to public ownership. A close examination of the records of the country’s stock exchange showed public listing of several Chinese conglomerates and big businesses started only some three years ago, 1993, as Gokongwei’s J.G. Summit went public. Following its heels are Sy’s SM Prime Holdings and the country’s second largest shipping company, William Lines. For one, conglomerates and big businesses alike are finding it difficult to finance their expansion through internal financing and credit. Thus, raising capital from the finance market, both domestic and international, is increasingly becoming a necessity. JG Summit, for example, is listed in the Luxembourg Stock Exchange. Moreover, going public seemed to be increasingly regarded as important to enhance their image. Despite enjoying a high degree of assimilation, Chinese-Filipinos are nonetheless sensitive to the strong resentment directed against their successful counterparts in the region, particularly in Indonesia and Malaysia. Thus, by opening their tightly-closed family enterprises to public ownership, they hope to improve their image by giv-

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126 Personal interview in August 1995
127 Julie Yap Daza. 1989. "Gokongwei has given up everything but work" in: Taipan, March, p. 52
128 Tiglao 1993, p. 68
129 Paras 1994, p. 109
ing a semblance of sharing their huge financial gains to a larger segment of the Filipino population.

**Huge Businesses**

Compared to the conglomerates, huge businesses are considerably smaller in size, usually encompassing a company or two, and may have one or two usually related business interests such as merchandise and storage. Unlike the conglomerates whose operations now extend beyond national borders, huge businesses are, by and large, still confined within the country. As the country undergoes its much-awaited upturn after years of economic slump and stagnation, huge businesses are busy expanding themselves to the more prosperous regions outside Metro Manila. Despite their modest success, they are nonetheless feeling the pinch of bitter competition as conglomerates make substantial inroads into their once dominated terrain. An important arena is in merchandising. One fierce competition going on is between taipan Henry Sy, who pioneered the introduction of American-style shopping malls and who now owns the largest shopping mall chain in the country as well as one of the largest malls in the world, and the once undisputed leader of retail merchandise, the Gaisano family.

Some Chinese-Filipino businessmen are emulating Sy's success. While his and that of rival Gokongwei's shopping centers stock upmarket brands to cater to the higher and middle class, the new breed of mall developers cater to small-trader stores which target the lower-income market. With a bourgeoning consumer market, other Chinese-Filipino enterprises are finding their niche in the highly competitive merchandising business. Already, several malls are sprouting in major urban centers outside Manila and without exception, all of them are owned by Chinese-Filipinos.

**Medium-Sized Enterprises**

Compared to huge businesses, medium-sized enterprises are smaller in size, that is, in terms of capitalization, operation and number of employees. A traditional example are those engaged in wholesale and retail trading like the Uyanguren Hardware Co. in Davao City.

**Uyanguren Hardware Co., Inc.**

Established in 1953 by Delfin Go Kian Lam in the prosperous city of Davao, Uyanguren Hardware is a typical example of a Chinese family enterprise that almost literally rose from the ashes and reestablished itself to become one, if not the biggest, and most durable hardware store in southern Philippines. Located on the busy Sta. Ana district, Davao City's equivalent of a Chinatown, Uyanguren Hardware sells all kinds of construction materials. Unpretentious-looking, with customers moving in and out like ants rushing to fetch and store their food, Uyanguren depicts a picture of endless activities, of coming and going, of business started, of business completed.

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130 All the information presented here were results of interviews conducted in Davao City in August-September 1995
Delfin Go was born in the town of Laoag, Ilocos Norte which is situated in that northernmost tip of the country which could be reached from Swatow even with a junk in three days with a good wind. His father Go Chu, an immigrant from Amoy Province, came to Laoag in 1935. There he set up 7 shops selling lumber, hardware goods, textile and grocery items. He even could be the capitan of the Chinese community there, recounted his grandson Tyrone with pride later. Whatever fortunes Go Chu had acquired within five years of hard work were lost during the Second World War. While fleeing from the Japanese, Go's family of 13 children were scattered mostly around the northern island of Luzon. After the war had ended Go Chu, Delfin's father, settled in Baguio, a quiet, beautiful, tiny city nestled among the pine trees and is home to the transmitting station of the 'Voice of America' and of an American military outpost, Camp John Hay. After graduating from high school, Delfin joined his father in Baguio. He later went to Manila to work while at the same time pursuing and eventually earning a degree in journalism. Then he decided to go to business. Together with two friends, Delfin proceeded to Davao and opened the Uyanguren Hardware Co.. There he got married to an Amoy-born lady, whose family came to Davao direct from China, and who bore him 5 sons. Business went well until a big fire razed the store. After the extent of the damage was made known, his friends-cum-business partners sold their shares to Delfin and returned to Manila. Delfin was left alone. With a family to sustain, he was faced with the decision of what to do next. Like his two friends, his initial reaction was not to invest again, but he did not want to return to Manila either. So, with a small loan from his father, he reopened Uyanguren Hardware on the same spot where it was earlier razed by fire.

Delfin's store was not the only one then selling hardware goods. There were already such shops existing, all owned by Chinese-Filipinos. By some twist of luck, Delfin met a Maryknoll missionary who was looking for reasonably priced materials which were needed for the construction of a mission high school. Considering the volume of materials that the missionaries required, Delfin could have easily made good business by selling his stuff at higher prices. For someone barely trying to recover from a catastrophe, this was a chance too tempting to pass. Delfin, however, did not do such a thing. He did not only offer the missionaries a good price, he extended them credit as well. This impressed the missionaries who, from then on, became his biggest customer. With an unmistakable tone of appreciation, a Maryknoll priest who I interviewed described the importance of Uyanguren Hardware as one shop "which built all the Maryknoll high schools in the entire Davao province". Words quickly spread around regarding the low prices and good service which Uyanguren offers. With such a remarkable reputation, Delfin started attracting more and more customers, big and small alike. Among his big customers were logging companies as well as multinational corporations operating in the area. Soon, customers from practically all parts of the island came flocking to Delfin's shop. Aside from the customers, big suppliers from whom the store procures some of its goods are likewise impressed with Delfin's integrity. A good example is a century-old British trading firm which supplied Uyanguren with industrial paints. A former company executive related to me how Delfin would simply tear off the edge of a newspaper's page and wrote on it his purchase order as well the payment's due date. Returning to his office, the company executive had to convince his unbelieving British superior that this purchase order was just as good and was
even more reliable compared with some of those written on a glossy company stationery. Furthermore, he stressed, Uyanguren is never known to be late in paying.

Thus, despite his initial handicap of having to compete with a number of already existing Chinese-Filipino hardware shops, Delfin Go successfully rebuilt, and later incorporated, Uyanguren Hardware to become a dominant figure in the wholesaling and retailing of hardware goods not only in Davao but in the entire island of Mindanao as well.

As I was conducting my interview with the accommodating assistant general manager Tyrone, the 4th of Delfin's 5 sons, I could not fail to notice the congenial working atmosphere that pervaded the shop. Employees who needed Tyrone's signature, who needed Tyrone's quick decision over a particular purchase order, who needed this and that, all addressed the young boss with his first name. My attention was likewise particularly struck with a brief, friendly exchange between a customer and Tyrone. The customer had purchased several items but was not taking them with her that day, rather, she would send somebody to pick them up the following day. She therefore requested Tyrone if he could scribble a note on the back of the almost tattered receipt she held on her hand to indicate that whoever would present the document the next day should be given the articles listed on the receipt. I thought it was a matter that could be handled by a sales clerk. But Tyrone obliged, and in less than a minute the request was completed. Then back to the interview.

Uyanguren Hardware is a family-enterprise, owned and managed by the Delfin Go family. Except for the second son who manages his own store (although he obtains his supplies from Uyanguren), the four sons are working in the company. The eldest is the general manager; the third son is managing a sister company of Uyanguren in Manila which manufactures electrical wires and cables; Tyrone is in-charge of sales and marketing; while the youngest is responsible for warehousing as well as for all supplies coming from Manila. One of the sons has a degree in business and two have degrees in engineering, all earned from the country's prestigious universities which are, at the same time, widely acknowledged to be purveyors of Western-style business management. The father is Chairman of the Boards of Uyanguren Hardware as well as that of two other sister companies in Manila.

Despite its increasing sales volume, Uyanguren has not, as yet, expanded physically, that is, by opening branches. It has, however, as Tyrone puts it, 'expanded internally by increasing the goods it sells.' In addition to industrial supplies, general hardware tools and equipment, plywood and roofing materials, plumbing as well as painting supplies, the company now offers union cement and electrical supplies. Its major suppliers are Manila-based Chinese-Filipinos. Asked whether the company does not have plans of expanding into actual construction, Tyrone replied: "Any new move requires the 'right people"."

In recent years, however, a new breed of young and enterprising Chinese-Filipinos moved away from commerce and went into manufacturing particularly food processing. Today, their presence in meat processing as well as packaging, dairy products, and food preservation is notably strong. Like the huge businesses, they too, with a lot of market insight as well as business risk, are cashing in on the ongoing economic boom. They were quick to identify their market, are now reaping
the fruits of their investments, and, are correspondingly expanding their operations. One entrepreneur told me he occasionally travels abroad to observe and learn about the newest trends in food processing. Innovations which he gained from such trips are usually applied, albeit modified, to his business. One fast-growing medium-sized food processing company belongs to Jose Cam of Davao City.

Cam Food Company

Cam Foods Company was founded by Jose T. Cam, a second generation Chinese-Filipino, who moved away from the trading business which Chinese business are traditionally engaged in. His father, however, like most early Chinese migrants to the country, started in trading.

Jose’s father came to Davao, then a huge farming town, in 1922 and set up a trading company mainly selling hardware goods and farm utensils. With the start of the logging business in the 1930s, he put up a lumber yard. He, however, lost all the fortune he had painstakingly built throughout the years within those brief but brutal four years of Japanese occupation in the country. After the war, he picked up the pieces and started again. He put up a general merchandise shop followed later by a sawmill, then the only wood factory in Davao. As the business progressed, he diversified into real estate. He likewise went into coastal shipping. In 1959, he passed away.

The Cam family, with 12 children, is big. Hence, one would think there are enough children to continue the growing business which the father had successfully rebuilt after the war. Nine children, however, chose to leave the country and settled in the United States. After their father's death, the family business was liquidated except their interest in real estate. Of the three children left in the Philippines, Jose continued to stay in business and later ventured into a new field, that is, relative to what the family has hitherto been engaged in.

In 1978, Jose went into agribusiness. He started by setting up a relatively small piggery with 200 hogs. Over the years, the piggery business grew and is now a full-blown livestock farm which boasts of some 13-14,000 hogs. Regular customers, mainly market vendors, procure live hogs from Jose’s farm. Jose, in turn, buys from these market vendors voluminous amount of pork’s meat, cut according to his specifications, which is then processed by his company. The next logical step that Jose took in view of his expanding livestock business was to integrate vertically by going into feed milling. The raw materials he needs for the manufacture of animal feeds are sourced locally - corn and rice by-products, and fish and copra meal. This means that as his business prospers, so do all those who supply the raw materials. Not only is value-added goods being created here, purchasing power as well. Jose’s processed meat are marketed throughout the entire island of Mindanao with a population of around 15 million, the main outlets being major supermarkets. Success, it seems, pushes Jose to do even more. Recently, he diversified into aquaculture and is engaged in a rather new undertaking which could bring to many Filipino households a favorite fish, bangus, at a reasonable price. Bangus, a fresh water fish, is normally raised in fish ponds. Now, Jose is raising them in brackish water, such as that in mouths of rivers, where fresh and salt
water meets and mixes. So that whereas bangus raising is used to be concentrated in just a few places in the country, foremost of which is the Laguna de Bay south of Manila, this new method of raising the fish in brackish water provides an excellent example of how hitherto unutilized river parts (and the country abounds in rivers) could be made productive. Needless to say, this is a potentially good source of income for the rural population.

With Jose in the business are his brother and a nephew, a son of his sister, who oversees the daily operation of the hog farm. Jose is responsible for the overall supervision of the hog farm, the fish farm and meat processing. As company president, he makes all major investment decisions and determines marketing strategies. The rest of the company operations are managed and done by Filipinos. "After all, one does not have enough brothers and sisters to do all the job", Jose jests. Humble and accommodating, all that Jose cited as his ingredients for success are 'doing things on a small scale' and 'learning from the big guys'. There might be some truth to that but Jose is certainly not without a modicum of business expertise. In addition to whatever training he has acquired from his late father, Jose is schooled in Western-style management, having obtained his undergraduate degree from one of the country's exclusive and elite universities and capped later with a masters degree from Asia's most prestigious management school.

**Retail Stores**

Ubiquitous and omnipresent in every nook and cranny of the country are the numerous but tiny sari-sari stores. They are an integral part and important part of the economic landscape of the Philippines that a village without a Chinese sari-sari store is unthinkable. An example is our village Chinese, Lim.

**Lim General Merchandising**

Lim I Tei is 78 years old in 1995. Born in Amoy in the Fujian Province, he arrived in Cebu, Central Philippines in 1930 when he was 12. As the eldest son, his father who came to Cebu in 1917 asked him to come and extend help in managing one of his 3 general merchandise stores he was then successfully operating. His main line of business was copra trading. He was, like many others, one of the many agents of a cabecilla. When the Pacific War broke out, Lim I Tei estimated his father's worth to be about a million pesos (today's worth: $39,000), a great fortune then and now. During the war, USAFFE (US Armed Forces in the Far East) soldiers raided their stores and took away all men's clothing they had for sale: trousers, shoes and T-shirts. This looting, recounted Lim, had cost them around half a million pesos (or nearly $20,000). Despite heavy financial loses caused by the war, Lim's father, being able to stash away some 200,000 pesos even in the midst of turmoil, had enough start-up capital after the war. He easily recovered and business was brisk again. However, his incessant gambling finally brought him down. In 1974, Lim took his father -

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131 All the information presented here were results of interviews conducted in Davao City in August-September 1995
132 All the information presented here are based on my personal knowledge of Lim's business and supplemented with an interview with Lim in September 1995
broke and blind - back to China where he later died. Lim returned to the Philippines, not to Cebu though, but to the southern island of Mindanao where two cousins of him who came in 1925 had their businesses. He received financial help from his relatives as well as from two copra wholesalers, old friends of his father, who generously extended him credit worth 90,000 pesos. A handsome amount, then and now, Lim set up his sari-sari store in our village, Manticao, in northern Mindanao, the southernmost island of the country. His sari-sari store served as his main contact point with the local population. An agent of a cabecilla, Lim was primarily engaged in buying copra. He was merely continuing what he had learned to do while working for his father.

Lim was a major buyer of my grandfather’s copra, our family’s only source of income. My grandfather’s coconut farm lies several kilometers away from the town center. The coconuts are harvested and dried right on the farm. Since my grandfather did not have a motorized means of transportation to bring his copra to the town center, except through the tedious and cumbersome way of piling sacks of copra on a bamboo cart pulled by a water buffalo, Lim would come and buy the copra at grandfather’s farm gate, at Lim’s price of course. Although Lim’s buying price is slightly lower than what my grandfather might get from a wholesaler in the city, the nearest being 30 kilometers away, my grandfather was satisfied doing business with Lim since he was saved the trouble of transporting the copra to the city which, in net effect, would bring him less than what he gets from Lim once the cost of transport is deducted. But more importantly, Lim was always ready to extend grandfather almost limitless credit, in kind, that is, any item from his sari-sari store, or in cash. Lim does not demand that my grandfather pays all his debt at once from the proceeds of his copra which Lim bought. He was free to decide how much he would pay Lim. The most important thing was that he sells his copra only to Lim and that he pays him his debt, albeit installment, regularly. This way, my grandfather was able to prove his trustworthiness to Lim which Lim acknowledges. Ready credit is, to our cash-strapped family, very important considering that coconuts are harvested only four times a year, i.e., once in every quarter. Should pressing financial needs arise, such as paying my university fees before harvest, immediate relief was readily available from Lim.

Lim married a Filipina and they have 10 children. Only four, however, are boys. During the interview, Lim stressed that female children do not matter in the family business. Only the sons do. Of his four sons, though, only one stayed to carry on the father’s business. Two sons decided to open their own businesses while one chose to become an employee. Asked why he remained in trading and did not branch out into other lines of business, Lim replied: “There is a lack of trusted person around.” To him, a trusted person could only come from the family. Since the days are gone that a relative from his native Amoy could be fetched to help in the business, Lim was obviously referring to the fact that only one son is assisting him in his business.

**Liberalization of the Economy: A Boon to Chinese Business**

The ongoing privatization as well as liberalization of the economy bodes well for Chinese-Filipino businesses. Traditionally disadvantaged by an easier access of indigenous business elites to political and business favors dispensed by the State, Chinese-Filipino entrepreneurs can now benefit fully from a less restrictive business environment underpinned by political stability. The banking
sector is a good example. With the latest liberalization, competitiveness of local banks hinge a
great deal on their heft and size. In this regard, Chinese-Filipino banks decidedly enjoy an initial
advantage.

**Challenging Traditional Economic Elites and Shifting Alliances**

Chinese-Filipino entrepreneurs, notably the taipans, are now openly challenging the dominance of
the country’s traditional economic elite led by Filipinos of Spanish-descent. The assets of John
Gokongwei’s J.G. Summit Holdings is estimated to be one-third of the capitalization of the Ayala
conglomerate and one-fourth of Soriano’s century-old San Miguel Corporation. In real estate de-
velopment, taipan Andrew Gotianun, in 1994, defeated the Ayala family’s bid for the development
of a prime residential lot south of Manila.

While the Ayala and the Sorianos continue to resolutely defend their turf from the onslaught of
the giants of Chinese-Filipino entrepreneurs, other Spanish-mestizo elites have willingly gone into
joint ventures with the latter. One such Spanish-mestizo is Eugenio Lopez. Patriarch of one of the
country’s traditional sugar oligarchs, Eugenio was sent by Marcos to jail on trumped-up charges,
where he sat for five years. On the pretext of redistributing wealth, his family’s properties were
confiscated by Marcos following the declaration of martial law. In 1987, Lopez went on tandem
with Gokongwei and together, they surprised the Manila business community by jointly purchasing
the Philippine Commercial International Bank. Five years later, the pair teamed up again to seize
the opportunity offered by a government desperately seeking for a solution to solve the country’s
crippling power crisis. They set up First Philippine Power Corporation which is widely tipped to be-
come the nation’s largest locally-owned private electricity generator. The two are actively, though
separately, expanding into telecommunications. Should they join forces again, as they did in the
power generation project, which many expect they would, they could create the country’s most
powerful business alliance.

The seemingly positive and profitable partnership between Lopez and Gokongwei does not rest on
strategic business posturing alone. One qualified observer of Philippine politics claimed that on
one hand, this is a result of an on-going rivalry of the Spanish-mestizo families among them-
kinselves, and on the other hand, of the growing economic muscle of Chinese-Filipino entrepreneurs.
In the case of Lopez, whose Benpres Holding Corporation’s registered net income of 660 million
pesos in 1993 paled in comparison to Gokongwei’s J.G. Summit Holdings’ net income of 1.6 billion
pesos for the same year, it certainly makes good business sense to cooperate with a rival rather
than losing a substantial share of the market.

The Lopez-Gokongwei partnership is thus far the most spectacular joint-venture between a Chi-
nese-Filipino capitalist and a traditional Spanish-mestizo corporate leader from whose ranks, busi-
nessmen who are not their pedigrees, irrespective of wealth, are usually frowned upon. Whether
similar partnerships will ensue is certainly a development to watch. For should the Lopez-
Gokongwei partnership set a trend, and such trend would continue, it would bring about fundamen-
tal changes in the character of the country’s ruling elite. Aside from being able to consolidate and
expand their already entrenched economic position, for the Chinese-Filipino entrepreneurs, this
would mean breaking into the ranks of the traditional elites, which for the first time, would catapult them to the center stage of the nation's economic and political life. More significantly, this would mean that Chinese-Filipinos, as a whole, have become an integral and accepted part of the Philippine ruling elite. It should be borne in mind that unlike in Indonesia, Malaysia and Thailand, where no significant indigenous capitalist class existed, the Philippines has the Spanish-mestizo elites, descendants of marriages between Spanish men and Filipina women. These families are, as a rule, big landlords whose landholdings can be traced back to the hacienda system introduced by the Spaniards as the production of cash crops was enforced. They likewise control the reins of government either by being politicians themselves like Lopez’s father who was vice-president to Marcos prior to the latter’s imposition of a martial law regime, or by sponsoring politicians who would represent their interests in government. Thus, with the combination of economic and political clout, Spanish-mestizo elite families have secured for themselves the biggest chunk of the country’s economy. This is the undoubtedy formidable capitalist class which the Chinese-Filipino entrepreneurs have to compete against. Bereft of landholdings as well as political clout, Chinese-Filipino entrepreneurs fought their economic battle the hard way, and many of them won. A remarkable achievement indeed.
Chapter Three

Overseas Chinese Entrepreneurship and Capitalist Development in Indonesia, Malaysia, and Thailand: A Historical Overview

Indonesia

Colonial Era

Regular traffic between Java and Canton already existed to the time of the monk Fa Hsien of the Western Chin Dynasty (414 AD) and continued through the succeeding dynasties. As a result of Cheng Ho’s expeditions during the Ming Dynasty, Java was a tributary state for 160 years. So when the Dutch first extended their grasp to Java and Sumatra, the Chinese already held effective economic power in Java. In Banda, Pekalongan and Toeban in particular, they were very wealthy, engaging in the sale of goods, pepper and rice cultivation and sugar manufacture.\(^{133}\)

When the Dutch East India Company was founded in 1602 and the building of the city of Batavia in 1619, the Chinese were indispensable to practically all the activities of the company. They constructed the first canal in Batavia and built the first sugar mill. In fact, “there was not a single industry that they did not create. The carpenters who built houses and ships were Chinese and when contracts were needed for the supply of sugar, rice or pepper the principals were all Chinese”.\(^{134}\)

The Dutch, seeing the importance of the Chinese, made utmost use of them. Generous policies were adopted towards them initially and they were given various concessions. In 1620, Governor General Coen established a special quarter for them in Batavia and created a Chinese official system to administer their affairs. A chief official was selected from among the influential Chinese, who was given the title of Kapitan, with powers to collect taxes from the Chinese (8% of the total becoming their own revenue) as well as civil and criminal judicial powers. In 1633, the office of Lieutenant was created and in 1837 that of Major, this system being implemented throughout Java. Those Chinese engaged in the manufacture of sugar were granted a general permit to cut fuel wood freely in the forest on the condition that they supplied all the sugar produced at a price decided by the Company. In the Outer Territories (i.e. the islands outside of Java), they were assigned the task of managing the salt farms and to collect taxes. Tea, which the Company sold to Europe at enormous profit via Java, was almost exclusively supplied by Chinese from the Kwantung region. The Company thus realized that it had to depend on the Chinese for the development of Java and was prepared to carry this out even by resorting to forcible seizure. Thus, a note of one Dutch governor to another in 1623 read: "It is requisite by this present monsoon to send another fleet to visit the coast of China to take many prisoners as many men, women and children as possible ... for the peopling of Batavia, Amboyna and Banda. The ransom of the Chinese to be set at sixty ryals apiece, but by no means you must not suffer any women to return to China, or any


\(^{134}\) Fukuda 1995, p. 105
other part out of the Company's jurisdiction, but with them to people the same. By 1632, the Chinese thus formed the biggest population group in Batavia, the slave population excluded. Migration flow from China continued to increase. After the fall of the Ming Dynasty in 1643, many of its surviving officials took refuge overseas, contributing to an increase in the number of Chinese in the Netherlands Indies. From a population of 2,000 in 1626 in Batavia, the number rose to 60,000 in 1720 in Batavia alone and around 40,000 in the suburbs thus totalling 100,000. Many of those living in the city were trading magnates, most of those in the suburbs were small traders. Outnumbered as they were by the Chinese, the Dutch colonial authorities undertook measures to protect their interests such as prohibiting the Chinese from owning land and from being employed in the government service. On the other hand, the Chinese were, in contrast to the native Indonesians, exempt from physical labor in exchange for paying a poll tax. This poll tax proved to be such a huge source of revenue that, in the 1630s, it amounted to more than half of the total income levied by the Dutch East India company from the tolls and taxes levied inside Batavia. In addition, the Chinese were free to operate and move around the islands thus enabling them to trade relatively unhampered within and outside the archipelago. Seeing the profitability of the Chinese overseas' trade with China, ranking officers of the Company took to lending money to the Chinese in usurious rates and invested directly in trade with the prospect of earning 30-50% in profit. This marked one of the earliest collaborative business relationships between Company officers and Chinese traders.

The growing economic might of the Chinese finally provoked both the envy of the Dutch and hostility of the natives, with whom they had no relations, eventually culminating to an explosion in 1740. The Company, in order to forestall any danger from the expansion of the Chinese, had confined them to certain residential zones and issued licenses to those with particular occupations. Those without occupations were sent to China or to Ceylon, while immigration was controlled by the issue of entry permits. But Company officials were not only lax in enforcing these regulations, they were corrupt as well. They saw a golden opportunity to enrich themselves by accepting bribes from the Chinese. The poorer Chinese, however, were subjected to harsh treatment. The supposed deportation to Ceylon though was only a ruse since most were thrown into the sea on leaving Java. Grievances among the Chinese suddenly exploded and, in October 1740, they rose in arms. The Company was alarmed and, together with the natives, who took the side of the Company fought a bloody fight against the Chinese which resulted to a death toll of 10,000 lives. This incident is known in the Indonesian history as the Batavian Fury.

The activities of the Chinese in Java were much impeded until the Company was dissolved but their economic power was by no means extirpated. The reason for this was that the Company's policy, aimed at the extraction of profit, had so exhausted the capacities of the country, together with the extreme corruption of its officials, that it was impossible to avoid reliance on the Chinese

137 Blusse 1981, p. 167
to maintain the previous high level of profits sent to Holland. When finances became straitened from about this time, the Company adopted the method of supplementing its revenues by arbitrarily auctioning the natives’ cultivated lands to Europeans or Chinese, without the least regard for the natives’ interests. Not only was complete ownership transferred, privileges in the realms of public law were also conferred such as the right to collect tax. In addition, the local regents outside the Company’s area of control also leased whole territories to the Chinese. Thus, the policy of suppressing the Chinese which was adopted after 1740 had two consequences: It dispersed the Chinese to areas outside the Company’s administrative control therefore allowing them to spread their power throughout the Indies, and, coupled with corruption among officials of the Company, the Chinese in Java were allowed to preserve as well as strengthen their economic power.

Oppressive policies against the Chinese though continued even after the return of the colony of the East Indies to Holland from Britain following the Congress of Vienna in 1814. These policies were based on the belief of the Dutch colonial authorities that the economic distress of the natives were caused by the presence of the Chinese and not to their own erroneous colonial policy towards them. They thought that they could relieve the natives’ distress by oppressing the Chinese. Despite severe Dutch oppression, Chinese economic power nonetheless expanded even after 1814 for the Dutch could achieve nothing without the Chinese.

**Sowing the Seeds of Chinese Entrepreneurship**

**a) Trading**

Generally speaking, 60% to 70% of Chinese migrants were in commerce, some with huge businesses although the majority were small traders. There were two types of small traders: those selling only foodstuffs, and, those selling cheap common necessities such as textiles, baskets, leather and the like. The latter were far more numerous. They either carried their wares around villages or settled in a locality with an errand boy and traded there. Their prices were much higher than market prices. The natives usually bought goods on credit because they often had no money. In such cases, interests charged were usually high. When the natives needed cash, they borrowed from the Chinese traders who settled in their locality. On their part, the Chinese preferred to exchange their credit for native products. The longer the repayment is delayed, the more native products at low prices came under their control, thus ensuring a double profit by both selling goods and dealing in native products. These traders were likewise spread outside Java where their economic power was even greater as they had no competitors. They maintained contact with the merchants in the main cities and seaports who were dependent on them for the distribution of their goods. So all who imported foreign goods for the natives or exported native products, whether Europeans or Chinese, could not help but depend on the Chinese traders. The latter, in selling imported goods, obtained these goods on credit from the importers and, when being supplied with native products, obtained payment in advance from the exporters. In this way, they were able to carry on a wide range of business activities with relatively slight capital, entirely owing to their organized network of middlemen.
Initially, the Chinese were authorized by the Company to collect taxes levied at bazaars. They, however, collected more than the rates laid and, utilizing the power conferred on them by the government, monopolized and employed for their own convenience not only the native products in the bazaars but also necessities of life such as rice. The Netherlands Indies government tried to eliminate these abuses by abolishing tax contracting and undertook tax collection itself. Domestic commerce outside the bazaars, however, were almost entirely under Chinese control. Raffles noted in 1810:

They have large capital, sometimes speculating on a broad scale, and have come to monopolise most wholesale commerce. They buy up the main export goods from the producers and transport them to the seaports. They concurrently convey salt to the interior, as well as the main imports from adjacent islands or abroad. As Javanese industry is almost entirely devoted to cultivating the soil, they are satisfied so long as the have a ready market for their surplus produce. As the Chinese, from their great wealth and enterprising spirit, have been able to benefit the Javanese to this extent without offending their customs, they have virtually monopolised their products. They also have firm control over the foreign imports market.138

While retailing was a Chinese affair, foreign trade was a complete monopoly of the Company. Nonetheless, the Company was completely dependent on the Chinese for the distribution of imported goods. Thus, the Chinese's position as middlemen was already established during the early years of Dutch rule.

b) Cash Crop Production

Chinese businessmen expanded into farming as Dutch freeburghers, not wanting to work directly in agricultural lands they acquired from the Company, leased them to the Chinese who tilled it with Javanese laborers.139 In the second half of the 18th century, farming out lands to the Chinese became a common practice. By the 1790s, more than one-eighth of the villages belonging to the Company were leased to the Chinese.140 This became a powerful source of Chinese prosperity. Towards the end of Dutch colonial rule in 1957, Wu and Wu noted that the Chinese owned one-fifth of the country's 1,052 large farms and plantations which principal produce were sugar cane, rubber, coconut, coffee, tobacco and pepper141 - all cash crops intended for the world market. Nonetheless, unbridled expansion of Chinese businesses was impossible in the face of the dominance of Dutch capital. A few Chinese though like Oei Tiong Ham successfully got into banking, wholesale trading and plantation enterprise. Meanwhile, many of the former coolies moved into petty trading and small-scale manufacturing such as food processing in the 1920s and 1930s. In doing so, Indonesian small traders and businessmen rather than Dutchmen were pushed aside, hence widening the social gap between the Chinese and Indonesians and contributing further to

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138 Raffles 1810, quoted in Fukuda 1995, p. 111
139 Blusse 1981, p. 170
animosities which led to indiscriminate anti-Chinese violence in the early post-colonial decades (italics mine).\textsuperscript{142}

To relieve financial difficulties both in the home country and the colony, the forced cultivation system for sugar, indigo and coffee was introduced by the Dutch in 1830. The Chinese leased the land of the natives, engaged in the cultivation of the enforced crops themselves and took charge of the sugar cane grown for use in production in their own sugar companies. When state land was opened to private cultivation in 1870, the Chinese advanced from their previous cultivation of coffee, indigo, and sugar cane to tobacco and rice growing. Sugar apparently came to Java in the days of the Majapahit, some two hundred years before the Dutch came.\textsuperscript{143} The Chinese were already producing them in huge quantity before the onset of Dutch colonization. Large-scale production, however, began only after the colonizers had encouraged it and the Dutch East India Company established a sugar mill, which was built by the Chinese, near Batavia in 1637. The Company was engaged mainly with the marketing of sugar, its production however, i.e. growing and milling, was almost exclusively in Chinese hands. Tate wrote: "The Chinese supplied the Company, obtaining the cane which they did not grow themselves from Javanese territorial chiefs who extracted it as feudal dues from the peasantry. Chinese merchants also acquired these feudal rights and their excesses in the use of forced peasant labour led ultimately to Dutch legislation being passed to restrain them".\textsuperscript{144} Between 1874 until the sugar slump in 1884, sugar production was a Chinese monopoly. So they advanced from cane growing to raw sugar production and export, with the rapid emergence of a large number of magnates in this field.

c) Tin Mining

Tin, the country's one major export from which the Dutch derived extreme profit, was first discovered by the Dutch around 1710 on the island of Bangka. Belonging to the sultanate of Palembang, the Dutch, prior to their discovery of the tin deposits, already showed interest in Bangka because of its pepper. By exploiting the difficulties of the Sultan who was facing a rebellion, the Dutch finally secured a monopoly of tin trade in 1722. However, the Dutch were merely interested in controlling the trade of tin, not its mining. The rulers of Palembang solved the problem of digging tin deposits out of the ground by recruiting Chinese miners, particularly from Yunnan where mining methods and experience were well established. Thus, from the very beginning, the tin industry was dominated by the Chinese until the last decade of the 19th century when their crude method was replaced by an advanced digging technology from the West.\textsuperscript{145}

\begin{itemize}
\item[143] Tate 1979, p. 52
\item[144] Tate, pp. 52-53
\item[145] Tate, p. 62
\end{itemize}
d) Copra Trading

Unlike tin and sugar where the participation of indigenous Indonesian was practically nil, copra, another major export crop, is traditionally a pribumi (indigenous Indonesian) affair. The rise of the coconut industry was given impetus through technical advances in processing which stimulated the demand for vegetable oils in the world market by the end of the 19th century. Chinese participation in the industry was in coconut trading, a practice true for all coconut-growing countries in Southeast Asia. The Chinese owned primitive kilns, bought the crop from the Indonesians and advanced cash on easy terms. As Macassar, Penang and Singapore became entrepots for the copra trade, Chinese firms were the main dealers.\textsuperscript{146}

Despite the oppressive and restrictive policies of the Netherlands Indies government, the Chinese steadily expanded their economic power in both commerce and production. Viewed from another angle, the status occupied by the Chinese was due to the impossibility of their being replaced by any others, while the Dutch, even while oppressing them, recognized the need for them and did not neglect to use them.

e) Coolie Trade

Tobacco planting was the pioneer industry in Sumatra and labor in this industry was wholly dependent on Chinese coolies who were supplied mainly from the Straits Settlements (Singapore, Penang and Malacca). The tin mines in Bangka, Billiton and Borneo were likewise dependent on Chinese coolies.

On the eve of the Great Depression, 40% of the Chinese were businessmen and merchants, 50% were shop employees, and the remaining 10% were laborer, mainly on rubber plantations in Sumatra. In other words, nearly 50% of the Overseas Chinese in Indonesia around the 1930s were entrepreneurs.

The advent of the Great Depression and the economic devastation that it left in its wake completely changed the picture in Indonesia. Faced with unemployment on an unprecedented scale, the government resuscitated the ‘industrial centrals’ as a nuclei for a much more active promotion of handicraft industries with government aid. There was also considerable expansion in the Indonesian cigarette industry as well as in the manufacture of pottery, furniture and hats. By 1939, some 2.5 million people were engaged in these minor or light industries. However, there was also a corresponding increase in Chinese take-overs and management, and all attempts by Indonesian members of the Volksraad to secure legislation prohibiting such alien participation in industry were defeated.

In the last days of Dutch colonial rule, the economic opportunities to upwardly mobile Chinese were still circumscribed by the dominance of Dutch capital (see Chart II). Only a handful of Chinese, the remarkable Oei Tiong Ham Corporation, the most outstanding of them, were able to

\textsuperscript{146} Tate, p. 77
penetrate into the most lucrative spheres of activity like banking, wholesale trading and plantation enterprise.

Chart II: Capital Investment in the Netherlands East Indies in the 1930s

![Pie chart showing capital investment percentages]

R = rentier as opposed to entrepreneurial investments


Oei Tiong Ham Concern: The First Business Empire of Southeast Asia

Originally named N.V. Handel Maatschappij Kian Gwan, the Oei Tiong Ham Concern was founded in Semarang, Central Java in March 1863, barely five years after the arrival of its founder, Oei Tjie Sien, who left the province of Fukien in 1858 in the wake of the political unrest following the Opium War and the failure of the Taiping rebellion. In the 1860s, Java was still recovering from the effects of the Culture System which was enforced by the Dutch colonizers in order to improve the financial position of the Dutch East Indies. Under this System, the Indonesian peasants were obliged to cultivate one-fifth of the village’s arable land with exports chosen by the colonial government or to work 66 days a year in government-owned enterprises. After the Culture System was abandoned, the new Sugar Law was introduced which allowed the phasing out of government control over sugar production, thereby permitting private enterprise to take its place. By this time, crops that were grown under the Culture System had either been abandoned or had already passed into private hands. The export of cash crops that were grown in government- or Dutch-owned plantations were handled by foreign, often Dutch, trading firms. For small traders, therefore, one way of taking part in in the trading business was to handle the smaller produce of widely scattered indigenous smallholders’ crops. Oei Tjie Sien did just that.

Starting alone, Oei Tjie Sien ventured into the export of some sugar and tobacco, crops which he acquired directly from small Indonesian growers, alongside the trading of Chinese goods which were largely intended for the Chinese population in the country. Not long after, he took business partners and formed what was known as kongsi, a family-based limited company, which was named Kian Gwan. In addition to its profitable export trade, Kian Gwan established pawnshops and undertook the export of gambir.

147 Taken from Yoshihara Kunio. (ed.) 1989. Oei Tiong Ham Concern: The First Business Empire of Southeast Asia. The Center for Southeast Asian Studies, Kyoto University
By the turn of the century, the Dutch colonial administration had become worried about the falling purchasing power of the rural population. Although the idea of pursuing industrialization for the Indies was discussed within the administration, what prevailed was the conviction that the native Indonesians held a comparative advantage in small-scale industry in competing against European producers. Hence, the policy aimed at the expansion of small-scale agricultural activities was pursued, with positive results. Towards the end of the nineteenth century, agricultural export crops from the Outer Provinces rose much faster than those from Java even as the smallholders’ output grew faster than that of plantations. This remarkable growth in the Outer Provinces had stimulated more economic activities including the expansion of small-scale farming in Java itself. Meanwhile, the demand for rice from the Outer Provinces rose. Kian Gwan immediately recognized the business opportunity of getting into the shipping business which would take care of transporting goods that were needed in the Outer Provinces as well as carrying export crops collected there to the port in Java.

In 1866 a son, Oei Tiong Ham, was born to Oei Tjie Sien’s wife. It was Oei Tiong Ham who led his father’s firm during its expansion years that started towards the end of the 19th century. By the early 1900s, the Oeio Tiong Ham Concern had already entered into competition with big European and Japanese cartels in both foreign trade and domestic marketing. In the case of sugar, the Concern threw its competitors out of the race by capturing 60% of the local market. This was made possible not only through its formidable existing network of agents and offices all over the Indies, but also by selling sugar with such a thin margin of 2-5 cents per kilo and by offering credit for purchases beyond 10 kilos. During this time, the export of agricultural and forest products likewise expanded. To the traditional export crops, sugar and tobacco, copra, kapok, hides and skins, tapioca, coffee, pepper, maize, cloves, rubber, rice, rattan and, resin were added. During the 1930s, Kian Gwan was already the largest exporter of maize to Japan. In order to capture a sizeable share of the Indies’ rice import trade, it established an office in Bangkok as Thailand was a major rice supplier not only for Indonesia but for the entire region.

Meanwhile, the Concern expanded into food processing. It established a sugar factory and a modern tapioca factory with an annual capacity of 17,000 tons. The huge volume of its tapioca production made it a strong competitor to the well-established Trade Association of Amsterdam. To handle its growing business concerns, overseas branches were set up in Calcutta, Bombay, Karachi, Hong Kong, and Shanghai. To secure additional financing for its worldwide expansion, it established relations with Dutch and British banks.

After the First World War, the world was beset with the overproduction of sugar. Thus, following the Chadbourne Agreement of 1931, Java was obliged to reduce her production of sugar from 3 million to 1.4 million tons, of which, only 1 million would be exported. Following this restriction was the adoption of the International Sugar Convention which set export quotas for all sugar-producing and exporting countries. Both restrictions could not have affected Kian Gwan’s sugar business since the bulk of its trade was in the domestic market. However, the colonial administration set up an agency, Nivas, which was appointed as the sole buyer of sugar produced in the Indies. Nivas would in turn sell the sugar it bought to exporters who were then exposed to price fluctuations in
the world market. While this arrangement provided financial security to the colonial government, it dealt a heavy blow to those in the sugar business like Kian Gwan.

Not long after, rubber production was likewise regulated internationally through the enforcement of the International Rubber Restriction which prescribed national quotas. As in the case of rice, Nivas had the monopoly of buying rubber from the producers and re-selling it to exporters. Kian Gwan suffered another blow even as it was ill-equipped to adjust to this new type of government-sponsored domestic monopoly through the institution Nivas. More blows were dealt on Kian Gwan as the production of its other major trade commodities, rice, coffee and, copra, was regulated. The Concern, in order to stay alive, was forced to diversify its interests. Whereas it had previously been engaged only in internal or intraregional trade, Kian Gwan, was forced in 1931, by the depression of sugar to move into new lines of business. It started to import directly from the West by handling at first consumer goods and fertilizers and later expanded into other commodities.

The limited size of the domestic market as well as export restrictions led the Concern to explore overseas expansion. China was the first choice for an manufacture of industrial alcohol. In a joint venture with the Chinese government, it put up the China Alcohol Distilling Company in Shanghai in 1935. The factory’s management and sales strategy were entrusted to Kian Gwan. As import-substituting industries in Indonesia started to gain grounds, i.e. those that were engaged in the manufacture of light consumer goods such as soap, cigarettes, and textiles, the Concern promptly invested in this sector. It likewise diversified into the insurance business, underwriting insurance policies for a group of English, Australian and American companies. Correspondingly, new offices were opened in Bangkok, Canton, Tientsin, and Amsterdam. The Concern’s desire for further expansion was faced with the problem of generating more capital. Family sources and bank credits were no longer sufficient to finance its expansion plans. At this point, a member of the family, Oei Tjong Hauw, hoped to convert Kian Gwan, a family enterprise, into a public company. No capital market was, however, available in the Indies and foreign firms operating there all depended on overseas capital.

Just as the Concern was wrestling with the problem of expansion, the Pacific War broke out. The period between the outbreak of war and the declaration of Indonesian independence in 1945 caused enormous damage to the Concern. Among others, its factory in Shanghai was confiscated and its sugar factories were among those burned by the Dutch during the Indonesian struggle for independence. In addition, anti-Chinese sentiment among the Indonesians started to escalate during this period.

The nationalistic policies adopted by the Sukarno government immediately after the declaration of Indonesian independence ushered in new difficulties for the Concern. To enhance its chances for survival, it formed joint ventures with prominent Indonesian and American business leaders such as the International Trade Association which specialized in the import, installation, and maintenance of large-scale equipment ranging from individual machines to complete factories. This business maneuver, however, did not last long. Kian Gwan was forced by law to reorganize by making Indonesian citizens, indigenous or naturalized, major partners of the Concern. The American partner of the International Trade Association was therefore forced to withdraw. Meanwhile, the gov-
ernment introduced discriminatory policies against non-indigenous businessmen. Only prabumis (indigenous Indonesians) had access to preferential credit, government assistance to establish new industries or improve old ones, and to acquire licenses for wholesale trade. Kian Gwan's final blow came in 1961 when the Sukarno government nationalized the Concern.

Post-Colonial Era

After Indonesia attained independence in 1945, political uncertainties as well as the adoption by the Sukarno regime of nationalist policies created difficulties for the Chinese, both for the peranakan (those born in Indonesia) and the totok (those born in China). In the early years of post-colonial Indonesia, Chinese entrepreneurs in general were confined to an intermediate position in the 'colonial caste structure' as low-level traders. As more and more immigrant Chinese, many of them former coolies, moved out of labouring jobs into petty trading and small-scale industrial activities (e.g. food processing) in the 1920-30s, they tended to push aside Indonesian small traders and businessmen rather than Dutchmen.\(^{148}\)

It was, paradoxically, in the economically chaotic years between 1958-66, when anti-Chinese feeling was at its height, that the Chinese began to move into higher-level economic roles on a large scale. They were able to adjust to the difficult conditions of inflation and shortages of key materials, foreign exchange and capital with a much greater degree of flexibility than the ponderously bureaucratic state enterprises which took over the former Dutch investments. In fact, the latter became increasingly dependent on them for crucial goods and services. Many of the larger old-established Chinese firms, however, went into eclipse during these years.\(^{149}\)

Discrimination against Chinese enterprises during the Sukarno period focused on the commercial sector. Special bank credits and preferential allocations of import licenses and foreign exchange to indigenous businesses, an expanding list of goods that only indigenous Indonesians were allowed to import under a 1950 program, and high deposit requirements for importers were among the restrictive measures that led to the closing of nearly a thousand Chinese import houses. These measures were paralleled by the confiscation of Chinese-owned rice mills and the ousting of Chinese retailers from the rural areas in 1959. The most devastating blow came in 1961 when the then largest Chinese concern, Kian Gwan, was nationalized.\(^{150}\) Ironically, it was during Sukarno's chaotic regime that the Chinese businessmen proved themselves indispensable (reminiscent of the period following the Batavian Fury in 1740) as the cumbersome state enterprises and distribution networks could only operate effectively with the assistance of Chinese fixers.\(^{151}\)

The communist-inspired coup of 1965, which eventually led to the downfall of Sukarno, reportedly claimed the lives of as many as three hundred thousand Chinese. Despite this serious loss of life

\(^{148}\) Mackie 1988, p. 237
\(^{149}\) Ibid.
\(^{150}\) Yoshihara Kunio. 1988. The Rise of Ersatz Capitalism in Southeast Asia. Quezon City: Ateneo de Manila University, p. 60
and property, however, the recover of Chinese enterprises has been phenomenal. This was attributed to their widespread economic activities with differing specialization by individual groups.\textsuperscript{152}

When Suharto assumed power in 1968, his government gradually brought to an end the outbreaks of anti-Chinese violence. In addition, his government created a favorable climate for foreign investments which correspondingly encouraged Chinese investors from Hong Kong, Singapore, Malaysia, the Philippines and Taiwan to form joint ventures with ethnic Chinese in Indonesia. In 1974, the number of Indonesian-Chinese commercial establishments stood at 150,000 firms, of which, 120,000 were engaged in the retail business.\textsuperscript{153} Some Chinese enterprises previously nationalized under the Sukarno regime were returned to their owners after 1967. These, together with new Chinese-owned enterprises which built and cultivated political connections with key government officials, later called cukong relationships, have prospered under Suharto. One example is the Salim Group, the business empire of Liem Sioe Liong.

The Salim Group\textsuperscript{154}

Liem Sioe Liong, an impoverished immigrant from Fukien province came to central Java and worked for an uncle who was selling peanut oil. The foundation for his business success later was laid in the 1950s as he forged trading links with the country's republican troops in their fight for Indonesia's independence. He was supplier to the army's prestigious Diponegoro division which was headquartered in Semarang, Central Java. The division's chief supply and financial officer, and a decade later its commander, was Liet.Col. Suharto. Friendship and trust were said to have developed during this time. When Suharto came to power in 1966, Liem's fortune started to rise. In the early days of Suharto's New Order government, he obtained privileged trading licenses for several agricultural commodities. Liem's P.T. Mega was one of two companies licensed to import cloves. Two of his other trading companies did well in coffee and rubber trading.

In 1969, he was granted a partial monopoly on the import, milling, and distribution of flour by Bulog. Formed in 1967, Bulog is Indonesia's national logistics agency to supply basic commodities to the military and other government institutions. Its military-run predecessor Kolognas was headed by Suharto in 1966-67. When it was set up, Bogasari Flour Mill (BFM) was only one of two licensed wheat-flour mills in Indonesia, but during the 1970s, its competitor sold out to a Bulog-controlled company. Shortly thereafter, Bulog handed over its management to BFM. BFM procures wheat on the international market, imports most of the grain in one of its three ships, mills it into flour and sells the product back to Bulog. In 1991, commodity traders say BFM is the world's largest commercial buyer of wheat. Bogasari is said to be the durable source which provided Liem with the capital to expand his business interests.

Liem must, however, pay a price for such a huge favour. He is often called upon to help out with major government projects. One example is cement manufacture. Liem's first cement plant, a

\textsuperscript{152} Wu & Wu 1980, p. 62

\textsuperscript{153} Wu & Wu, p. 63

joint venture with Hongkong and Taiwanese partners, opened in 1975. Several more were added before the end of the decade. These plants are among the lowest-cost producers in the world and with government cement prices set above market levels, these operations were lucrative. By the mid-1980s, the cement-producing complex in West Java was said to be the biggest in the world. Even as the Indonesian government was forced to scale down its plans for infrastructure development in the early 1980s following the post-oil boom, Liem was said to have been encouraged by the government to expand his cement-production capacity to meet an expected surge in cement demand later in the 1980s. However, a recession in the Indonesian economy slashed cement consumption so Liem's cement plants incurred severe losses. The government came to the rescue. Liem's five cement plants were merged into a holding company, Indocement Tunggal Prakarsa (Indocement for short), and the government paid $325 million for a 35% stake in it. Indocement accounts for 44% of the country's cement capacity and owns the world's third-largest cement complex (see Table II).

<table>
<thead>
<tr>
<th><strong>Table II: Salim Group's Indonesian companies include...</strong></th>
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<tbody>
<tr>
<td><strong>Bogasari Flour Mills &amp; Berdikari Sari Utama</strong></td>
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<tr>
<td>Which Controls 100% of flour milling</td>
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<td><strong>Bank Central Asia (Rps 7.5 trillion assets)</strong></td>
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<td>which is Indonesia's largest private bank</td>
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<td><strong>Indocement</strong></td>
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<td>which accounts for 44% of the country's cement capacity and owns the world’s third-largest cement complex</td>
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<td><strong>Indomobil</strong></td>
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<td>which is the sole agency in Indonesia for Mazda, Nissan, Suzuki, Hino, and Volvo cars and trucks</td>
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<td><strong>Indomilak</strong></td>
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<td>which controls 35% of Indonesia's condensed &amp; pasteurised milk market</td>
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<td><strong>Sarimie Asli</strong></td>
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<td>which controls 80% of the domestic noodle market</td>
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<td><strong>Bimoli</strong></td>
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<td>which commands more than half the bottled cooking-oil market</td>
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<tr>
<td><strong>Cold Rolling Mill Indonesia</strong></td>
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<td>which is the country’s only producer of cold-rolled steel plates &amp; sheets</td>
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Source: REVIEW Data (Far eastern Economic Review 14 March 1991, p. 48)

In the 1980s, Liem diversified rapidly. He acquired sold agencies for the assembly and distribution of Suzuki, Volvo, Nissan and Mazda cars, Hino trucks and Suzuki motorcycles.

As in cement production, the government encouraged the Salim group to expand into agribusiness. It has 150,000 hectares of palm oil estates in 1991 and 20,000 hectares of sugar plantations with a further 80,000 hectares under cultivation. It has likewise rubber estates, plantations of tea, cocoa, fruit and vegetables, and a farming complex in Bulan, south of Singapore. The agribusiness operations supply the group's natural-chemical plants. Molasses thrown off by the sugar factories are sold to Salim-controlled plants producing monosodium glutamate, a food additive. Salim has a plant in China producing cooking oil from palm oil, and one in the Soviet Union making a cocoa butter substitute. It set up Salim Oleochemical in Singapore in 1991 as the regional base for its natural-chemical industries.
Indonesia’s boom in petrochemicals likewise sees Salim’s participation. The group’s largest chemical investment, a joint venture with another Indonesian-Chinese business conglomerate Sinar Mas, produces alkyl benzene. It started working with US-based Amoco Chemical in 1991 in a $204 million project to make purified terephthalic acid, a raw material for synthetic textiles. The group also makes polypropylene and polyvinyl chloride.

In real estate, Salim has likewise a dominant presence. In banking meanwhile, it has boosted its already dominant position. With its 15% stake in Lippo Bank, Liem’s son Anthony secured management control of Bank Central Asia belonging to Riady, also an Indonesian-Chinese, by raising the family’s stake from 36% to 51%.

On the whole, the extent of the Salim Group’s formidable presence in the Indonesian economy is better gauged through its 5% of the country’s gross domestic product. (For a comprehensive view of Liem’s major holdings in Indonesia alone, see Table III.)

**Table III: Liem family’s major domestic holdings**

<table>
<thead>
<tr>
<th>Manufacturing</th>
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<td>Aribhawana Utama</td>
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<td>Cold Rolling Mill (steel)</td>
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<td>Henkel Indonesia (chemicals)</td>
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<td>Indocement Tunggal Prakasa (cement)</td>
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<td>Sarimie Asli (noodles)</td>
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<td>Tridaya Manunggal Cement</td>
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<td>Unggui Indah Chemical</td>
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<th>Financial Services</th>
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<td>Bank Central Asia</td>
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<td>Bank Risjad Salim</td>
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<td>Lippo Bank</td>
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<td>Multinational Finance Corp. (merchant banking)</td>
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<tr>
<th>Services, trading &amp; investment holdings</th>
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<td>Batomino Investment Corp. (industrial estate)</td>
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<td>Bintan Resort Development (tourism)</td>
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<td>Indomobil Utama (auto agency)</td>
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<td>Krakatau Baja Permata (trading)</td>
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<td>Mega (trading)</td>
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<td>Rintas Sejantera (telecommunications)</td>
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<td>Waringan Holdings (investment &amp; trading)</td>
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<th>Agribusiness</th>
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<td>Bimoli (coconut oil)</td>
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<td>Bogasari Flour Mills</td>
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<td>Indomilk (dairy)</td>
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<td>Sarpindo Soybean Industry</td>
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<td>Sinar Mas Inti Perkasa (palm oil)</td>
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<th>Property</th>
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<td>Jakarta Land</td>
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<td>Metropolitan Kencana</td>
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<td>Pondok Indah Permai</td>
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</table>

Source: CISI, Data Consult & REVIEW Data (Far Eastern Economic Review 14 March 1991, p. 52)
As an insurance policy in anticipation of the end of Suharto's rule, Liem started his offshore investments in the early-1980s by establishing First Pacific Holdings in Hong Kong. A decade later and after a rather difficult start, First Pacific has 75 operating companies in 24 countries and is the holding company for most of Liem's offshore real estate, banking, marketing, distribution and telecommunications businesses (see Exhibit III). It has the seventh largest market capitalization on the Hong Kong Stock Exchange. Through First Pacific, Liem's interests extend to the Philippines, Thailand, Australia, Malaysia and China as well as to the US and Europe. With First Pacific's assets of $1.18 billion, Liem has conceivably the widest regional business presence of any Overseas Chinese entrepreneur. Already, Liem derives more than 40% of his group turnover, and a quarter of his assets placed, outside Indonesia. His offshore-controlled companies are just as diverse as those in Indonesia. They are involved in everything from manufacturing soap and shampoo in the Philippines to selling cars in the Netherlands, from making mortgage loans in San Francisco to providing portable phones to Malysian consumers. First Pacific maintains an identity quite separate from Liem's and, exceptionally, managed by professionals hired from the outside, headed by its Filipino managing director Manuel Pangilinan.

**Exhibit III: First Pacific family tree**

\[ 
\begin{array}{c}
\text{Liem investors} \\
58\% \\
\hline
\text{Marketing \\& distribution} \\
\text{Hagemeyer NV 60\%} \\
(\text{Netherlands}) \\
\hline
\text{Banking} \\
\text{United Savings Bank 100\%} \\
(\text{US}) \\
\hline
\text{Tele-communication} \\
\text{F.P. Networks 13\%} \\
(\text{US}) \\
\hline
\text{Investment banking} \\
\text{F.P. Special Assets 36\%} \\
(\text{Hongkong}) \\
\hline
\text{Property \\& retailing} \\
\text{First Pacific Davies (Holdings) 80\%} \\
(\text{Hongkong}) \\
\hline
\text{First Pacific Metro Corp. 40\%} \\
(\text{Philippines}) \\
\hline
\text{First Pacific Bank 100\%} \\
(\text{Hongkong}) \\
\hline
\text{China Telephone Co. 50\%} \\
(\text{Hongkong}) \\
\hline
\text{First Pacific Securities (Holdings) 100\%} \\
(\text{Hongkong}) \\
\hline
\text{First Pacific Land 100\%} \\
(\text{Hongkong}) \\
\hline
\text{Berti Jucker Co. 45\%} \\
(\text{Thailand}) \\
\hline
\text{IBI Asia/Far East Bank 50.01\%} \\
(\text{Hongkong}) \\
\hline
\text{Tricom Pacific 74\%} \\
(\text{Hongkong}) \\
\hline
\text{First Pacific Partners 100\%} \\
(\text{US}) \\
\hline
\text{Evergreen (Holdings) 100\%} \\
(\text{Hongkong}) \\
\hline
\text{System One 100\%} \\
(\text{Hongkong}) \\
\hline
\end{array} \]

Sources: Company Reports, James Capel, Schroders Asia Ltd. (Far Eastern Economic Review 2 February 1989, p. 53)
Liem Sioe Liong, by virtue of his wide-ranging business interests distributed around the world, is said to head the world's largest Chinese-owned conglomerate.

The twenty years of the New Order (1966-68) have marked a period of dramatic change and improvement in the economic roles of the Indonesian Chinese at nearly all levels. Although the early years, 1965-68, were a time of great tension and anxiety for them, because of the backlash of hostility they suffered after the September 1965 coup attempt by pro-Communist elements, allegedly supported by Peking, the Suharto government gradually brought an end to the outbreaks of anti-Chinese violence. Simultaneously, it created the conditions for an economic recovery that relied heavily on private capital, from which the Chinese were now best placed to benefit, having better access to capital, skills and overseas contacts. They are still excluded almost completely from several key sectors of the economy - oil and minerals generally, the plantation sector and several spheres of export-import trade, where the big state enterprises are still dominant. In the armed forces, civil service and even in the professions, they are being excluded increasingly by discriminatory measures, as also from entry to several of the leading universities. Thus, they are virtually forced into the 'trading' and 'financial' sectors of the economy because of their exclusion from other sectors. But those spheres are precisely where the biggest profits have been in recent years!! The effect of these changes has been, unfortunately, to intensify the structural pressures towards an even more marked ethnic differentiation in occupational patterns.155

**Chinese Investments in other Sectors of the Economy**

According to the Indonesian government, there were 1,502 large farms on plantations in the country in 1957. About one-fifth of these were Chinese-owned. Their principal crops were sugar cane, rubber, coconut, coffee, tobacco and pepper, all intended for the commercial market. Under Sukarno, Chinese investors have entered the logging business most in cooperation with Chinese interests in Southeast Asia, Hong Kong and Taiwan as well as with Japanese capital. An example of an Indonesian-Chinese logging interest with heavy Japanese involvement is Pangestu's Barito Group.

**Barito Pacific Group**156

Born to a poor family of a Chinese rubber farmer in Kalimantan in 1945, Prajogo Pangestu is head of Barito Pacific Group which controls natural forest lands equal in size to Switzerland. His group controls 5.5 million hectares of forest and associated wood-production facilities which together are valued at about $5-6 billion. Barito has likewise interests in property, plantations, chemicals and banking (see Table IV).

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155 Mackie 1988, p. 243
Table IV: Reeling off Barito's activities

<table>
<thead>
<tr>
<th><strong>Existing Interests</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timber</strong></td>
</tr>
<tr>
<td>• 54 companies in logging and plywood, Assets include 5.5 million ha of forest, 68 plywood mills, 3 glue-making units, 2 particle-board plants. Annual capacity: 2.2 million m(^3) of sawn timber.</td>
</tr>
<tr>
<td>• 1.000.000 ha forest in east Kalimatan (with Astra).</td>
</tr>
<tr>
<td><strong>Plantations</strong></td>
</tr>
<tr>
<td>• 30.000 ha of sugar plantation and 100.000 tonne sugar mill in South Sulawesi (with Siti Hardijanti Rukmana).</td>
</tr>
<tr>
<td>• 145.000 ha for palm oil and rubber in Sumatra.</td>
</tr>
<tr>
<td><strong>Finance</strong></td>
</tr>
<tr>
<td>• Rps 300 billion-asset, 40%-owned Andromeda Bank (other 60% split between Bambang Trihatmodjo and Henry Pribadi).</td>
</tr>
<tr>
<td><strong>Real estate</strong></td>
</tr>
<tr>
<td>• US$ 200 million headquarters, plus 1.000 ha of land, in Jakarta.</td>
</tr>
<tr>
<td>• 51% share in S$120 million Sentosa Beach Resort in Singapore (49% held by Shangri-La Hotels).</td>
</tr>
<tr>
<td><strong>Petrochemicals</strong></td>
</tr>
<tr>
<td>• 12% stake in Tripolyta Indonesia (with Bimantara and the Salim Group) to produce 160.000 tonnes a year of polypropylene.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Planned</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Petrochemical</strong></td>
</tr>
<tr>
<td>• US$1.8 billion Chandra Asri olefins complex in West Java (with Trihatmodjo and others).</td>
</tr>
<tr>
<td><strong>Pulp and Paper</strong></td>
</tr>
<tr>
<td>• US$1.2 billion Tanjung Enim Lestari plant in South Sumatra (with Rukmana and others). Annual capacity: 1 million tonnes of pulp, 500.000 tonnes of paper, 250.000 tonnes of rayon. Projects includes a 300.000 ha timber estate (with a state forestry company).</td>
</tr>
<tr>
<td>• 100.000 ha timber estate in East Kalimatan (50% held by Astra) for Astra-owned Suryarya Wahan mill.</td>
</tr>
</tbody>
</table>

Source: REVIEW Data (Far Eastern Economic Review 12 March 1992, p. 43)

Two factors were cited to explain Prajogo's rise to stardom from obscurity. One is the major role he played in Indonesia's drive to bolster non-oil exports as a result of the country's huge drop in oil earnings following the plummeting of oil prices in the early 1980s. The other is his ambitious diversification efforts done largely in conjunction with Suharto's children.

Home to 10% of the world's rainforests, Indonesia looked to wood-based industries to spearhead its non-oil export drive. Forest products are the country's second biggest foreign-exchange earner after oil. Prajogo's contribution to this effort has been unparalleled. Barito's plywood exports in 1991 constituted one-sixth of Indonesia's woodexports and 3.5% of non-oil exports. Revenues from Barito's logging and plywood mills are channeled into the group's petrochemicals, pulp-and-paper production and perennial-crop plantations. Prajogo's pulp-mill in Sumatra is said to be among the largest and lowest-cost pulp producers in the world.

Prajogo's first exposure to forestry industry dates back to 1969 when started working for Indonesia's largest timber concern, Djajanti Group. In his capacity to raise money for Djajanti's log-cutting operations, Prajogo developed relations with big Japanese trading houses such as Mitsubishi Corp., Marubeni Corp. and C. Itoh & Co. In 1976, he branched out on his own, purchasing the rights to a 40,000-hectare concession. He then expanded by offering to cut concessions that were under-exploited by their foreign owners. A lucrative contract acquired by Barito was that from Mit-
subishi which handed over a 90,000-hectare concession on Mangole Island in the Moluccas for it to exploit on its behalf. This Japanese connection facilitates Barito's marketing in Japan. The Mitsubishi-Barito Club, a group of more than 400 Japanese factories and retailers that buy Barito's plywood, is Barito's marketing arm. In addition, Barito has trade-financing lines from several Japanese lenders.

When Indonesia banned the export of raw logs in 1980 in an effort to develop downstream industries such as plywood, several smaller timber concerns ran into severe financial difficulties. Prajogo seized this golden opportunity. In 1979, he purchased 411,500 hectares of concession from distressed concerns. A year later, he acquired his first two sawmills from bankrupt operators. Two years later, he set up the first of what would become 68 plywood lines in dozens of separate factories. Much of the equipment for these simple facilities was said to have been bought on a practically barter basis.

Undeniably close to the Suharto family, one businessman close to Prajogo claims that 'he (Prajogo) was a capitalist long before he became a crony'. On his part, Prajogo downplays the benefits of his links to the first family. He said that the relationship is not built around favors given to Suharto's children, rather, the president appreciates Barito's contribution to the development of areas in Indonesia neglected by most other conglomerates. Indeed, Barito is one of the biggest employers in rural Indonesia, particularly in Kalimantan, Sulawesi and the Moluccas islands. In effect, Barito is feeding at least 300,000 people in these areas, half or more of them transmigrants from overpopulated Java. His contributions to development aside, Prajogo is known to have done favors for the president. He and Liem Sioe Liong were believed to have covered the $420 million foreign-exchange losses by Bank Duta whose major owners are three foundations connected to the president. He is likewise believed to have paid for a monorail at the Taman Mini theme park, a pet project of the late first lady. His elevation, however, to the president's inner circle has caused irritation among his fellow Indonesian-Chinese businessmen. The latter claimed that Prajogo has raised the expense of winning the president's patronage by lavishing the first family with favors. This is believed to be especially annoying to Liem Sioe Liong who has enjoyed close ties to Suharto since the late 1960s.

Although businessmen close to Barito claim that Prajogo has started bringing in professional managers to run the group's new businesses, to outsiders, the group appears to be the archetypal family-run company with one decision-maker at the top, in this case Prajogo, with lots of administrators under him.

The post-independent situation of Chinese entrepreneurs in Indonesia is best summed-up by Robison who maintained: "Despite attempts by political parties, the state and the indigenous bourgeoisie to constrain politically Chinese economic influence, their economic dominance has been consolidated in the post-colonial period, especially after the departure of the Dutch, largely because their economic competitors, both private and state, were so weak.\(^{157}\) (italics mine)

\(^{157}\) Robison cited in Mackie 1988, p. 233
Malaysia

Colonial Era

Chinese immigration to Malaysia (then named Malaya) is said to have started as far back as the Chin Dynasty (414 AD) though it became prominent only in the late 18th century. Ten years after the British set foot in Malaysia by acquiring Penang in 1786, some 3,000 Chinese were reported to have already settled there.\(^{158}\)

In 1819, Sir Stamford Raffles founded Singapore which was to become later the hub of British economic activities as well as expansion in the region. In a letter to the Duchess of Somerset, he indicated that the new colony is developing rapidly and its population of more than 5,000, the majority being Chinese, was increasing daily. Less than a year later, the population stood at 10,000 to 12,000, most of whom were Chinese.\(^{159}\) In 1824, the British East India Company, by virtue of the Dutch-Anglo London Treaty, finally gained control of Singapore and Britain’s legal sovereignty over the island was acknowledged. Among the treaty’s territorial stipulations were: a) that the Dutch shall cede Malacca to Britain; b) that Dutch objections to the British occupation of Singapore shall be withdrawn and that no attempts at creating Dutch establishments in the Malayan peninsula shall be undertaken; and, c) that the British shall not interfere in the islands south of the Singapore Strait.\(^{160}\) Malacca was particularly attractive to the British since it was the real center of trade between the Indian Ocean and the Far East, and as the gateway to the China Sea, was an excellent base for advance to the Pacific Ocean and the natural point of concentration for the products of the Spice Islands. Having wrested it from the Dutch and having acquired Penang and Malaysia, the British practically won the struggle for the spice trade. Singapore, Penang and Malacca constituted the Straits Settlements and, in 1826, Singapore became its capital. In 1867, the Straits Settlements became officially converted into a British crown colony and the entire Malay Peninsula was brought under British control in 1887.

The British in Singapore, contrary to their Spanish and Dutch counterparts in the Philippines and Indonesia respectively, did not adopt restrictive immigration policies. As a result, Singapore, with her convenient location, policy of free trade, and open-door immigration policies, promptly attracted Asian, mainly Chinese, and European traders who carried the bulk of an already developed regional trade. As these merchants responded positively to the opportunities offered by this new trading outlet, Singapore did not only quickly capture the trade of Riau which was also the center of a flourishing Chinese gambier production, it also took over a large part of Penang’s commerce.

The first Chinese immigrants to Singapore came from Riau and Malacca who had already settled in these areas and many of whom had married Malay women thus forming what is known as the Baba Chinese community. Most of these settlers, Turnbull wrote “were already prosperous” and therefore “did not fit the popular ‘rags to riches’ success stories of penniless youths rising by hard

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\(^{158}\) Fukuda Shozo 1995, p. 52  
\(^{159}\) Fukuda, p. 52  
work and acumen to wealth and eminence". In February 1821, the first junk from Amoy arrived, carrying goods and people alike. By 1867, the Chinese already constituted an overwhelming 65% of the island's population, the majority of whom were immigrants from China's coastal provinces of Fujian and Guangdong, many of them were recruited as coolies. The immigrants belonged to four major dialect groups: Hokkien, Teochiu, Cantonese and Hakka. The Hokkiens (or Fukienese) were the most numerous and dominated Singapore's commercial life since the start whereas the Teochius, the second largest, were their main business rivals. The Cantonese, the third group, were generally tin miners or artisans who made up most of the islands carpenters, tailors, goldsmiths and masons. Hakka immigrants were mostly tin miners and the few who stayed in Singapore were laborers. The Chinese immigrants, therefore, who later flocked into the Malay Peninsula, came from China via the Straits Settlements the center of which being Singapore. Coolies landing in Singapore were usually employed by Chinese merchants or by Chinese planters of gambier, pepper or tapioca, while those landing in Penang were destined for the tin mines in Perak or Selangor. By 1870, the Chinese in Larut outnumbered the Malays and Penang was almost entirely Chinese populated like Singapore. As their numbers increased, so did the diversity of their occupations. Beside the tin miners, there were laborers in road and building constructions, but most importantly, they became the dominant retail traders. Singapore's commerce meanwhile was dominated by the Chinese.

**Nature of the Colonial Economy**

The British colonizers introduced a dual economy: a traditional sector that existed alongside a modern, export-oriented sector organized along capitalist lines. The former was the domain of the indigenous Malays who were engaged in rice cultivation, fishing, small cottage industries and coconut growing. Some went into commercial cultivation of rubber in small landholdings although, on the whole, this was insignificant as the large tracts of land converted into rubber plantations belonged to the Malay chiefs who leased them to the British and/or to the Chinese. The modern sector was the domain of the British who benefited most from it, followed by the Chinese who provided labor and capital in the tin mines and rubber plantations, and a small group of Indian workers brought in by the British from their colony nearby, India, to work in rubber plantations.

Confining the indigenous Malays to their traditional activities served the British policy of preserving the basic structures of the Malay society as far as possible as it was seen as an effective measure to ensure political order and stability. The need to generate sufficient revenue to finance the colonial administration was met through the introduction of an agriculture-based export economy whose labor requirements were filled by foreign labor, in this case, Chinese and Indian labor. The seeds of ethnic differentiation drawn along economic lines were therefore sown very early in the colonial era by the British themselves.

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161 Turnbull, pp. 14-15  
162 Fukuda 1995, p. 56  
Concerned mainly with amassing huge financial returns by exploiting the Peninsula's natural resources, the British had at first no intentions of being embroiled in the local politics of the Outer States, that is, the areas outside the Straits Settlements. However, the Malay chiefs found it increasingly difficult to control the growing number of Chinese immigrants who belonged to two rival secret societies which controlled the coolie traffic. Traditional authority in Perak, Selangor and Negri Sembilan rapidly disintegrated. Civil war in Pahang, which lasted from 1857 to 1864, closed the Kuantan mines and dealt a severe blow to the Singapore merchants. The latter became acutely aware that without official protection, there could be no security to their business. Conflicts between immigrants and Malay authorities and among rival Chinese societies themselves and a threat of bloodshed in Penang following secret-society riots in 1867 made British political intervention inevitable. There was fear in Singapore that the unruly situation could spill over to the island. Thus, arrangements were quickly made for a British Resident to act as adviser to the sultans (Malay chiefs) in Perak, Selangor and Sungei Ujong. In 1874, the Pangkor Treaty was concluded allowing a British take-over of the administration of the Malay states. Britain’s role was, however, merely that of a protector as the Malay rulers retained de jure control over their own states. This new administrative arrangement resulted to the severing of political bond between Chinese immigrants and the Malay ruling elite. With the focus of authority shifting to the British bureaucracy, the Chinese in the Malay states became, in effect, an immigrant community under the control of a foreign power. (italics mine) The British-supervised Malay states were later named the Protected Malay States and Singapore served as the main port for their goods. In 1877, the first check on the abuses of coolie travel was introduced with the establishment of a Chinese Protectorate and the ban on secret societies. In 1914, Chinese indentured labor was abolished.

The Overseas Chinese had always played an important role in the economic life of Malaysia. Fukuda noted that during the initial phase of Malayan development, the Chinese were obliged to bear almost the entire cost of the establishment of utilities even as they provided almost all the labor and the business enterprise needed for the economic development of the country. Their economic contribution during the early stages of British colonial rule is best described by an account from Swettenham in 1890:

I argued that the income of the Malay states mainly depends on the tin mines and that the government must pay the greatest attention to the promotion of this industry by appropriate measures. Tin mining was carried on as early as 1882 by a French company in the Kinta district of Perak and this spread to other states. From then on, other Europeans founded companies with the same purpose. Yet it is the Chinese who initiated this industry and have maintained it to the present day. Their efforts have been requited and today they supply more than half of the world's tin. Their efforts and enterprise have achieved their present standing in Malaya. The government and the people of Malaya owe an enormous amount to these diligent, able and law-abiding foreigners, the Chinese. Before the whites came to Malaya they were already tin miners, planters and fishermen.

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165 Khoo 1981, p. 94
166 Fukuda 1995, p. 53
In the earliest phase of development thy supplied the funds to begin road construction and other public works and it was their endeavour and diligence that met all the costs of other public facilities. Now they have assumed the role of pioneers, penetrating jungles, clearing forests, braving every danger and sometimes reaping great profits. They have often stood the test of intense heat. When they undertook smelting, not confining themselves to mining and extraction, they extended to charcoal burning. They have been tree fellers, carpenters, brickmakers, and as civil engineers have undertaken almost all government building construction and works on roads, bridges, railways and harbours. They are traders and merchants and in sea transport have opened regular routes between the ports of the Malay states. When extraordinary labour was required to develop the hidden wealth of this unknown, jungle-covered land, they supplied tens of thousands of their countrymen. The taxes levied on the goods and enjoyments they consume form the greater part of tax income, accounting for nine-tents of the total income of Malaya....The reader should be able to appreciate how very much the development of Malaya owes to Chinese labour and enterprise.\(^\text{167}\) (italics mine.)

**Chinese Entrepreneurship in the Extractive Industry**

**a) Tin**

The discovery in the 1850s of new tin fields in Larut (Perak) and in the 1860s in that part of Selangor which is now Kuala Lumpur led to an influx of Chinese workers. This coincided with the lifting by the Chinese government of the prohibition on migration and of coolie trade. Also in the 1860s, world demand for tin ore to supply the rapidly expanding tin plate industry rose, brought about by the growth of the canning industry in Europe and the United States. By the beginning of the 1870s the main centers of mining in the Peninsula were Larut and Sungai Ujong where mining had been carried out since the 1830. All tin mines in these areas were worked by the Chinese. Earlier, Malay landowners were involved in tin-mining themselves. However, discovering that the Chinese could mine deeper using adapted rice-farming techniques such as the use of a wooden chain pump,\(^\text{168}\) they left the Chinese to do the work and confined themselves to merely collecting revenues. The height of Malayan tin production between 1874 and 1896 was largely facilitated by the introduction of the steam pump and its eventual adoption by Chinese miners was a great boon to their enterprise. Mining operations were mainly financed from the Straits Settlements enabled both big merchants and petty shopkeepers to participate in the industry. The reasons for Chinese dominance in this period are not hard to find. Chinese methods did not require a large capital outlay. They depended on labor-intensive techniques, the working of easily accessible deposits which required hardly any mechanization. The labor force was maneuverable and mobile, and the miners could be turned into fighting men at short notice. In the anarchic conditions prevalent in the tin districts prior to British control, the societies provided the rudiments for self-government and self-

\(^{167}\) quoted in Fukuda, p. 54

protection. After 1874, they continued to play a vital part, from the mineowners’ point of view, in recruiting and controlling the steady flow of laborers into the mines.

By the turn of the 20th century, however, the English have effectively displaced the Chinese with the introduction of the system of bucket dredging, hitherto used for gold-mining in Australia and New Zealand. Capital-intensive, costly yet extremely efficient for deep mining, this technology was affordable only to the Europeans. Still, Chinese share in the industry remained sizeable. In 1928, they held two-thirds of the 200,000 acres of tin mine-lots in the Federated and Unfederated Malay States, and production, though falling to 51% in 1928, was nonetheless undisputably huge. During this time, Chinese financiers, miners and coolies alike have already saved enough capital to finance their expansion into other commercial activities. Since most of the mines were single proprietorships and partnerships, capital was concentrated only on a few.

The period which witnessed the upsurge of Straits tin to the leasing position on the world market was one in which Western enterprise failed to make any appreciable headway at all in the mine of the Peninsula. Western firms could not escape high costs and overheads. The employment of European staff was infinitely expensive. Mining equipment was costly to buy, install and maintain. Labor was a major difficulty: Malays would not work as wage laborers, Indians proved unable to take the strenuous type of labor needed for the mines, and on the whole Chinese workmen were unwilling to work for a non-Chinese employer.

The Chinese miners apparently had all the cards in their hands, and for 3 decades played them with skill and to their considerable profit. Nevertheless, even the Chinese miners had their setbacks, including two severe and prolonged periods of recession on the world market. The first recession (1875-82) was in most cases only surmounted with the active support of the newly established British administration. The repercussions of the second recession (1889-1893) completely modified the credit system on which Chinese mining was run and gave Western enterprises their first opening particularly in the smelting industry. This depression also loosened the grip of the mineowners over their laborers, with profound effects on working conditions in the industry. In 1874, the immediate problem was lack of capital which was essential for the restoration of derelict and abandoned mines in the West coast states. The farms provided substantial revenues at no cost to the administration even as it enabled it to shape the development of the state. Meanwhile, the farmer stood to make a fortune and bidding was keen. Equally as vital as capital was labor, and its supply was equally unsteady. Malay chiefs had long discovered that they could not rely on the manpower of the kampong (village) to work their mines, nor did the Malay peasant see the necessity to subject himself to the miserable conditions that Chinese mineowners inflicted on their coolies. On the other hand, growing competition on the Chinese labor market from neighboring territories started which, coupled with the uncooperative attitude of the imperial authorities in China itself, served to raise the price of labor in the Malay States and contributed to the recession of the 1890s. Aware of these problems, the British state administrations from the beginning did every-

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169 Jesudason 1990, p. 33
170 Fukuda 1995, p. 63
171 see Tate 1979, pp. 186-190
thing to encourage Chinese immigration and, without hesitation, extended the principle of unrestricted entry applied in the Straits Settlements to the Protected States, a policy adhered to until 1930.

The negligible Malay presence in the tin mining industry had two reasons. Firstly, the Malay ruling class preferred to leave the laborious process of tin mining to the Chinese and merely collected generous financial returns, and secondly, the use of foreign laborers on the mines was seemingly inevitable particularly as the demand for tin grew. The tin states were sparsely populated and for the Malays who were barely eking a subsistence living, mining could only be a part-time occupation. And even if they wanted to pursue it seriously, the Malays had neither the capital nor the knowledge nor the means to develop mining operations on a large scale. The need for more labor could be answered therefore by a full-time and mobile labor force such as the landless, hungry villagers of South China who only the Chinese merchants in the Straits Settlements could finance and could supply.\textsuperscript{172}

b) Rubber

Growing rubber for commercial purposes was introduced by the British in 1895. With encouragement from the colonial government, the Chinese undertook rubber planting. Although their plantations were small, usually under 100 acres, and their planting methods crude,\textsuperscript{173} and although the majority of the rubber estates were in Western hands, in 1921, the Chinese held one-fifth of the total estate acreage in the Peninsula, their holdings being concentrated in Johore and Kedah.\textsuperscript{174} It should be noted that while Chinese coolie labor formed the backbone of the tin mining industry, only Chinese-owned rubber plantations employed Chinese workers. Rubber estates established with European capital employed Indian workers.\textsuperscript{175} With the rubber boom in 1924, the Chinese increased their investment, at times abandoning their coffee and coconut plantations in favor of rubber. Meanwhile, rubber processing, which was centered in Singapore, likewise saw active Chinese participation with 15 factories belonging to them.\textsuperscript{176} The rubber entrepôt trade of Penang and Singapore was largely under Chinese hands. The Malay failure to have any share in the rubber industry except as smallholders was consonant with their general failure to participate in the expanding economic development of their own country. Most Malays lacked the capital, had no connections with the world of commerce and industry and knew nothing of its techniques.\textsuperscript{177}

\textsuperscript{172} Tate, p. 189
\textsuperscript{173} Fukuda 1995, p. 65
\textsuperscript{174} Tate, p. 207
\textsuperscript{175} Ryan 1976, p. 198
\textsuperscript{176} Fukuda, p. 66
\textsuperscript{177} Tate, p. 210
Chinese Entrepreneurship in Cash Crop Production

While entrepot trade comprised the bulk of the revenue generated by the British from Malaysia, the cultivation and export of cash crops likewise provided a sizeable share of the colony's revenue. Penang and Malacca were the major centers of cash crop production. Eclipsed by the magnitude of the entrepot trade, agriculture had a greater contribution than industry. It was important in Penang and the mainstay of Malacca. Furthermore, the various experiments in planting which took place in these settlements in the 19th century provided invaluable experience to both European and Chinese entrepreneurs and gave them a basis for their subsequent expansion into the Malaysian hinterland. All three settlements were the scene of abortive experiments in the growing of spices and also of coffee. With far greater success for a number of years, pepper, gambier and tapioca were planted, while in the North, sugar at one stage developed into a major industry. Then at the beginning of the 20th century came rubber, which virtually swept all other crops to one side. One of the first rubber estates was opened in Malacca, and on the eve of the Pacific War, rubber was making a substantial contribution to the economy of the three settlements.

a) Pepper and Gambier

Penang was the scene of the earliest experiments in its cultivation. The Chinese were the first planters swiftly followed by the Europeans. Since only the Chinese could provide the labor that the European planters needed, Western capital thus financed Chinese cultivation. In contrast to Penang, pepper cultivation in Singapore developed together with gambier. Both crops were grown by Malays and Chinese when the British first occupied the island. For the best part of the century, pepper and gambier flourished together as a Chinese smallholder industry. Although Europeans showed some interest in these crops, gambier and pepper farming remained predominantly a Chinese industry in the hands of smallholder-squatters, financed by the shopkeepers and merchants of the town. Both crops were likewise grown in Malacca in the course of the 1800. As in Singapore, their cultivation was a Chinese affair. Outside the Straits Settlements, i.e. in Peninsular Malaysia, Johore was the center of pepper and gambier production. The movement of Chinese planters into Johore began in earnest in the late 1820s, attracted by the spacious tracts of rich virgin soil, by the nearby convenience of Singapore's expanding facilities and ready market, and by the encouraging attitude of Johore's rulers, the Temenggong family who saw in Chinese enterprise their most productive source of wealth. By 1890, there were over 200,000 Chinese in Johore, who were chiefly gambier and pepper planters. As in the Straits Settlements, the industry in Johore, as well as in Negri Sembilan and Selangor, was an exclusively Chinese affair, entirely financed and controlled from Singapore. The closest links were naturally those between Chinese merchants in Singapore and planters in Johore. Close ties also bound Singapore to the planters in Negri Sembilan and Selangor but whereas in Johore the Chinese pepper and gambier planters played the part of colonists opening up virgin lands, in the other two states, they were settling down in a region with an already established Malay population and where other crops were grown. In terms of actual organization, the industry in Johore was characterized by the famous kang-chu system with its plantations, kangkars and bangsal. From the Johore point of view, the system solved the problem of adminis-
tering a foreign community without the means or personnel to do so directly while preserving the fiction of Malay sovereignty; from the point of view of the Chinese settlers, it enabled them to live and work according to their own customs and laws without interference, eased the process of immigration and in all left them to their own devices.

b) Tapioca

Malacca was the chief center for tapioca production in the Straits Settlements throughout the 19th century and was the 'cornerstone of Chinese enterprise for over fifty years'. Labor was provided by fresh immigrants recruited by contractors who received advances from wealthy Chinese merchants against delivery of the crop at a fixed rate. A small group of Chinese based in Malacca financed the industry, controlled its ancillaries and reaped the main benefits. They owned most of the tapioca concessions and plantations. They also apparently dominated the carrying trade associated with the industry and were behind the extension of tapioca planting into neighboring districts of Negri Sembilan.

On the whole, the organization of spice cultivation was similar to that of other forms of agriculture at the time, the actual cultivation being done by the Chinese while plantations themselves were divided between large European estates worked by Chinese contract labor and squatter smallholdings sustained by advances from merchants and shopkeepers.

c) Sugar

The most successful cash crop in the Straits prior to the introduction of rubber was sugar cane. The pioneers of the sugar industry were the Chinese who reportedly started planting in Wellesley province shortly before 1800, although most of the pioneer plantations appear to have been opened between 1810 and 1820. Chinese plantations were organized and financed on very similar lines to other Chinese agricultural enterprise. The bulk of the planting on the mainland was financed and controlled by Chinese merchants in Penang. Due to the poor quality of Chinese-processed sugar, the Europeans found their opening in the market. Nonetheless, low overhead costs enabled Chinese producers to withstand Western competition as well as falling prices during a depression. As a result of Western penetration into the industry, two distinct forms appeared in the mid-1800s: The processing side was completely European dominated with its expensive machinery and superior techniques while the planting side remained Chinese and traditional.

As land was exhausted to sugar cane plantations in the Wellesley province, British officials encouraged sugar planters to move to the Peninsula. By 1879, there were already five Chinese estates opened in Krian and as land was later exhausted there, Chinese planters moved to neighboring Perak. Until 1883, sugar planting was exclusively a Chinese affair, virtually monopolized by the merchants of Penang who financed and thereby controlled all the planting and the processing. Labor was naturally exclusively Chinese. In 1884, the first European enterprise was established and by the end of the century the European stake in the industry had become considerable, covering

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178 Tate, p. 171
about one-third of the total acreage alienated. The European companies organized their concessions into groups of very large estates, employed a sizeable European managerial and technical staff, used Indian indentured labor, and employed the most up-to-date machinery. In the face of this Western competition, based on heavy capital investment and the employment of cheap labor, the larger and wealthier Chinese estates tended to adopt the same methods, turning over to the use of modern machinery and even recruiting European engineers and overseers (italics mine)

Others
Oil mills, which processed coconut and palm oil, were traditionally controlled by the Chinese, the biggest were those located in Singapore and Penang.

Chinese Entrepreneurship in Commerce
Malaysia was, during this time, the focus of trade in Southeast Asia. Export commodities including rubber and those coming from Indonesia were brought to the trading ports of Singapore and Penang. Singapore, as a transshipment port, likewise handled most of the import commodities intended for distribution throughout the region. About 70% of the trade of British Malaya passed through these two ports and the Chinese formed the commercial nucleus. However, those who were directly involved in the export-import trade were few as about 80% of the import trade was carried on by British companies. Thus, actual Chinese share in the export-import trade was roughly estimated at around 10-20%. It was in retailing where they reigned supreme. Not unlike their counterparts in Indonesia, they were scattered throughout the land, even in the most remote mountainous areas, supplying necessities to the local population and Chinese laborers. As compradors for British trading houses, they bought local products cheaply and sold them at higher prices to British exporters. As distributors of Western import goods, they faced no serious competition and could therefore command higher prices. By the time the comprador system was abolished after World War II, the Chinese had already established themselves as middlemen par excellence. The Chinese's dominance in trading was further reinforced as large Chinese businessmen diversified into banking. Chinese banks provided credit and financial guarantees, hence Chinese importers could get their consignments direct from Europe rather than through agency houses. With a large, entrenched and efficient distribution network, Chinese traders, importers and retailers alike, were able to capture more and more share of the domestic market.

Domestic production of rice, the staple food of the Malays, could barely meet a quarter of the domestic demand. The remaining 75% was imported by Chinese merchants from Burma and Siam. Meanwhile, all the rice produced in Malaya was milled by the Chinese.

Rich Chinese businessmen in the early colonial era were usually those in tin-mining and plantation agriculture. Many owners of large plantation companies started as rubber dealers, millers and exporters of smallholder produce, subsequently diversifying backwards into plantation ownership.

179 Fukuda, p. 68
181 Jesudason, p. 35
For the coolies, saving as much capital as possible was the only way out of debt-bondage and into small-scale occupations or other forms of self-employment, the most common of which is the setting up of a small family store. A legendary Chinese entrepreneur, who made his fortune as rubber dealer/producer and in plantation agriculture particularly pineapple, was Tan Kah-Kee.

**Tan Kah-Kee. An Overseas Chinese Legend.**

Tan Kah-Kee was born in 1874 in Fukien. His father, Tan Kee-peck left China as a young man around 1860 to work as apprentice in the rice firms of his two elder brothers in Singapore. By the time Tan Kah-Kee was born, his father had already put up his own rice firm which imported rice from Cochin-China, Siam and Burma and sold it to retailers in Singapore and Malaya. With his accumulated capital from rice trading, his father branched out into real estate. More importantly, he purchased a couple of hundred of acres of land in Malaysia for pineapple planting and in the 1890s, he owned a pineapple-canning plant in Singapore which exported canned pineapples overseas. That early, he was said to have secured 70% of the export trade in canned pineapple. By 1900, his total assets was valued at a whooping US$400,000.

The British authorities were reported to have obviously regarded Tan Kee-peck rather highly as a merchant and Hokkien pang (speech) leader that when he applied for naturalization in 1904 as a British subject, the Executive Council granted it as a privilege and as sign of respect for him.

In 1890 Tan Kah-Kee joined his father in Singapore to help manage his rice business. In 1904, however, the business empire that his father built collapsed. The main reason to which this misfortune was attributed to was the mismanagement and embezzlement on the part of his father’s third wife, who was addicted to gambling, and her adopted son. With barely $7,000 capital left from his father’s business, he set up a pineapple-canning plant and later expanded into pineapple planting as security against possible shortage of pineapple supplies for canning. His business went well and soon he was generating sizeable profits. Part of the profits which he generated, however, were used to pay off his father’s standing old debts. In 1906, Tan Kah-Kee was faced with falling prices for canned pineapple as well as growing fierce competition. He took a fortuitous move by immediately branching out into rubber planting when most Chinese capitalists in Singapore were still hesitant to go into such an unproven business undertaking. His entry into rubber planting coincided with the rubber boom of 1909 when market prices for rubber sheets rose sharply in London. His fortunes rose again. He immediately diversified into rice-milling which specialized in processing cooked rice for export to the Indian market. It was such a profitable venture that between 1906 and 1908, it generated $160,000 profit for Tan Kah-Kee. The rice mill continued to be profitable and a major source of Tan Kah-Kee’s income until the outbreak of the First World War when trade between the Straits Settlement and India became restricted. Between 1904 and 1910, his total net profit was reported at $730,000. However, the paying off of his father’s old debts, family expenditure and his generous donations to charity and education in the Chinese communities in both Sin-

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gapore and Fukien, reduced his total net profit to still a huge sum of $450,000. Thus, the combined value of all his properties and assets in both China and overseas together with his liquid assets brought Tan Kah-Kee close to becoming a millionaire, in dollar terms, by the turn of the 20th century.

The years between 1911 and the outbreak of the First World War were not particularly profit-making years for his businesses. Nonetheless, this period saw a regional expansion of his business interests. He established a pineapple factory in Thailand in 1912 and rented a rice mill in Bangkok for his rice trade business. This was a no mean feat for a Hokkien to gain foothold in a Teochiu-dominated Thailand. He likewise founded a joint venture in Amoy, in his homeprovince Fukien, for canning foodstuffs and local produce which eventually became a prominent manufacturer of canned foodstuffs for use in China and for export overseas. In 1914, at the age of 41, Tan Kah-Kee had firmly established himself as a fully-fledged and formidable capitalist, industrialist and planter as well as a creditable and proven businessman. He owned eight pineapple canneries in Singapore, Johore and Thailand, two sizeable rubber estates in Johore, and rice-milling operations in Singapore and Thailand.

The First World War brought immense economic problems to exporters and manufacturers in Singapore because of shipping shortages. For Tan Kah-Kee, the war practically cut off the Indian and European markets for his cooked rice and canned pineapple, resulting in the closure of his rice mill and pineapple canneries. Despite initial difficulties, the war presented him with unprecedented opportunities for branching out into new ventures and for readjusting his business priorities. Tan Kah-Kee was faced with the difficult task of overcoming shipping shortage problems in order to secure a reliable supply of grain from Cochinchina and Thailand for his rice mill. His English-educated manager solved this problem by hiring two steamers to carry rice while the British authorities in Singapore encouraged him to hire two steamers to carry timber for the British government to the Persian Gulf. By the end of 1915, a little over a year after the outbreak of the First World War, Tan Kah-Kee amassed a handsome profit of $200,000 from the carrying trade. From this unexpected lucrative gains from the first year of his venture inspired him to acquire his own ship. As all shipowners in the Straits Settlements had to be British subjects, either by birth or through naturalization before ships could be registered, Tan Kah-Kee applied for naturalization and became a British subject in 1916. His case of owning two steamers during wartime as a British subject went as far as the Colonial Office and the Board of Trade in London. It, however, met no opposition. His two ships which traded between Amoy, Swatow, Hong Kong, Singapore, Penang and Rangoon, carrying both cargo and passengers proved economically viable. He later discovered a more lucrative way of making the investment pay - to lease them to the French government for carrying provisions and supplies around the Mediterranean for a combined monthly rental of $120,000. The lease of these two steamers generated for him a net profit of over half-a-million US dollars. When both ships were sunk by the Germans in the Mediterranean between 1917 and 1918, Tan Kah-Kee received compensation in a staggering sum of $1.2 million, an amount which more than covered the cost of their purchase. All in all, the shipping trade and insurance compensation between 1915
and 1918 earned him a net profit of $1.6 million. Tan Kah-Kee thus made his first million, in US dollars!

Tan Kah-Kee's pineapple canning industry was likewise adversely affected by war conditions. He resold a great quantity of tin plate, originally stockpiled for pineapple canning, which fetched him excellent prices. In addition, he converted one of his pineapple mills to a rubber mill to process rubber sheets for export. Another rubber mill was established in 1917 as the demand for rubber soared during the war. One of the youngest and most able persons on his staff, Lee Kong-chian was an excellent linguist who was instrumental in making a direct break into the American and European rubber markets instead of selling the rubber sheets through local European agency houses. As a show of Tan Kah-Kee's great confidence in him, he arranged for his eldest daughter to marry Lee Kong-chian. By establishing rubber mills, Tan Kah-Kee was among the early Chinese millers in Singapore to move into rubber-processing industry, a move which was soon to make him one of the wealthiest and foremost industrialists in Southeast Asia in the immediate post-war era.

By the end of the war, Tan Kah-Kee's business empire had become extensive, diverse and prolific. It included preserved pineapple manufacturing, Siam rice and par-boiled rice mills, rubber works, sawmills and commission agents, and a shipping line. His organizations became further diversified with the addition of such new departments as engine works and boiler makers, rubber and rubber estates and shipping.

Like most Overseas Chinese, Tan Kah-Kee wanted to retire in his home village. Furthermore, he wanted to promote education in his home province. On the eve of his departure for China in 1919, he announced to the astonishment of his Chinese friends in Singapore that he intended to use the main bulk of his business profits exclusively for educational development in China. He founded a primary school, the Chi Mei school which later grew into Amoy Univerity, in the same year and revealed that all his immovable properties and assets in Singapore and Malaya had been willed to the Chi Mei school, which he likewise founded alongside Amoy Univeristy, as a permanent financial source, to ensure that profits derived from these would be used for that stated purpose. Although he sold most of his rubber estates prior to the economic depression in 1929, he did keep his promise to finance the Chi Mei schools right through until the birth of the People's Republic of China.

The Great Depression hit Tan Kah-Kee's practically all of his businesses making it difficult for them to survive. It had already brought down many of his rivals in rubber milling and trade. Depressed markets, Japanese competition, overstocking and underpricing on his rubber goods all took a heavy toll on his economic well-being and viability. While Europe, the United States and Canada were protecting their own manufacturers by putting up a stiff tariff wall against foreign goods during the Great Depression, the colonial authorities in both Malaya and Straits Settlements did little or nothing to protect their own pioneering manufacturers. In addition to the devastating effects of the Great Depression, Tan Kah-Kee was faced with liquidity problems. It was said that like most Chinese businessmen of his generation, Tan Kah-Kee obtained loans from banks whenever possible to solve short-term or long-term financial problems as interest rates were comparatively low. And as long as the loans were forthcoming, Chinese businessmen, Tan Kah-Kee included,
were hardly aware of liquidity problems, nor were they willing to dispose of their investments to reduce payment of interest. A factor related to his liquidity problem was a high interest repayment rate of 7% on loans advanced by local banks in Singapore. As Tan Kah-Kee borrowed more heavily, the size of his repayments of interest snowballed and drained his much needed working capital. In 1934, his business empire collapsed.

Although it was claimed that Tan Kah-Kee lost his fortune, Seagrave maintained that nothing of this sort happened. He was said to have always kept his personal assets separate from business liabilities, hence he remained a rich man. All he lost were heavily mortgaged factories and commercial properties. His timing was brilliant for all his bad paper was lost in the blizzard of the Great Depression. He retired from industry but continued to be the energetic patriarch of the Hokkien community in Singapore and dedicated patron of Amoy University. He died in August 1961 from a stroke in Peking.

By the dawn of the 20th century, the Chinese, which have come to comprise nearly one-third of Malaysia's total population, have established a dominant economic position. In 1931, 64.5% of the total Chinese-owned capital was reportedly in tin and rubber plantations and the remaining 35.5% in commercial establishments. Of the total investments in Malaysia in the 1930s, the share of Chinese capital stood at a commanding 30%, a close second to the British's 40% (see Chart III).

**Chart III: Capital Investment in the British Malaya in the 1930s**

![Chart III: Capital Investment in the British Malaya in the 1930s](chart.png)

R = rentier as opposed to entrepreneurial investments  

The Japanese occupation of British Malaya from 1942-45 triggered open hostilities between the Chinese and the Malays, escalating into ethnic animosities, if not hatred, which came to characterize ethnic relations in postwar Malaysia. Japanese occupation forces drove a wedge between the two ethnic groups by placing Malays in privileged bureaucratic positions made free by the British and by creating an all-Malay police force. The Malayan Chinese, on the other hand, supporting China's resistance against Japan, were up in arms against the Japanese. As thousands of Chinese resistance fighters were executed by the Malayan police upon orders by the Japanese, the Chi-

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183 Wu & Wu 1980, p. 54
nese retaliated by assassinating Malays, accusing them as Japanese collaborators. Violence escalated as the Malays (bumis) retaliated by killing Chinese civilians.

**Post-Colonial Era**

The Federation of Malaysia was finally formed in 1963, and in 1965, Singapore became a separate state outside the Federation. Singapore, with its predominantly Chinese population, being excluded from the Federation, the Malays (bumiputras) claimed a special position within Malaysia's plural society while non-Malays (the majority of whom being ethnic Chinese) clung tenaciously to their legitimate interests and acquired rights. Open conflict between the bumiputras and the Chinese took place in 1969 as the victorious Chinese (members of the Malaysian Chinese Association (MCA)) were celebrating their victory of winning seats in the newly-elected lower house of Parliament were attacked by angry Malays. In what is considered to be the worst postwar ethnic violence, several hundred Chinese were killed.

By 1970, glaring economic disparity between the bumiputras and the Chinese was best underscored by ethnic (non-) participation in the economy. Twenty-six percent of total assets in the modern agriculture corporate sector (encompassing rubber, oil palm, coconut and tea), 26.2% in the industry’s corporate sector (which includes manufacturing, construction and mining), and, a commanding 92.2% in the industry’s non-corporate sector belonged to the Chinese.\(^{184}\) To correct this imbalance, the government launched the New Economic Policy (NEP) in 1971 in an attempt to restructure the economy by means of redistributing ownership according to race. The NEP’s goal, which was to be fulfilled within a period of 29 years after its launching, was to attain a 30% Malay ownership in the commercial and industrial sectors. To assist the Malays to realize this goal, the Malaysian Industrial Development Authority (MIDA) was established to fund purchases of stock reserved for Malays so as to increase their ownership share. In addition, licenses to operate certain businesses were granted only to Malays. To improve their economic as well as social skills, special schools and institutions exclusively for Malays were created, and quotas in government appointments as well as admission to universities were guaranteed. The Chinese were thus forced to send their children abroad to study.

The survival strategy of the Malaysian-Chinese (and all Overseas Chinese for that matter) is an open secret - political patronage. Accepting the political landscape as a given, astute Chinese businessmen, in their bid not only to protect their interests but to continue to prosper as well, establish and nurture ties with Malays in power. As Heng noted, they courted "members of the various royal families, high-ranking former civil servants and generals for positions in their boards of directors".\(^{185}\) Heng went on to add that Chinese firms, through their partnership with state-run enterprises, enjoy, among others, state protection and patronage. Increasing Malay stakes in Chinese corporations should not, however, lead one to believe that Chinese businesses have transformed themselves into open corporate organisations. They continue to be under the tight control

\(^{184}\) Wu & Wu, p. 56
\(^{185}\) Heng Pek Koon. 1992. The Chinese Business Elite of Malaysia. in: Ruth McVey (ed.) Southeast Asian Capitalists. Southeast Asia Program, Cornell University, p. 132
of their owners by retaining for themselves large block of shares. Robert Kuok, head of the most successful Chinese conglomerate in the country, is said to be "legendary for his tight control in running the family’s vast business empire despite his close association with a vast array of Malay partners". It should be noted that Kuok, like his Indonesian counterpart and business partner Liem Sioe Liong, has profited immensely from political patronage. Starting with sugar and rice retail trade, the Kuok family moved into backward integration by cultivating and refining sugar and later diversified into shipbuilding, flour and feed milling, property development and construction, and ownership of the world-class Shangri-la chain of hotels.

The Robert Kuok Business Empire

How It All Started

Robert Kuok Hock Nien was born in 1923 in Johore Baru, capital of Malaysia’s southern state of Johore, just across the causeway from Singapore, to a middle-class Chinese merchant family which ancestral village is in the Fijian Province in China. His father was said to be close to the former Sultan Ibrahim of Johor as well as to the former prime minister Tun Hessein Onn. The elder Kuok procured licenses from the Sultan of Johore for his company, Tong Seng & Co., to supply the pre-World War II sultanate with soft commodities such as sugar and rice. His commercial success enabled him to send his three sons to the finest schools. Robert Kuok graduated from the English College in Johore and later from Raffles College in Singapore where Lee Kuan Yew, Singapore’s former prime minister, was among his contemporaries. The Pacific War disrupted Robert’s, and that of his brothers’, education. During the war, Robert Kuok worked at the rice-trading department of Mitsubishi Shoji Kaisha in Singapore. After the war, he took the skills he learned in Mitsubishi back to the family’s business in Johore. He and his elder brother Philip took over the company following the death of their father.

The Making of the Empire

Commodity Trading

The family business was expanded in 1949 by incorporating the Kuok Brothers company in Kuala Lumpur. In addition to taking over the Johor trading licenses of its predecessor Tong Seng, Kuok Brothers’ business operations now extend all over Malaysia. In 1952, Robert Kuok went to London to observe the workings of the London Commodities Exchange. After Malaysia secured its independence in 1957, Robert returned home, equipped with the valuable connections and market knowledge necessary to expand the family’s distribution business and eventually to integrate it with importing and processing operations. In 1959, he founded the Malaysian Sugar Manufacturing

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186 Heng 1992, pp. 132-133
with the state-owned Federal Land Development Authority (Felda). Built with Japanese technology, Malaysia Sugar Manufacturing near Penang was Malaysia’s first sugar refinery. Robert Kuok’s elder brother Philip served as the company’s managing director until 1966 when he left business to join Malaysia’s diplomatic service, serving as ambassadors to West Germany, the Netherlands, and the EC. With certainly an eye towards expansion, Robert Kuok established alliances, by the mid-1960s, with other big sugar producers and refiners in Southeast Asia such as Thailand’s Thai Ruen Rueng and Indonesia’s Salim Group of Liem Sioe Liong. He likewise nurtured strong bonds with British trading giants ED&F Mann and Tate & Lyle. The 1960s and the 1970s were halycon years for Southeast Asian sugar producers, who benefited from steadily rising prices, and speculators, who benefited from often sharp market volatility. In 1971, Robert Kuok, together with executives from ED&F Mann and Tate & Lyle engineered a sale of 1 million tonnes of sugar to China.

**Sugar Production**

Alongside his booming sugar trading business, Robert Kuok expanded into sugar production, a move towards vertical integration. He formed Perlis Plantation in 1968 to clear 5,800 hectares of Felda-owned land for sugarcane, and in the early 1970s, a second sugar mill, Kilang Gula Perlis, was established with Felda near the plantation. Perlis later took control over Malayan Sugar Manufacturing. Perlis refinery, 50% of whose equity belongs to Robert Kuok, accounts for around 70% of the country’s refining capacity.

In the 1970s, Robert Kuok expanded his operations to nearby Indonesia. Together with his old-time associate Liem Sioe Liong, Robert Kuok established Indonesia’s largest sugar plantation even as he, again through his ties to Liem’s Salim Group, is the leading sugar supplier to the government’s purchasing agency, a position he is said to maintain well into the 1990s. Robert Kuok continued his foray into the international market. In 1987, he purchased a 30%-share of the French-owned Sucden Kerry International (SKI) which controls about 60% of the world’s freely traded sugar. The Kuok group’s ties to Sucden also extend to sugar refining and oil trading. In 1988, SKI purchased a controlling stake, a 66.7% in 1991, in Marimpex, a Hamburg-based oil trader. Two years later, a 30-70 Kuok group-Sucden joint venture acquired a 30% controlling stake in Industria Azucarera Nacional de Chile, the country’s profitable sugar monopoly.

**Diversification**

Robert Kuok’s diversification moves are just as huge, bold and encompassing. In shipping, his Singapore-based Pacific Carriers is the largest dry-bulk shipping line in Southeast Asia. In 1993, he teamed up with the Philippines’ food and beverage giant San Miguel in a property development scheme. Kerry Trading, the family’s Hong Kong unit, owns an 18% stake in broadcaster TVB, and a controlling 34.99% share of the South China Morning Post newspaper. The Shangri-La group owns and operates the region’s leading luxury hotel chain. Started small in the early 1970s as a series of family-owned property investments in Malaysia and Singapore, Shangri-La luxury hotels count stood at 32 in 1995 and Robert Kuok are building some more. Just as the commodity trading
operations are now on a global scale, the Shangri-La group is likewise poised to go international. In 1988, it chose Vancouver as the entry point into the North American market for its hotel chain.

Like many Overseas Chinese entrepreneurs, Robert Kuok has close links with Beijing. He is an adviser to China on Hong Kong, and has a 12% stake in CITIC Pacific, the Listed Hong Kong affiliate of Beijing's premier investment corporation. In China, he started to build the $480 million China World Trade Center project after the Tiananmen Square massacre. In May 1996, Shangri-La announced it was paying $321 million got 12 new hotels that Robert Kuok is building in China. Undoubtedly one of SE Asia's richest Chinese, Robert Kuok's personal fortune is estimated to exceed $3 billion (US dollars!).

**Financing and Management**

Of Kuok's vast enterprise, 9 companies are listed in Malaysia, Singapore, Thailand, the Philippines, and Hong Kong. Though known for paying attention to the smallest details (he once lectured his hotel managers on what sort of fruit they should have in rooms, *The Economist*, 1 June 1996:69), Robert Kuok delegates to people outside his family. The Kuok group is sometimes referred to as 'a close company with a core of professionals of who have been working for Robert Kuok for 25 years'. It is often claimed that it is Mr. Kuok's adoption of modern management methods which may help explain why he is probably the most powerful businessman in Asia. Despite slowly going public and delegating to people outside the family, control of the vast Kuok business empire remains to be in the hands of the patriarch Robert Kuok himself (for a glimpse of Kuok's business empire, see Exhibit IV).

As the family's empire grew, Kuok had de-emphasized his political links by not only moving to Hong Kong himself, but extending his business interests to the crown colony and to China. Nonetheless, his standing in Malaysia remains solid. It is precisely Kuok's financial strength and industrial expertise which have given him considerable influence as well as leverage against Malaysia's political elite.

Even smaller business players do adhere to one undisputable and tested recipe for success, ties with the ruling party. One such player, who is experiencing tremendous success, is Tan Sri Teh Hong and his relatively young bank, the Public Bank.
Exhibit IV: Robert Kuok’s main companies and their holdings - a best reckoning

**Canada**
- Abbey Woods Development ¹
- Pacific Palisades Hotel & other properties ²

**Chile**
- IANSA ², ³

**China**
- China Wrd Trade Centre (2 hotels) ²
- Peking Shangri-La ²
- Shangri-La Hangzhou ²

**France**
- Sucden Kerry International ¹
- SKIP ¹

**Germany**
- Marimpex ¹

**Fiji**
- The Fijian ²
- Fiji Mocambo ²

**Hongkong**
- Stigo Holdings ⁴
- Kerry Industrial ⁴
- Kerry-Top Glory ⁴
- Kuok Grains & Oils ⁰
- Kerry Securities ⁵
- Kerry Properties ¹
  - Wing On Square
  - Nanyang Centre
  - Heng Fa Chuen
  - Citibank Plaza & others
- Island Shangri-La ²
- Kowloon Shangri-La ²
- Aberdeen Marina Club ⁵
- Kerry Trading ⁰

**Indonesia**
- Gunung Madu ³
- TKA ³
- Jakarta Shangri-La ²
- Bali Dynasty ³
- Broderick Trading ⁰

**Malaysia**
- Kuok Brothers ⁴
- Perlis Plantations ⁴, ⁶
- Federal Fluor Mills ³, ⁶
- Rahman Hydraulic Tin ⁵, ⁶
- Malaysian Sugar Manufacturing ³
- Kilang Gula Perlis ⁷
- Rasa Sayang Beach Hotels (4 hotels) ²

**Philippines**
- Kuok Philippines Properties Int’l ⁴, ⁶
- EDSA Plaza - EDSA Shangri-La ¹, ²
- Cebu Holdings ³
- Makati Shangri-La ²
- Mactan Shangri-La Beach Resort ²

**Singapore**
- Kuok Singapore ⁴
- Leo Properties ¹
  - Great World Site & others
- Allgreen Properties ¹
  - Handicraft Centre Site
  - Changi Site & others
- Pacific Carriers ⁵, ⁶
- Shangri-La Hotel ², ⁶
- GB Holdings ⁵, ⁶
- Rasa Sentosa Resort ³

**Thailand**
- Shangri-La Hotel ², ⁴, ⁶
- Wattanathani ¹
  - Thai Ruen Rueng - Kerry Development ¹
  - Don Muang Tollway ⁵

⁰ Trading
¹ Property development
² Hotels
³ Plantations and refining
⁴ Holdings and investment
⁵ Others
⁶ Listed company

Source: REVIEW Data (Far Eastern Economic Review 7 February 1991, p. 47)
Public Bank

Born in 1936 to a Chinese immigrant to Singapore, Tan Sri Teh Hong presides over Malaysia's leading privately-owned and Chinese-controlled bank, Public Bank, which he opened in 1967. While declining to discuss where he made his early money, Teh credits his luck to his transfer to Malaysia from the headquarters of the leading Singaporean bank, Overseas-Chinese Banking Corporation (OCBC). In a brilliant display of foresight, a Malaysian banker recalls the story that Teh, by securing a piece of prime Kuala Lumpur property with a three-month lien, was able to raise the purchase price by selling off parcels at 10% down. He raised enough cash to pay off the lien and develop most of the remaining sites. The banker notes that 'such activities were not illegal then and Teh saw the loophole and acted on it'. Teh soon became a developer of flats and shophouses around Kuala Lumpur. He also moved into leisure development and textile and garment manufacturing, listing some of his companies in Singapore and Hongkong to raise cash to expand his investments.

The Bank's entrepreneurial-lending strategy which is responsible for its domestic growth and expansion has been that of targeting Malaysia's small and medium-sized businesses as well as the aspiring middle class, the big majority of whom are Chinese, where margins are high and risks are manageable. Notes its senior general manager: 'The bank's primary market is small-to-medium businesses, those involved in trade or manufacturing, or cottage industries. This group constitutes two-thirds of the bank's customers while the remaining one-third consists of large corporate clients. The bank likewise lends for housing and consumer financing. Its lending policy has been to create wealth on the asset side rather than on the investment side. This is achieved by lending for plant and equipment that produces exportable goods. Thus, the bank's portfolio roughly consists of 35% in manufacturing and industry, 25% in housing, 15% in real estate and 25% in a variety of other businesses such as agriculture, mining and consumer credit.'

From a one-branch operation, the bank has transformed itself to a financial-services empire with more than 155 bank and finance-company branches in Malaysia (see Exhibit V). In addition, it has trust business and merchant bank via its offshore subsidiaries on Labuan Island, the putative offshore banking center in East Malaysia. Offshore, its biggest presence so far is in Hongkong where it operates a bank branch and JCG Finance, a 31-branch finance house that caters to small Chinese businesses and the colony's 74,000-strong Filipino community.

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188 Sources of information are, among others, Far Eastern Economic Review articles "The nimble pioneer", "Frontier finance", and "Man and myths", 3 October 1991, pp. 48-51
Exhibit V: Teh's ever-expanding empire

Figures in %

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<thead>
<tr>
<th>Asia/Pacific</th>
<th>Public Bank</th>
<th>Malaysia</th>
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<tbody>
<tr>
<td>JCG Securities (Hongkong) 100%</td>
<td>JCG Finance (Hongkong) 100%</td>
<td>PB Securities Nominees 100%</td>
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<tr>
<td>Funda Fit (Hongkong) 100%</td>
<td>Public Consolidated Holdings 100%</td>
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<tr>
<td>Hongkong restricted licence bank 100%</td>
<td>Public Leasing &amp; Factoring 100%</td>
<td>PB International Factors 55%</td>
</tr>
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<td>Sri Lanka branch 100%</td>
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<tr>
<td>Bancorp Holdings (NZ) 40%</td>
<td>Public Finance 100%</td>
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<tr>
<td>Public Bank (L) (Labuan) 100%</td>
<td>PB Trustee Services 1</td>
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<tr>
<td>Joint venture with BIDV (Vietnam) 50%</td>
<td>Public Holdings 100%</td>
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<td>PB Futures 100%</td>
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<td>Public Nominees 100%</td>
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<td></td>
<td>PB Trust Company 100%</td>
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</tbody>
</table>

1. Associate company in which Public Bank and Public Finance each holds 20% equity interest
2. Associate company in which Public Bank through Public Bank (L) has acquired a 40% interest
3. Will list in Hongkong on 3 October, reducing holding to 75%

Source: Public Bank (Far Eastern Economic Review 3 October 1991, p. 50)

The bank's staying power is partly attributed to Teh's ties with the ruling United Malays National Organisation (UMNO). Teh is said to be paying close heed to the government's New Economic Policy which aims to correct the country's ethnic economic imbalance. Thus, the bank offers low-cost home-owner loans (obviously targeting the indigenous Malays or bumiputras) and to implement a hiring programme for bumiputras. Even its overseas expansion is considered to be a reply to Prime Minister Mahathir's encouragement for companies to broaden their business ties with Third World countries. It is no surprise that Public Bank is the first Malaysian bank to heed this call. Its branch in Vietnam seeks a profitable niche market among the 1 million-strong Chinese community in Ho Chi Minh City. Expansion plans in Cambodia, Laos and Burma are said to be in the pipeline. In Sri Lanka, Public Bank hopes to capitalize on low-end industrial producers in Malaysia shifting their operations to the island as wage and cost pressures build at home. Through its offshore subsidiary in Labuan Island, the bank bought into New Zealand's Bancorp Holdings. Its aim is to capitalize on rising investment interest in New Zealand among ethnic Chinese, particularly those who have migrated from Hongkong and Singapore.
Teh, whose net worth is estimated at $16 million (although this figure is said to reflect only the value of his 40% stake in Public Bank), credits the bank’s success to a concentration of management on only one dominant shareholder, meaning himself, with the assistance of a competent management staff. He claims that this has enabled the bank to make quick decisions in changing economic circumstances. No relative works at the bank, a slap at nepotism Teh likes to make known. Relatives, Teh claims, bring their share of trouble. His management team, meanwhile, which is considered to be one of the best in the region by securities analysts and fund managers, is largely responsible for the day-to-day operations of the bank. Nonetheless, Teh is involved in the group’s long-term strategies. There is an apprehension among shareholders as to how the group will fare after Teh retires.

Fifteen years after the adoption of the NEP, the targeted goal remained elusive. Gill estimated that although the British share of corporate wealth in West Malaysia fell from 62% to 30% between 1970 and 1985, that of the Chinese rose from about 37% to 48%, while the bumiputra (Malay) share, despite a marked increase from 2% to 22% is still considerably much lower than that of the Chinese’s. Big Chinese entrepreneurs have likewise started to diversify. Though still dominant in the manufacturing sector, they are now active players in property development and in banking, usually in cooperation with foreign capital.

**Thailand**

**Period Prior to the Bowring Treaty**

Unlike its neighbors Malaysia, Indonesia and the Philippines, Thailand was never colonized although it was the British who forced the hands of the Thai monarch to open the kingdom to international trade. In this section, Thailand’s historical development will be divided into: the period prior to the Bowring Treaty; the Bowring Treaty era; and, the post-World War II era.

Relations between China and Siam were first established around the time of the Sui Dynasty (ca. 600 AD) through successive dynasties up until the late Manchu Dynasty and the Taiping Rebellion (mid-19th century), Siam was always subordinate to China either as a vassal or a tributary state. In the Sui period a Chinese princess married a Siamese royal prince and was accompanied by 500 ceramists and other craftsmen. Later when a rebellion broke out the Sui monarch dispatched large numbers of weapon makers and soldiers to Siam to aid the King, who was his grandson. In 1371 under the Ming Emperor Hungwu, the king of Siam voluntarily entered into tributary relations and in 1378 the Emperor bestowed on the country the name Hsienlo (still used for Siam in Chinese and Japanese). At that time not a few Ming envoys visited Siam and took part in its government. Again in 1767, when the capital Ayuthia fell to a Burmese invasion and the land of Siam seemed doomed to extinction, it was rescued and unified by the hero of Siamese independence, Chao Tak Sin, known in Chinese as Chong Chao, who was born to a Teochiu father and a Siamese mother. The founder of the present dynasty, Phya Chakri or Rama the First, was his son-in-law.
After Siam became tributary, private traffic gradually developed and many Chinese reached Siam. After the fall of the Ming Dynasty (1643) which had concentrated on southern administration, there was a rapid increase in mass settlement. According to De la Loubere, about 4,000 Chinese were settled in Siam about the 17th century. This figure excludes, however, the descendants of Chinese who had migrated earlier and could not be distinguished from the Siamese. From 1918-1919, about 70,000 Chinese migrants entered the country and rose to 140,000 between 1928-1929. About 97% of them were deck passengers. In the decade 1918-28, a total of about 900,000 Chinese migrants entered the country. Most of them were from Swatow and are described as Teochiu. The Teochius were most numerous at 60%, followed by the Hainanese at 10%, Hakka 8%, and, Fukienese 10%. The Teochiu were mainly engaged in commerce and rice-milling, the Hainanese in farming and domestic service, the Fukienese in horticulture and mining, and, the Hakka in trade. Merchants and coolies account for over half of all Chinese migrants, followed by farmers and workmen. The dominance of the Teochius can be traced to a second generation Teochiu Chao Tak Sin who, as mentioned earlier, reunified the kingdom after the fall of the Ayuthia monarchy at the hands of the Burmese in 1767. After he installed himself as the new king, and served for fifteen years, he chose Thonburi, opposite present-day Bangkok, to be the new capital. He then encouraged the Teochius to settle around Bangkok. Thus, under royal patronage, the number of the Teochius did not only increase, they likewise gained an easy hold over the kingdom’s commercial life. Their economic dominance was further reenforced with the opening of the first two direct steamship services between Bangkok in Thailand and Swatow and Hai-K’ou in 1886, the only direct connection between China and the Thai capital for the next fifty years.

### Privileged Entrepreneurs

The Chinese as a whole enjoyed a privileged position early on in the Thai society. Long before the British forced Siam to open its doors to foreign trade in 1855, the Chinese had been treated as free agents in matters of trade. Rich Chinese merchants were engaged in lucrative businesses such as the ownership of some ninety state monopolies between 1826 and 1845, the major ones were in opium, gambling, lottery and alcohol. They could buy and sell without restrictions and paid lighter import duties than other aliens. As opposed to the Thais, they were exempt from forced labor in exchange for paying the poll tax. The favored position of the Chinese was also due to their central role in expanding the royal export trade monopoly. From the early 17th to the middle of the 19th century, Thai kings were merchant-kings engaged in the profitable East Asian trade. The kings were dependent on Chinese commercial, financial and maritime skills. Moreover, the Chinese had access to many Chinese and Japanese ports which were closed to other merchants. Thus, the kings’ agents, accountants, warehousemen and royal advisers on commerce were Chinese. Most of the royal trading junks were built by Chinese shipwrights in Thailand itself.
and were later captained and manned exclusively by Chinese, and the cargoes they carried were produced by Chinese.\textsuperscript{194}

Chinese entrepreneurs during this period may be classified into two groups according to the type of economic activity they were engaged in.\textsuperscript{195} The first group included tax farmers who were granted by the King the monopoly to run opium houses, gambling dens and liquor shops. This system was introduced by King Rama III with the aim of raising state revenues to offset the decrease in profits from the earlier state trading system. The King usually appointed Chinese merchants as tax farmers under a contract by which they submitted a fixed portion of the taxes collected to the King. This provided Chinese merchants an excellent opportunity to accumulate capital which they later invested in business, usually rice milling. The second type were merchants who were mainly engaged in domestic trade, which they controlled, and, to a limited extent, in international trade. Although European trading houses controlled foreign trade, they were largely dependent on Chinese middlemen - compradors - for the distribution of both imported commodities and milled rice. Some Chinese rice compradors who worked for European rice exporters later became owners of rice mills themselves.

Some rich Chinese traders eventually gained direct access to and influence in the royal court. Corollarily, all the kings of the Chakri dynasty pursued a policy designed to attract Chinese to the Thai nobility to ensure their loyalty to the Crown. King Rama I actively promoted Chinese trade and immigration while King Mongkut saw the Chinese as one of his principal instruments in accelerating the modernization of the kingdom. King Rama VI (King Chulalongkorn), the longest reigning Chakri king (1868-1910) even proclaimed: "It has always been my policy that the Chinese in Siam should have the same opportunities for labor and profit as are possessed by my own countrymen. I regard them not as foreigners but as component parts of the kingdom and as sharing in its prosperity and advancement".\textsuperscript{196} As early as the 17th century, scores of Chinese were appointed to high positions and offices by Thai kings. In the Ayutthayan period, Chinese who successfully bid for gambling concessions were automatically ennobled. King Chao Tak Sin himself ennobled a Chinese immigrant and appointed him governor of Songkhla, one of the most important southern dependencies of Siam. Later, governors of several provinces including those in the Chinese-dominated peninsular south, Phuket and Trang, were ennobled Chinese. An example of an ennobled Chinese merchant who was appointed governor is Khaw Soo Cheang.

**A Sino-Thai Tin Mining Dynasty**\textsuperscript{197}

Khaw Soo Cheang was born in 1797 in Changzhou prefecture not far from Xiamen. He was said to have left China for Penang at the age of 22. Unlike many Chinese, there seemed to be insufficient

\textsuperscript{194} Skinner 1957, p. 240, Tate 1979, p. 544
\textsuperscript{195} Suehiro Akira. 1985. Capital Accumulation and Industrial Development in Thailand. Chulalongkorn University Social Research Institute, pp. 2-11, 12
\textsuperscript{196} Tate 1979, p. 545
evidence to indicate that he became part of a pre-existing kinship network upon his arrival in Penang. By starting as a fruit trader, he seemed to have achieved early success on his own efforts. He was said to have accumulated enough funds to buy land, expand his business, and began petty trading with states on the west coast of the Thai peninsula. Upon settling in Siam, Khaw Soo Cheang was said to have been assisted by a rich, influential woman who held the rank of thao, matron of the palace, who lent him funds to start trading. As his business prospered, he expanded his business to other provinces. After acquiring enough capital, he purchased a large boat and with it, bought goods in Penang and traded them at the ports along the coast to Ranong in southern Thailand, not very far from Phuket. Realizing that trading tin was the most profitable, Khaw decided to enter the tin business in Ranong as there was little competition there from 'other business people' and therefore the opportunities for expansion there was greater than elsewhere. He made a bid for the tin monopoly and was granted the exclusive right in 1844 to farm the taxes. In recognition of his being a loyal tax farmer, he was appointed Governor in 1854 and was conferred the title of 'Phra Rattanasetthi'. His faithful stewardship was further rewarded in 1862 by King Mongkut who raised his title to 'Phraya', the second highest rank of conferred nobility. The King commended him for turning the 'forest', meaning Ranong, into a prosperous, well-populated commercial center thereby adding to the government's revenues.

The case of Khaw Soo Cheang illustrates how the business interests of an Overseas Chinese coincided with the commercial and security interests of the ruler of a land and on the basis of this reciprocity, the Chinese rose to build a business empire, with royal patronage so to speak, as early as the 19th century.

Reciprocity of interest was fundamental to the revenue-farm system on which Khaw Soo Cheang's fortune was based. In his decision to bid for the tin monopoly of Ranong, he must have calculated that the government would be willing to accept his offer only as long as he guaranteed and then delivered more money than his predecessor. By regularly sending the required amount and by developing the tin resources of the province and gradually increasing the sums remitted to Bangkok, he fulfilled what the state required of its revenue farmers. The reward for his reliability was renewal of his tax farm and the growth of his fortune far beyond what he could have achieved without the monopoly. His commitment/loyalty was recognized materially in his appointment as Governor of Ranong. From that position, he was better able to fulfill another of the state's requirements: the maintenance of order in an unstable and distant region which was necessary to parry the encroachments of the British stationed in Malaysia.

Descendants of most ennobled Chinese are among the leading Thai families today. By opening the ranks of the nobility to the Chinese, Skinner observed: "The government succeeded in skimming off the cream of the Chinese elite to serve its ends and not those of Chinese society". In intermarriage was likewise common among ordinary Chinese and Thais as well as among the affluent Chinese and members of the Thai aristocratic families. It is even said that every Thai king

since 1850 had some Chinese blood\textsuperscript{199} and each of the Chakri kings themselves had Sino-Thai consorts or queens.\textsuperscript{200}

The death of King Chulalongkorn caused a sharp reversal of the royal policy of accommodation towards the Chinese. For the first time, the Chinese became objects of official discrimination and of public antipathy. It was the new king himself, King Vajiravudh, who led the anti-Chinese campaign. Harping on their dominance of the economy, the Chinese were blamed for the failure of the Thais to share in the benefits of modernization and economic expansion. The Oxford-educated monarch, King Chulalongkorn’s son himself, was receptive to the Chinese biases of his English advisers as well as the European-trained Thais who had adopted nationalism and started to espouse it in the kingdom.

The Bowring Treaty Era

The Bowring Treaty of 1855, which forcibly opened the country to international trade, dealt a blow to the major sources of state revenue particularly those from state monopolies. One of the steps taken to make up for this loss was the replacement of the old monopolies and tax farms into new excise monopolies - gambling, lottery, alcohol - all of which still farmed to the Chinese. The import and sale of opium, however, remained a government monopoly.\textsuperscript{201} To boost earnings further, rice which until then was produced merely for subsistence, was converted into a cash crop for export.

Rice production has always been a Thai preserve. Essentially a smallholders' crop, it was farmed with tools and guided by methods which had their roots in Khmer times and were shared by all the peoples of the Southeast Asian mainland. After its conversion to a cash crop, however, a new dimension was added to the rice industry. While rice cultivation was the Thai farmers' domain, rice marketing was dominated by the Chinese. As Tate wrote: "Whilst the bulk of the Thai population continued to sow and to reap, the Chinese - as the ubiquitous merchants - provided the capital with which to purchase the crop, to finance its transportation and its milling and ultimately to ship the rice to its new overseas customers."\textsuperscript{202} In the beginning though the Chinese had to compete severely against European and American trading houses, their presence being the result of the Bowring Treaty, which were engaged in the lucrative rice export. As commercial demand for rice grew, rice milling developed later becoming a major industry in its own right.

In 1858, an American enterprise built the first steam rice mill.\textsuperscript{203} It was only in the 1870s that the Chinese embarked on rice milling. Despite being a latecomer, the Chinese effectively pushed Western enterprises out of business by, among others, specializing in milled rice (khaw sarn) which was more profitable than cargo rice (khaw klong) which was what their Western competitors traded, and, by renting rice mills belonging to Thai nobles and bureaucrats and eventually becom-

\textsuperscript{198} Skinner 1957, p. 242
\textsuperscript{199} Tate 1979, p. 545
\textsuperscript{200} Skinner 1957, p. 242
\textsuperscript{202} Tate 1979, p. 512
ing owners and operators of the mills themselves. Later, these Chinese rice millers bypassed Western agency houses and exported directly to Hong Kong and Singapore while simultaneously establishing their respective branches there. In 1919, the Europeans completely withdrew their investments from the rice milling industry and by the 1932 Palace Revolution, half of the entire rice milling activity in Bangkok was controlled by only 3 Chinese groups: the Wang Lee group, the Lim Heng Chan group, and, the Chin Seng group. So that by the eve of the 1932 Revolution, Chinese rice millers and exporters already constituted one of the three major dominant capital groups in the kingdom, alongside the European trading houses and the Privy Purse Bureau, the royal investment company.

Prior to the 1930s, modern industry in Thailand was virtually limited to rice and timber milling, the two maintaining their position until the eve of the Japanese war. Corollarily, tariff policy to protect home industries was introduced. As a result, a host of light consumer industries such as match factories, cement works, paper mills and tobacco factories sprang up, most of which were Chinese-run. Despite the government emerging as a major entrepreneur in its own right, its record was discouraging. Government factories became notorious for their inefficiency and corruption, lack of proper planning and supervision and poor accounting, resulting in erratic production. So that despite increasing government participation, modern industry as a whole still remained largely a Chinese preserve.

In 1932, European-trained young officers in the military led the revolution which abolished the monarchy and paved the way for parliamentary democracy in the framework of a constitutional monarchy. This marked the ascent of military and civilian bureaucracy to power. After the revolution, the government immediately seized most Chinese businesses. The aim was to Thai-ify the economy, that is, by establishing effective control and supervision over existing Chinese enterprises, and, to transfer to the Thais the Chinese-dominated sectors in the economy (see Exhibit VI for a configuration of dominant capital prior to the 1932 Revolution). The government, headed by the Phibun group, took over not only Chinese businesses but foreign enterprises as well. In the absence of a Thai capitalist class, apart from the Privy Purse Bureau which business interests were seized as well, the government undertook the entrepreneur's role by creating state enterprises. But since the military and state functionaries had limited skills in commercial activities, they had to seek the cooperation of the more experienced Chinese businessmen, an exact replica indeed of the Indonesian and Malaysian experience. Thus, many of the 'state enterprises' were de facto joint ventures between the bureaucracy and Chinese capital. A more succinct analysis of the paradoxical result of the policy of Thai-ification was made by Skinner who wrote:

"The consequence of the government's economic Thai-ification program, however, go far beyond the facts of limited Chinese retreat, sporadic Thai advance, and increased corruption. Of greater

203 Tate, p. 513
204 Suehiro 1985, p. 2-27
205 Suehiro, p. 2-27
significance than any of these is the alliance which stimulated between Chinese merchants and the Thai ruling class. In one of the most intriguing paradoxes of Thai history, militant economic nationalism has resulted not in the defeat of the enemy but in cooperation between the antagonists.\textsuperscript{207} (italics mine)

Exhibit VI: Dominant Capital Prior to the 1932 Revolution

![Venn Diagram]


The 1940s saw an increased opportunity for the expansion of Chinese capital into processing industries and banking following the retreat of European capitalists from Asia in the wake of the Great Depression. During this period, the nationalist military regime of Phibun took over Western enterprises which were engaged in rice-milling, tin mining, oil refining, transport and banking. This allowed Chinese capital to move into rice-milling, tin mining, lumber and banking.\textsuperscript{208}

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\textsuperscript{207} cited in Suehiro 1985, pp. 3-23, 24

Chinese Entrepreneurship in the Extractive Industry

a) Tin

Tin is not only Thailand's most important mineral, it is the oldest of its exports. Credit for discovering and working the tin deposits of the Isthmus of Kra is usually given to Chinese traders operating along the ancient routes across the peninsula at the dawn of history. The tin industry in southern Thailand, however, is essentially a part of the tin industry of the Straits of Malacca (i.e. involving the tin states of the Malay Peninsula and the Sumatran tin islands of Bangka and Belitung). Until the 20th century, all aspects of tin production were in Chinese hands. Centered on Phuket which emerged as a typical Chinese tin town, the Chinese mining community of the south was in reality an extension of the Chinese colonies in Bangka and Belitung and its politics a continuum of the politics of the other Chinese mining communities in the Straits. As in the Straits Settlements, the principal market for Thailand's tin until the 19th century, apart from its domestic use, was China. It therefore served as a magnet for Chinese settlement in the region. The pace of Chinese immigration into the mining areas of the Isthmus quickened in response to the new Western demand for the metal which became apparent from the 1830s onwards. By 1850, tin joined rice as the kingdom's leading export. In the 1820s, Crawfurd reported that there were about 20,000 Chinese miners of tin or gold in the country. By 1870, there were 28,000 Chinese on Phuket island alone, mostly working in tin mines and by 1884, their number has almost doubled.\textsuperscript{209} The factors which account for Chinese predominance in tin mining until the 1900s were identical with those of the tin states in Peninsular Malaysia. As in the latter, Chinese domination in the industry rested on their unrivalled knowledge of mineral deposits in the area, their superior skills and their low overheads. The system of financing mining activities was the same as in the Malay states during that period, where the towkay or capitalist was able to ensure himself ample profits and a steady supply of cheap labor by working hand in glove with recruiting agents in South China ports, and by controlling all provisions to his workers, including liberal supplies of opium. In the 19th century, mining rights were acquired by the Chinese not from Bangkok but from the local governor who was, more likely than not, Chinese or half-Chinese himself. Powerful Chinese tin merchants rose up in this way in Thailand's southern provinces, in certain cases acquiring office under the Thai Crown. Khaw Soo Cheang, ennobled Chinese trader and appointed governor of the province of Ranong was an excellent example.

Indeed, the existence of Chinese governors (who also proved to be able administrators) in the principal tin districts of the south was in fact an important contributory factor to the great increase in tin production in the 19th century particularly during the reign of King Mongkut.

As to the failure of Western interests to break the Chinese monopoly, cheap labor and low overheads were the Chinese's main weapons. It was, however, the application of Western technology, as in the Malay Peninsula, that finally broke the Chinese hold and enabled Western interests to gain a major share in the industry after 1907. Although the output of Western dredges was more

\textsuperscript{209} Tate 1979, p. 515
than one-and-a-half times than that of Chinese mines in 1937, the Chinese were still not eliminated from the industry for as world demand for tin expanded, Chinese production likewise rose.\textsuperscript{210} They continued with their opencast mining and adopted the gravel pump as they had done in the Malay States.

Western technology also served to break the Chinese monopoly over tin smelting in the first decades of the 20th century, the chief significance of which for tin mining in southern Thailand was that it brought the Thai industry still yet further into the Malayan orbit. The orientation of the industry towards that of the Malay States had been implicit in the traditional links which bound the Chinese miners of Phuket with those on Bangka and Belitung in Indonesia, and in the tin fields of Perak and Selangor. With the influx of Chinese immigrants into southern Thailand in the 19th century, the bulk of the new arrivals came via Penang, while Penang's links with the south were made closer with the opening of the railway line from Bangkok via Haadyai and Padang Besar. In Malaya, the establishment of a Western smelting firm based on Singapore had been the first successful blow against the Chinese monopoly over the Malayan industry. In southern Thailand, the extension of the same Western smelting interests at the expense of the local Chinese smelters was the inevitable corollary to the penetration of the Western tin dredge. The agents of the Straits Trading and Eastern Smelting first appeared on the scene soon after 1900, but in 1907, more than half the local output was still being smelted by the Chinese. After that date, however, the Western smelting firms with their ready cash and ability to corner the market made steady inroads into the local smelting industry and by 1922 nearly all the Chinese smelters had been driven out of business by Western competition. By the same token, Thai tin exports increasingly took the form of tin ore, and by 1930, all exports were in ore, 90% of which went direct to the Straits Settlements for smelting.

b) Teak

If tin was the king of Thai minerals, teak was the queen of the Thai forest. Until 1885, the teak forests had been the preserve of the remote Lao chieftains of the northern hills, providing them with their principal source of income. The actual felling of the trees and the extraction of the huge trunks by elephant out of the forest and down to the rivers for floating to the downstream markets was mainly in the hands of the Chinese. The bulk of the labor was provided by hill tribesmen from Burma or the Khamus from Laos. European participation in the teak trade was limited to buying and marketing the received product at Bangkok. It was only after they acquired the right to cut timber themselves in 1883 that Europeans started to acquire forest concessions and worked them on their own.\textsuperscript{211} Strong Chinese presence was in the saw milling industry. Around 1930, of the seventy saw mills in Bangkok, over sixty were Chinese-owned.

\textsuperscript{210} Tate, p. 516
\textsuperscript{211} Tate, p. 519
c) Rubber

It was only a decade after the rubber industries in British Malaysia and Dutch Indonesia had got under way that the Thai rubber industry started. Instead of huge estates, the Thai industry was mainly a smallholders’ affair. Western participation was likewise limited as the smallholdings themselves were owned by Thais, Malays and Chinese. The Chinese, however, had the largest stake in the industry, not merely as smallholders and planters, but as laborers and capitalists, as merchants, processors and exporters. Chinese holdings tended to be larger as well, and probably amounted to half the total acreage under rubber. It was in fact Chinese immigrants from Malaya who introduced rubber planting to the south of Thailand.212

Nearly all the rubber produced was exported to Malaya until 1940, one-third to Singapore for further processing and re-exportation, and the rest which was cured locally was sent for transhipment via Penang.

Chinese Entrepreneurship in Cash Crop Production

Sugar

Sugar cane was reputedly introduced by Chinese immigrants around 1810, quickly becoming a major export crop and, by the mid-19th century, was the most important Chinese plantation activity in the country. The sugar industry expanded at a faster rate after the kingdom was opened to foreign trade in 1855. Sugar then became a chief export to Europe and it found a good market in the United States where it was said to have been readily exchanged for arms and ammunition. Following the pattern in Peninsular Malaysia, European and American firms began to get a foothold alongside the Chinese, forcing their way in with the lever of superior technology and resources.

Chinese Entrepreneurship in Commerce

As everywhere in Southeast Asia, the activities of the Chinese in Thailand were centered on commerce. As there was no inflow of constructive foreign capital except British, although it was only invested in teak and tin, there were therefore no entrepreneurs in Thailand of a standard high enough to rival the Chinese. These enabled the Chinese in the kingdom to establish a commercial dominance to a degree not seen elsewhere. The whole distribution network linking the Thais with the traders is in the grip of the Chinese. Their business methods were the same as in other Southeast Asian countries. As goods salesmen or moneylenders, they always stood in relation to the Thais as creditors while the latter's obligations was to supply the former with their products, mainly rice. So the Chinese shops were usually the vendors of everyday goods to the Thais, their moneylenders, the buyers of their native products and also the paddy brokers when the crops were marketed.

212 Tate, p. 523
Prior to the Great Depression, Overseas Chinese capital was already dominant in the Thai economy, accounting for a whooping 45% of total investments (see Chart IV).

**Chart IV: Capital Investment in Thailand in the 1930s**

![Chart IV](chart.png)

R = rentier as opposed to entrepreneurial investments


**Post- World War II Era**

Restrictive policies against Chinese enterprises lasted until 1958 when the Phibun military clique was overthrown by Field Marshal Sarit's group. The new government embarked on a policy of promoting industrialization with the involvement of private capital from both domestic and foreign sources, a complete reversal of Phibun's nationalistic policies. This new policy was in keeping with the World Bank's recommendation to promote private rather than state enterprise. The role of the state was confined to providing infrastructure and improving the investment climate for the private sector. Sarit's industrialization policy encouraged the heretofore circumscribed private capital, particularly that held in Chinese hands, to be invested in various sectors of the economy.

**Chinese Entrepreneurship During the Period of Industrialization**

Prior to the 1932 Revolution, Thailand's three major dominant capital groups consisted of 1) the European trading houses, 2) the Privy Purse Bureau and high-ranking bureaucrats, and 3) Chinese rice millers and rice exporters. In the aftermath of the Revolution, the bureaucrats advanced their economic interests by taking over some aline business interests which they made unprofitable for the owners through the imposition of discriminatory policies. After the Second World War, the economic playing field was left to just two players: state bureaucrats and Chinese entrepreneurs. It should be noted that until the eve of the World War II, Chinese businessmen dominated the rice milling industry. they later diversified into commercial banking, insurance and shipping - all in support of the rice milling industry and the lucrative rice export business. As the Phibun government embarked on a policy of curtailing the Chinese's economic dominance, including the monopoly of rice exporting, Chinese capitalists in rice milling and rice exporting shifted their investment to
commercial banking and insurance. With the advent of government-sponsored industrialization, very few of them moved into manufacturing. Major investments in the manufacturing sector thus originated from two groups: the emerging industrial conglomerates and traditional business leaders.

a) Industrial Conglomerates

The emerging industrial conglomerates all originated from that section of the merchants group which were engaged in the import and wholesale trade. Starting in the mid-1950s, some of them started manufacturing the goods they used to import and distribute locally. Those engaged in sugar export started the shift to sugar processing immediately after the end of the Second World War. It is important to note that Chinese investment in manufacturing depended, to a great extent, on the financial and technological support of foreign capital, primarily Japanese capital. According to the survey of Suehiro, of the 77 Chinese-owned manufacturing firms registered as joint-venture in 1981, 62 were local partners of Japanese capital.\(^{213}\) An example of an industrial conglomerate that moved towards the manufacture of the product which it used to import is Dhanin's CP Group.

**CP (Charoen Pokphand) Group**\(^{214}\)

In 1921, Chia Ek Chaw, an immigrant from Shantou, opened a store in Bangkok together with his brother to import seeds and fertilizer from China and export eggs in return. The business expanded and in the early 1950s, it was incorporated as Chia Tai Seeds and Agricultural Co. Years later, a feed-mill was established to meet its own feed requirements. This and the trading company became the foundation of the CP Group's current integrated chicken and egg production. Chia Ek Chaw died in 1983 and his fourth child of eleven, Dhanin Chiaravanont, succeeded him.

Reports had it that the CP Group started to blossom only in the early 1970s when it entered into a joint venture with the US-based Arbor Acres Farm Inc.. The Group is said to have benefited significantly from the latter's quality chicken-breeding stocks which, following its introduction throughout Thailand, commercial-scale chicken farming proliferated. Feed demand correspondingly jumped. CP's feed mill business thus profited enormously from this development. Towards the end of the 1980s, feeds remain to be the Group's prime domestic business, accounting for 30% of its turnover, followed by chicken and processed-meat products each accounting about 20%. The growing hogs sector accounts for about 10%, farms crops 5% and the remaining 5% for trading and other miscellaneous activities. On a global scale, the Group is the 5th largest producer of animal feeds.

The Group's share of the domestic market is huge. Thailand produces about 6 million day-old chicks a week, of which CP accounts for about a third. It accounts for 25% of the country's chicken exports while its animal-feed industry accounts for 30% of the country's total feed mill production.

\(^{213}\) Suehiro 1985, p. 4-57

CP's major export market for its frozen chicken is Japan. The Group is likewise expanding its processed meat production. With a 1986 joint venture with US-based Oscar Mayer, it is expanding its production of meat products such as sausage, ham and bacon. The Group's president Dhanin expects that processed human foods will overtake animal feeds within the next 10 years thus the corresponding vigorous expansion drive in this direction.

International expansion of its feed mill business started in the 1980s as the Group established its first wholly-owned Chinese feedmill in 1980 in the Shenzhen Special Economic Zone. Eight years later, the Group has 10 feedmills and chicken-related facilities in China and a fast-expanding motorcycle factory. With investment put at $300 million, the CP Group may be the largest Southeast Asian investor in China. The end of 1988, the China operations will overtake those in Indonesia to become the largest in CP's global network. Its motorcycle plant in Shanghai is a 50-50 joint venture with the Chinese which was inked in 1985. The Group's other Asian agroindustrial operations are found in:

* Indonesia - Six mills and more than a dozen breeding farms produce 1.5 million day-old chicks a week.
* Taiwan - two feed mills and breeding farms as well as trading operations
* Singapore - It operates the republic's largest hog farm.
* Malaysia - It has an investment of some $11.7 million on stock farming, breeding and processing.

As it expands globally, CP establishes joint ventures with foreign firms. In 1979, the Group's Hong Kong-based Chia Tai Investment Co. went into a 50:50 joint venture with the US-based Continental Grain Co.. Alongside its already prosperous feed mill industry in Shenzhen, this joint venture runs several agribusiness operations in the province of Guangdong. On top of this, the Group has another 50:50 joint venture with the Guangdong Provincial Animal Husbandry Development Corp.. Called the Guang Tai Animal Husbandry Co., it runs a feedmill in Canton, a swine-breeder farm in Shenzhen and pig raising in Shantou for export to Hong Kong.

The CP Group has also expanded into the non-food business. It is into telecommunications as well as petrochemicals.

Today, Dhanin presides over a global conglomerate with 8 divisions and more than 200 affiliated companies operating in 11 countries and employing more than 70,000 workers. Four of its companies are publicly listed in Bangkok, two in Hong Kong, and one in Taipei. The Charoen Pokphand Group Co. is the top holding company that oversees all domestic and foreign operations, while the Charoen Pokphand Co. supervises the Thailand-based operations (see Exhibit VII). Estimated revenue of the entire group range from $5 billion to $7 billion. Management-wise, although Dhanin is widely known to be a hands-on chief executive, he allowed the Group to be broken into small ventures with responsibilities delegated to operating executives thus preventing the company from becoming a narrow, conservative family-held business. The Group employs non-family professional managers who were systematically recruited as early as the mid-1970s. The top tier of these 'outsiders' sit, together with members of the Chiavavanont family and senior employees, on the executive board of both the Charoen Pokphand Group Co. and the Charoen Pokphand Co.. Still short of qualified personnel at the managerial level, the Group now employs expatriates. Considering the
diversity of its operation, the CP Group is regarded as Thailand’s only major multinational industrial firm. Quite exceptionally, except for its China operations, CP’s foreign partners are non-Chinese.

Exhibit VII: The Charoen Group

<table>
<thead>
<tr>
<th>Key group companies (Non-listed)</th>
<th>Listed companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.P. Group Co. Ltd (Holding Company)</td>
<td>Bangkok Agro-Industrial Products Co.</td>
</tr>
<tr>
<td>Bangkok Feedmill Co.</td>
<td>Charoen Pokphand Feedmill Co.</td>
</tr>
<tr>
<td>Bangkok Livestock Processing Co.</td>
<td>Bangkok Produce Merchandising Co.</td>
</tr>
<tr>
<td>C.P. Intertrade Co.</td>
<td></td>
</tr>
<tr>
<td>Bangkok Farm Co.</td>
<td></td>
</tr>
</tbody>
</table>


Traditional Business Leaders

This group, to which the commercial bankers belong, was another source of investment capital in manufacturing, particularly in food processing, textiles, cement and liquor manufacturing. The involvement of the Chinese in commercial banking actually started in the 1930s. As early as the 1900s, Chinese rice millers and exporters entered into banking activities. An exception was Chin Sophonpanich, founder of Bangkok Bank, who was not in the rice industry but was a local distributor of construction materials. The earliest bank was founded in 1908. After the promulgation of the country’s first banking law in 1928 which for the first time, promoted the participation of Thai banks, other leading Chinese rice exporters set up commercial banks and insurance companies mainly to finance their own businesses. In 1942, all European banks were closed as a result of Thailand’s Friendship Treaty with Japan. After the war, these banks were taken over by the Sino-Thais. So that between 1944 and 1951, as many as 8 commercial banks and 25 insurance companies were incorporated by Chinese businessmen. By the early 1950s, the financial activities of these institutions became the core of conglomerate business groups. The ‘Big Four’ among the Thai banks are all Chinese-owned: Bangkok Bank (not only Thailand’s largest but Southeast Asia’s as well), Thai Farmers Bank, Bank of Ayudya, and, Bangkok Commercial Bank. Bangkok Bank started expanding overseas in 1954 by opening a branch in Hong Kong mainly to service the growing trade between the British colony and Thailand. Later, branches in Singapore, Kuala Lumpur, Saigon, Jakarta, Tokyo, Osaka, Taipei, London, Hamburg, New York, and Los Angeles were opened. The Sophonpanich family which controls the bank, takes pride in the fact that the bank was one of the first to underwrite the expansion of postwar commercial activities in the region by lending money to Chinese businessmen, among them Indonesia’s Liem Sioe Liong, who would have otherwise found it difficult in the early stages of his business empire-building to obtain credit from Western banks. During the 1960s and the early 1970s, Sino-Thai banks underwent a major transformation in the structure of their capital ownership. Whereas before these banks began as associations of groups of Chinese businessmen, now single families came to dominate particular

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216 Lynn Pan. 1990. Sons of the Yellow Emperor. Great Britain: Seeker & Warburg Ltd., p. 239
banks by increasing their equity shares. Their transformation resulted in: a) the concentration of ownership of major commercial banks in the hands of just four families (Lamsam, Rattanarak, Sophonpanich and Techaphaibun), and b) the domination of financial activities - loans and deposits - by the same family-controlled commercial banks. Needless to say, all these four families rely heavily on political patronage.

The Bangkok Bank, Ltd.\textsuperscript{217}

Bangkok Bank, named in 1993 by a British credit rating agency as one of the world's five most profitable banks and Southeast Asia's biggest commercial bank, is almost synonymous with the name of one Teochiu trader who played the major role in making the bank into what it is today. The name is Chin Sophonpanich.

Born in the outskirts of Bangkok in 1910, he was sent by his parents to China to study when he was five. He stayed there until he was seventeen when his father lost his job as a sawmill clerk and money for his schooling was no longer available. He returned to Bangkok and while learning to speak Thai at a night-school, he eked a living by working as coolie and later as assistant manager of a construction company. When the company was destroyed by fire in 1930, ostensibly the result of arson, he sailed for China on a Teochiu rice-smuggling junk. This was supposedly followed by a number of voyages with smugglers from Swatow to Bangkok. Reportedly not a man for ocean voyages, Chin gave up the sea. When he reached Bangkok in 1936, he teamed up with a friend named Udane, the ‘adopted son’ of General Phin Choonhaven. Chin and Udane had the same ancestral home in China, Chao-yang Hsien, and members of the Chao-yang Hsien Association were among the most influential Chinese in Thailand. Through Udane, Chin found work as clerk-bookkeeper for a building supply firm owned by Udane's uncle. Everyone was impressed by his skills with accounts despite his very limited education. Chin proved to be a prodigy with figures. This endeared him to Udane's uncle, General Phin.

With financial backing from his new-found patron, Chin opened his own building supply firm in 1935, the Asia Trading, which dealt in lumber, construction materials, hardwares, and writing materials. Using the profit he generated from Asia Trading, Chin played the Chinese controlled-gold market through another company tucked between jewelry shops in Bangkok. Gold prices rose twenty times than its prewar levels so that profiteering on the gold market became feverish. A financial wizard as he was, Chin came out of the war a wealthy man, rising from clerk-bookkeeper to financier in only three years, from 1942-1945. With further backing from General Phin, he set up a number of new companies in trade, construction, insurance, gold, and foreign exchange. His connections expanded to include Teochiu rice and gold merchants throughout Southeast Asia and South China. In launching new ventures Chin was known to, almost always, include as partners persons of practical experience. Thus, his company for foreign exchange dealings, Asia Trust which was established in 1949, was managed for him by a refugee banker from Shanghai.

Demand for precious metals rose in the wake of wild inflation during the war years. Gold and foreign exchange was so lucrative that Chin concentrated exclusively on them. He imported gold from Teochiu sources in Hong Kong and other Asian capitals and sold it to the Chinese in Thailand. After the 1947 army coup, Chin’s patron General Phin saw to it that Chin got the government monopoly on all gold trading, the monopoly on all foreign exchange transactions, and the monopoly on all Chinese remittances to the Mainland. Seagrave quoted Chin saying: “First thing every morning, all the bankers and businessmen would come to our office and check the exchange rate quotations. We became sort of the authority.”

Remittances to the mainland was heretofore conducted in an informal, traditional manner. If a Teochiu in Bangkok bought a bit of gold and wanted to move it to his family in Hong Kong or Swatow, it was credited privately through the old boy network without passing through any form of currency control. An effortless and informal process, a Teochiu financial agent in Bangkok notified his counterpart in Swatow and the value of gold was credited automatically minus commissions at both ends. The new remittance monopoly, under the tight grip of Chin, was aimed at bypassing the old boy network even as it ensured huge financial returns. Under the new system, the ancient remittance system was given the trappings of modern banking. Remittances went as bank transfers from Bangkok to Hong Kong to Swatow. In this manner, it was possible to charge commissions at each stage and naturally big sums of money were made on the three-stage foreign exchange conversions from one currency to another. What made it especially profitable was that a time lag was built in to the transactions, so that all remittances could be held back to play the gold market in Bangkok, then the gold market in Hong Kong, and finally the gold market in Swatow, thus rolling over other people’s money several times. To handle the Hong Kong transfer and the Swatow end, Chin bought a controlling interest in the Hong Kong and Swatow Bank which was situated in Kowloon. Its manager, Chang Keng Hui, was transferred to Thailand to run the whole operation from Bangkok. When the communists took power in the Mainland, Chin changed the name of his Hong Kong operation to the Commercial Bank of Hong Kong, now one of the Crown Colony’s biggest and richest banks.

Chin continued his financial empire building while at the same time broadening his Western-style banking operations. In 1952, he launched Thai Financial Syndicate, (TFS) registered for lending, discounting bills, foreign exchange transactions, dealing in stocks, bonds and precious metals, and importing gold. Its board chairman was Police General Phao, a man who has been described as a ‘superlative crook’, a criminal of the old familiar kind, the gangster and opium racketeer underneath his police-general’s uniform. At this time deputy minister of finance, Phao saw to it that TFS was the only legal channel for gold imports to Thailand. An unshakeable symbiotic relationship existed between the two. Chin was Phao’s personal banker and business agent while Phao was Chin’s military as well as political protector.

Bangkok Bank, which was established in 1944, started as a collaboration between the clique of Field Marshal Phin (General Phao’s father-in-law) and several other groups who needed an umbrella for their financial dealings. Chin was invited to serve as bank director. In 1951, Bangkok Bank suffered from a chronic lack of liquidity, a result of being bled by its owners. Chin was given
full authority to restore order to the bank. He brought in professional accountants and money experts from his own Asia Trust and the old management was sacked. By boosting his capitalization, Phin gained complete control of the bank. However, the bank’s phenomenal expansion that followed was the single accomplishment of Chin. By studying Western banking carefully, Chin learned that Western banks accumulated large assets and profits by attracting the small investors such as shopkeepers and farmers, paying low interest on these savings, then lending the money at high interest rates. Chin thus targeted small Chinese depositors by offering them a 3-percent monthly interest calculated daily, an offer well above the prevailing norm in Thailand. Chin changed the bank’s personality by introducing personalized accounts for bigger customers. This impressed Thai and Chinese clients that many left their established and prestigious banks such as the Bank of America and the Hong Kong and Shanghai Bank. Overseas Chinese corporations were persuaded to move their business to Bangkok Bank, thus rapidly raising the bank’s capitalization. It was said that when Chin could not persuade overseas Chinese corporations to transfer their banking business to Bangkok Bank, General Phao found ways to be more persuasive. With the Commerce Ministry providing large deposits and with Phao and Pin as major shareholders, Bangkok Bank opened its first overseas branches in Hong Kong in 1954, followed by Tokyo in 1955, and Singapore and London in 1957.

In 1953, Chin moved for the first time into the manufacturing sector by going into the manufacture of soft drinks. He later expanded into rice export and textile production. Along with the expansion of his rice export business, he went into related industries such as shipping, insurance, and warehousing.

When the rival military clique of Sarit ousted Phao in 1957, Chin was forced to go on exile in Hong Kong. Before he left, however, Chin made sure that Sarit, who has been jealously casting an eye on Bangkok Bank, would not loot the bank. He invited the new interior minister, General Praphat, to become the bank’s new chairman. Praphat was tough and resourceful and had his own large following. Sarit was not in a position to challenge him. Despite Chin’s absence, with the interior minister in charge, Bangkok Bank’s fortunes continued to improve.

During his five years of exile in Hong Kong, Chin was busy managing his Commercial Bank of Hong Kong. It was during this time that he was said to have started training his eldest son Robin to take over the management of Commercial Bank, and his younger son, Chatri, to take over Bangkok Bank. Meanwhile, he strengthened his Teochiu connections there as the Teochiu Brotherhood had shifted its headquarters to Hong Kong from Swatow after the 1949 victory of Mao. Furthermore, he learned more about modern banking methods, computers, telecommunications, and offshore finance. After the death of Marshal Sarit in 1963, Chin returned to Thailand and resumed his role as chief executive officer of Bangkok Bank while General Praphat remained chairman of the board. After Chin’s death in 1988, his son Chatri took over the helm of Bangkok Bank.

It is unmistakably clear that Thailand’s industrialization rests on the troika of commercial, industrial, and agro-industrial capital, the biggest chunk of which is in the hands of Sino-Thais. Further proof of the dominance of Sino-Thai capital is its unbeatable presence in the country’s bourse (see Table V).
Table V: Share of Sino-Thai Capital in Listed Equities (in percentage), 1994

<table>
<thead>
<tr>
<th>Industry</th>
<th>Share (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agribusiness</td>
<td>86.79</td>
</tr>
<tr>
<td>Banking</td>
<td>47.82</td>
</tr>
<tr>
<td>Building &amp; Furnishing Materials</td>
<td>32.25</td>
</tr>
<tr>
<td>Commerce</td>
<td>47.36</td>
</tr>
<tr>
<td>Communication</td>
<td>77.0</td>
</tr>
<tr>
<td>Electrical Products &amp; Computer</td>
<td>57.0</td>
</tr>
<tr>
<td>Entertainment &amp; Recreation</td>
<td>81.44</td>
</tr>
<tr>
<td>Foods &amp; Beverages</td>
<td>14.45</td>
</tr>
<tr>
<td>Hotel &amp; Travel Services</td>
<td>34.66</td>
</tr>
<tr>
<td>Household Goods</td>
<td>50.77</td>
</tr>
<tr>
<td>Insurance</td>
<td>38.61</td>
</tr>
<tr>
<td>Jewelry</td>
<td>75.37</td>
</tr>
<tr>
<td>Packaging</td>
<td>31.53</td>
</tr>
<tr>
<td>Pharmaceutical Products</td>
<td>100.00</td>
</tr>
<tr>
<td>Printing &amp; Publishing</td>
<td>56.38</td>
</tr>
<tr>
<td>Property Development</td>
<td>79.31</td>
</tr>
<tr>
<td>Textiles, Clothing &amp; Footwear</td>
<td>67.81</td>
</tr>
</tbody>
</table>

Source: Stock Exchange of Thailand

Despite their size and despite going public, all of the country’s 28 large conglomerates in commerce and industry, which are owned by Sino-Thais, remain in family hands and only a few, foremost of which is the CP Group, have moved significantly from traditional Chinese family firm to modern-style corporate organization. Their political relations with their once powerful political patrons have changed over time. As Thailand moves toward political pluralism, with the emergence of civilian politicians and political parties during the period of ‘democratic interlude’, from 1973 to 1976, with many Chinese capitalists involved in the funding or founding of parties, it slowly became clear that a new way is possible to increase leverage over politics, and that growing pluralism, as Mackie218 noted, requires that business links must be established not just with one or two political protectors but with a range of bureaucrats and parties.

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218 Mackie 1992, p. 175
Chapter Four

Towards a Theory of Overseas Chinese Entrepreneurship in Southeast Asia

Evolution

Overseas Chinese entrepreneurship in Southeast Asia, from its simple beginnings in rudimentary trade to the present-day billion dollar conglomerates, is inextricably linked with the region’s history. Historical conditions in the region have conferred on the Overseas Chinese entrepreneurs an enviable comparative advantage in gaining a strong foothold in the Nanyang (the Chinese name for the present day Southeast Asia) as early as the dawn of history and consequently enabled them to develop and harness their entrepreneurial skills and resources which later became indispensable elements in the region’s drive towards capitalist development.

a) Pre-colonial Southeast Asia

1) Tributary relationship between China and Southeast Asia

In analyzing the historical circumstances that led to the development of Overseas Chinese entrepreneurship in Indonesia, Malaysia, Thailand and, the Philippines, it is imperative to take a closer look at a) the relevant internal developments in China which encouraged enterprising Chinese to develop business relations with the Nanyang and, b) the level of economic development (or lack of it) in Southeast Asia which paved an emerging Overseas Chinese entrepreneurship to flourish and take roots in the region.

Commercial relations between China and the region date as far back as the second to the first centuries BC when five states in Southeast Asia, according to the geography of the Later Han Dynasty, had been paying tribute and trading in the time of Wu Ti.219 By the time of the Liang Dynasty in the 6th century, Fukuda reported that states in the Malay Peninsula, Sumatra and Borneo were added to the growing list of China's tributary states in the region. It should be noted that status as a tributary state was merely formalistic and did not imply strong political control. The tribute paid represented "the esteem of barbarians for a superior state, resulting from China's might or cultural influence". Quoting Yano Jin'ichi, Fukuda wrote:

China's relationship to vassal or tributary states was fundamentally different from the relationship in modern international law in which a sovereign or suzerain state requires the actual right of protection over a subject state or protectorate. It was no more than the theoretical relation of a subject state to a theoretical world empire.220

The relationship between China and its tributary states was purely economic, confined to an exchange of goods with the Chinese merchants enjoying the upper hand. For example, native goods

such as beeswax, pearls and coconuts among others were traded with Chinese porcelain, metalwork, lead products and silk. It was this long-standing commercial relationship which enabled Chinese entrepreneurs to gain inroads into the region long before European colonizers set foot in the region. Later developments in the coastal regions of South China, particularly in the provinces of Guangdong and Fujian, further encouraged the movement of more entreprising Chinese to the Nanyang. It was the central role that these two provinces played in the early stages of the Nanyang trade which explains why the majority of Chinese migrants in Southeast Asia are Fukienese and Cantonese.

During the first half of the tenth century, two independent kingdoms were established in the Guangdong and Fujian provinces, the Nan Han and the Min respectively. The ports of Fuzhou and Quanzhou in Fujian as well as Guangzhou in Guangdong were frequented with foreign traders, some of them setting down to form communities. Although these kingdoms lasted for only 50 to 60 years, sufficient foundations for economic growth particularly the rise of local trade and industry were laid. A large class of traders and seamen emerged who began to specialize in the Nanyang trade. By the end of the Southern Sung dynasty in the 13th century, they were already in control of trade in the South China Sea.\(^\text{221}\) Fujian has little agricultural land so that the Fukienese were aware that maritime trade was essential to their prosperity.

2) State-sponsored trading

Maritime trade, which was largely a private undertaking, needed government sanction. Recognizing the huge financial benefits that it could derive from it, the Sung Dynasty officially encouraged the Nanyang trade. Thus, as maritime trade flourished, revenues from foreign trade collected at the Maritime Trade Commission in Quanzhou flowed incessantly into the Southern Sung treasury.\(^\text{222}\) While capital for oceangoing vessels and for the cargoes they carried was provided by some of the wealthy and powerful families residing around the large ports, lesser trading families as well as skilled artisans who produced marketable goods likewise undertook the same venture emboldened by the knowledge that despite high risks, every returning merchant fleet carried with it enormous profit. Thus, an increasing number of coastal communities in Fujian became directly involved in maritime activities.\(^\text{223}\)

The Mongols, after conquering China around the latter part of the 13th century, likewise encouraged the continuation of the Nanyang trade. The government even extended loans to Chinese traders to finance their trade and in return collected 70% of the traders’ profits. The trade was reportedly very profitable that revenues collected from loans as well as import taxes on Nanyang

\(^{220}\) Fukuda, p. 11
\(^{223}\) Wang, p. 81
products took care for a large part of the government’s administrative expenses in coastal China.\textsuperscript{224}
When the Ming Dynasty came into power after the fall of the Mongols in 1368, it reversed the trade policy of the Mongols by promptly imposing severe restrictions on trading relations with the Nanyang. Private trade which heretofore enjoyed official sanction was banned. Only the tributary system of trading, that is, trading through nominally diplomatic missions, was allowed. In addition, overseas travel was forbidden. Thus, Chinese traders who were abroad when the ban on overseas travel was passed were forced to remain outside China. Those who were in China but chose to defy the ban continued, on their own risk, to trade overseas. Hence, the ban led to the creation of Chinese communities in Nanyang, consisting of those who chose to stay temporarily away from China while the ban was still in force. Eventually, many of them decided to settle down, more or less, permanently. This marked a significant change in the movement of Chinese traders in Southeast Asia. Whereas before, the traders normally returned home after each voyage, residing temporarily abroad on behalf of their employers only when it was necessary and never remained away from home for so long, now Chinese traders started taking up permanent residence in countries which they frequented.

The Ming rulers, however, realized that the tributary form of trading was inadequate to meet its needs. Thus, they decided to adopt the policy of state trading by sending officials to Nanyang to procure goods directly. Admiral Cheng Ho was chosen to undertake huge trade expeditions between 1405 and 1433. It was during one of his voyages that the island of Luzon in northern Philippines became China’s tributary state. In 1405, an official was sent by the Ming Emperor to govern Luzon. In addition, a special revenue center was set up in Fujian province to deal with traders who plied this undoubtedly lucrative route. Meanwhile, trade was brisk and flourishing between the tributary state Java, likewise brought within the sphere of Chinese authority through Cheng Ho's travels, and the Guangdong province. Chinese now living abroad, however, found Cheng Ho's voyages embarrassing. By defying the ban on overseas travel, they were dubbed as pirates and, once caught, were forcibly taken home for punishment. Those who succeeded in gaining concessions from the Chinese authorities concerned were forced to subject their private trading to official supervision and control. There is said to be no evidence, however, to indicate that Cheng Ho’s expeditions led directly to any increase in the number of Chinese residing in Nanyang. Ironically, these expeditions made many Chinese aware of trading opportunities abroad at a time when private trade was being destroyed.

Quanzhou later lost its once favored position to Guangzhou which replaced it as the center where all tribute-bearing missions were to register. Foreign traders thus stopped coming to the ports of Quanzhou and Fuzhou in the Fujian province. In their stead, imperial garrisons came to build new walled forts and to man coastal flotillas to arrest illegal shipping, fight off pirates, and prevent smuggling. The results were paradoxical. The success in curtailling lawlessness ushered in a period of domestic stability which brought rapid economic growth and consequently population growth in this coastal region. Almost a century after the end of Cheng Ho’s voyages in 1433, Peking lifted travel and commercial restrictions to and with the Nanyang. Private trading, sometimes sponsored and financed by wealthy bureaucrat families, became the chief means of procuring Nanyang products. Hence, Chinese traders started frequenting the Nanyang again and many of
them elected to settle in Nanyang countries, joining their compatriots who were already residing there.

Centuries of trading with the Nanyang, therefore, brought more and more enterprising Chinese to Southeast Asia. Those who elected to stay in the Nanyang, by becoming more familiar with the needs of the local population as well as gaining limited social acceptance, were in an even more advantageous position to generate more returns from their trading activities. Thus, by the 15th century, the Nanyang was practically under the commercial grip of the Chinese who were already active in three regions. First, the region of Siam, Champa, and Patani on the mainland and the northern coast of Borneo; second, the more distant coasts of Malacca, Sumatra and Java; and, third, the region of the "eastern ocean" which consisted largely of the northern islands of the Philippines.\(^{225}\) The first two regions in "Western Nanyang" were frequented by traders from both Quangdong and Fujian, while the third, was, and still is, the preserve of traders from Fujian. The dominance of Fukienese merchants in the Philippines can be attributed to the fact that with a good wind, it took only three days for a junk to sail from a Fujian port to the Philippines.\(^{226}\)

In summary, the coming of Chinese entrepreneurs to pre-colonial Southeast Asia was largely facilitated by the assistance of the Chinese rulers who, seeing the enormous financial benefit they could derive from it, not only encouraged private trade but extended credit as well to those who undertook it. Huge profits resulting from Nanyang trade were enough for several ruling dynasties to reverse an official ban on private trading which they periodically issued. On the other hand, the growth of light industries in southern China’s coastal communities which were directly engaged in trading with Southeast Asian tributary states was stimulated. This gave rise to a group of wealthy families who financed not only the production of more goods to be sold in the Nanyang, but the oceangoing vessels as well which were necessary for transporting the goods. The situation was thus one in which the rulers, wealthy and powerful families, skilled artisans and inexperienced yet enterprising citizens were all engaged, in varying degrees, with the lucrative Nanyang trade.

### 3) Traditional Southeast Asian economy

During this period, the economies of Southeast Asia were still traditional. The inhabitants lived from the produce of their land and from the fruits of the sea. They were mostly farmers, hunters and, fishermen who made use of traditional, mostly crude, farming and fishing implements. Light manufactured goods such as matches, salt, sugar nails, and textiles were largely unknown to the native population. To this traditional economy, Chinese traders sold processed goods while buying from it its raw forest and marine products. As to fetching the price that brought the most returns, the Southeast Asians were no match to the experienced Chinese traders. Their trading experience aside, Chinese merchants could invariably fetch their desired price since there were neither indigenous nor foreign competitors who offered similar commodities at all. It was therefore a very imperfect market where the Chinese entrepreneurs operated in. Goods were not only available, so

\(^{225}\) Wang, p. 16

were the know-how and the manpower to produce them. The Chinese entrepreneurs were therefore in a very enviable position to exploit this market imperfection, which they did. Those who decided to stay, instead of continuously plying the waters of the South China Sea, became the regular distribution points of Chinese goods. By peddling their wares in all the accessible corners of their elected countries of residence, these merchants became more acquainted with local conditions. Even as they were able to generate a minimum amount of social acceptance from the local community where they lived and did business, their enhanced knowledge of the local market made possible the realization of more profits since more goods could be sold when more people knew of their existence as well as availability.

In short, in pre-colonial Southeast Asia the Chinese had already established themselves as dominant migrant entrepreneurs in the region, at least, in the area of trade. The nature of their entrepreneurship would later undergo major changes as countries in the region, except Thailand, became colonies of different European colonial powers.

b) Colonial Southeast Asia

The European colonizers had landed ....

The year 1511 marked the advent of European colonization in the region when the Portuguese captured Malacca. As they started to dominate the Straits of Malacca, assisted not to a lesser degree by their military power, Chinese traders were driven away from the area. When they advanced into the South China Sea, the Ming rulers suspected them to cause trouble to the empire, similar to the Japanese pirates who infested the coasts of China. Following a strict imperial ban on all trade with Japan, a similar ban was extended to the Nanyang trade in 1522. As a result, the once liberal passage for the Chinese to the Nanyang was reversed, and worse, the Portuguese were now trading Nanyang products along the Chinese coast, an activity which was once the preserve of Chinese merchants. This development angered the merchants in Quangdong and Fujian provinces who saw the trade they built over centuries falling into the hands of the Portuguese especially after the founding of Macao in 1557.

By this time, the Nanyang trade has taken a new dimension. In 1521, the Spaniards landed in the Philippines and started its 350 years of colonial rule. Eager to acquire Chinese goods which they could sell with enormous profits in Europe, Spanish colonial officials encouraged the China trade. Whereas before, Chinese merchants traded only with the local population, now they found new customers who bought their commodities not only in huge quantities, but paid in precious silver as well. Other enterprising Chinese who were not engaged in trade but who came to the Philippines nonetheless in search for better opportunities found rewarding jobs as masons, locksmiths, weavers, cobblers, tailors, carpenters, and even bakers (see chapter 2), majority, if not all of them, serving Manila's Spanish oligarchy. Though the majority of them were concentrated in Manila and its surrounding areas, there were those who settled in far-flung provinces. It was from among their ranks that the Filipinos learned simple food processing techniques as well as fruit-growing and truck gardening.
Political turmoil in China ... 

Political developments in China, meanwhile, drove more and more Chinese to seek refuge in the Nanyang. Towards the middle of the 17th century, the Ming Dynasty was busy fighting off the advance of the Manchus. The empire eventually disintegrated and the dynasty fell in 1644. On their part, the Manchus were suspicious of all Chinese activities outside the Chinese imperial boundaries. This was fueled by the fact that the Manchus took forty years to defeat Ming resistance in the south, the last stages of which were fought along the coasts of Fujian, Chekiang and Quangdong provinces. The chief challenger to the Manchus were Cheng Ch’eng-kung (also known as Koxinga) who, together with other Ming loyalists, enjoyed the support of overseas Chinese in Vietnam and the Philippines, and, whose naval power was partly drawn from Nanyang shipping and financed from the profits of the Nanyang trade. In the course of the fight against Koxinga, the Manchus imposed a “scorched earth” policy by forcibly moving the population of the coastal regions several miles inland. This was intended to cut off food and other supplies for the Ming loyalists roaming the area thus breaking their resistance. The Manchus succeeded but this forced many Chinese not only to join the Ming loyalists but likewise to make their homes in the Nanyang as the Chinese coasts could no longer provide them with means to make a living.

The Taiping Rebellion (1851-1864) which swept across sixteen provinces and destroyed more than 600 cities, and which took the Manchus fourteen years to suppress, ravaged the country. Refugees flowed into the south swelling the population of an already overcrowded region. This was another ‘push’ factor that drove more and more Chinese to the Nanyang. Thus, the height of Chinese immigration coincided with deteriorating political conditions in China and the lure of work as well as trade in the growing economies of the neighboring Southeast Asian countries. Immigrants who continue to come from Fujian and Guangdong belong to four major speech groups: Fukien, Teochiu, Cantonese and Hakka. In the late 1930s, the largest group was Teochiu, constituting 32% of the total Chinese population in Southeast Asia. The next largest was Fukien with 25%, the Cantonese came third with 16%, and, the Hakka with 13% was fourth. The Teochiu was, and still is, the dominant group in Thailand, whereas Indonesia, Malaysia, Singapore and the Philippines have always been dominated by the Fukienese.  

Laying the groundwork for capitalist development through the introduction of a cash-crop economy and an extractive industry

The period starting in the 1620s, as the Dutch colonizers embarked on a systematic development of Java, on through the early 1900s until the eve of the Great Depression, marked the introduction and intensive cultivation of cash crops in Dutch Indonesia, British Malaysia, Spanish Philippines and, through unrelenting British pressure, the opening up of the Thai kingdom to the world economy. It was the Western demand for more products, even as the bankrupt Dutch East India Company in Batavia and the Spanish colonial government in Manila were forced to finance their own existence, which stimulated more Chinese participation, both capital and labor, in the region’s

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growing export economy. This led not only to a further strengthening of the Chinese's already dominant economic position vis-a-vis the indigenous population but likewise enabled both traders and coolies to accumulate more investment capital and know-how. Later, these Chinese entrepreneurs did not only challenge Western dominance in some sectors of the economy but eventually moved to occupy them after the departure of the colonial rulers.

1) Influential Chinese immigrants as tax collectors
The Dutch colonial authorities in Indonesia as well as the Thai monarchs avoided the unpleasant job of directly collecting taxes from the people by assigning the Chinese to do the dirty job. Both parties benefited from this arrangement. On one hand, the government was assured of a regular flow of revenue while, on the other hand, the Chinese tax collectors appropriated for themselves the difference between what was due the government and what they actually received. Needless to say, the Chinese demanded more taxes than what was necessary and, in the process, started accumulating capital.

2) Chinese as compradors par excellence
Being in control of the local as well as the profitable China trade, all colonial governments in the region made use of Chinese traders. In Indonesia, ranking officers of the Dutch East India Company took to lending money to Chinese merchants at usurious rates and, together with the Chinese, invested directly in the China trade. This collaborative effort marked the earliest business relationships between Company officers and Chinese traders even as the former elevated the latter to a quasi merchants class. In Thailand, prior to the Bowring Treaty of 1855 which forcibly opened the kingdom to international commerce, trading junks were built by Chinese shipwrights in Thailand itself and, were later captained and manned exclusively by Chinese even as the cargoes they carried were produced by the Chinese. The European trading houses, though in control of the kingdom's foreign trade, were largely dependent on Chinese middlemen for the distribution of imported commodities and milled rice, rice milling being controlled by European and American rice millers before they were edged out by the Chinese. In British Malaysia, about 70% of its total export trade, which consisted mainly of tin and rubber, passed through the ports of Singapore and Penang where the Chinese formed the commercial nucleus. As to Spanish Philippines, the Chinese were indispensable for the lucrative galleon trade between Manila and Acapulco as they were the providers of precious Chinese luxury goods that were in great demand in Europe. It should be stressed at this point that during the colonial period, faced with the dominance of foreign capital, Chinese entrepreneurs in the region could barely participate in the profitable import-export business. Thus, they were confined to the role of middleman, the distribution of imported goods being their major function. It is in the retailing business, however, where they were unrivalled. All throughout Southeast Asia, the whole distribution network was a Chinese affair and the business method was the same everywhere. They were sellers of goods and providers of credit and, the point of exchange was the ubiquitous small Chinese shops scattered all over the region.
3) Compradors as financiers in the extractive industry, a backbone of the colonial economy

a) Tin mining

Compradors who were able to accumulate huge amount of capital slowly became active participants in the fast-growing and money-making colonial economy. In the case of Malaysia, they were an important source of capital and labor for the tin mines. Discovering that the Chinese had a better mining technique, Malay landowners who were engaged in tin mining themselves, allowed the Chinese to do the job and confined themselves to merely collecting revenues due them from the Chinese. This was during the 1830s when tin mining was done by smaller groups of Chinese workers working independently from each other. As the world demand for tin ore to supply the rapidly expanding tin plate industry rose in the 1860s brought about by the growth of the canning industry in Europe and the United States, tin mining operation in Malaysia became a major undertaking. Chinese merchants in the Straits Settlements immediately provided capital for the exploration and mining of huge tracts of tin-rich lands. Through the coolie trade, they likewise provided the necessary manpower to work in the tin mines. Labor intensive techniques were employed so that the steady supply of manoeuvrable and cheap coolie labor enabled the financiers to amass more surplus capital, thus stocking their bourgeoising investible capital. At its height, the tin mining industry even enabled some coolies to save enough capital which later assisted their shift to commercial activities.

In the case of Thailand, Chinese traders were responsible for discovering and working the tin deposits of the kingdom’s Isthmus Kra. The development of the tin industry in southern Thailand, however, was a part of the expanding tin industry of the Straits of Malacca. Centered on Phuket, this mining community was in reality an extension of the Chinese colonies in Bangka and Belitung, the tin islands of Sumatra. As in Peninsular Malaysia, Chinese domination of the industry rested on their unrivalled knowledge of mineral deposits in the area, their superior skills, and their low overheads. The system of financing was likewise similar to that in Malaysia where the towkay (capitalist) provided capital and labor. An added enviable advantage to a few towkay was their acquisition of mining rights, tax farming and political duties, all concentrated in one person. Khaw Soo Cheang was one. He had both the economic and political power to administer and control his mines and its workers, overwhelmingly coolies, as well as his tax farms. How could he lose?

The situation in Indonesia was no less different from that in Malaysia. Although the discovery of tin deposits in Malaysia and Thailand was credited to the Chinese, tin deposits in the Sumatran island of Bangka was discovered by the Dutch. However, the Dutch were merely interested in controlling the trade of tin, not its mining. Similar to their Malaysian counterparts, the Indonesian chiefs recruited miners from Yunnan (see section on Indonesia, chapter 3) where mining methods and experience were well established. Thus, at the outset of the tin mining industry, the Chinese were already in control.

As the foregoing clearly illustrates, the tin mining industry in the region as a whole was actually initiated and developed by the Chinese. Before the introduction of Western technology for deep min-
ing by the turn of the 20th century, which allowed the Europeans to snatch a substantial share of the industry from the Chinese, the latter had been the consistent providers of tin, in its export form, from which the colonial governments in Malaysia and Indonesia as well as the royal government of Thailand derived immense profit. Despite belated Western participation in the industry, tin mining had always been the preserve of the Chinese, capitalists and coolies alike.

b) Rubber

The rubber industry in both Thailand and Malaysia shared similar characteristics. In Malaysia, rubber estates belonging to the Chinese, though smaller in size, existed alongside those of the British, and alongside those of the native population in Thailand. While their stake in smaller in Malaysia as the huge plantations were arrogated by the British to themselves, in Thailand, the Chinese had the largest stake in the industry. In both countries, Chinese capital financed the planting of rubber trees as well as the processing of labor, and provided steady supply of coolie labor to work on the plantations. More significantly, the rubber entrepot trade of Penang and Singapore, which handled all rubber produce in Malaysia and Thailand, was tightly under Chinese hands. One third of Thai rubber was sent to Singapore for processing (where all 15 factories were Chinese-owned) and re-exportation, and the rest which was cured locally was sent for transshipment via Penang.

4) Financiers and workers in cash crop production

As in the extractive industry, the Chinese presence in this sector of the colonial economy was dominant, if not, indispensable. In Indonesia, Dutch freeburghers leased agricultural lands they acquired from the Company to the Chinese who planted pepper, tobacco, coffee, sugar cane, and rubber, all cash crops intended for the world market. The cultivation of sugar in Java by the Chinese already started some two hundred years before the coming of the Dutch (see section on Indonesia, chapter 3) so that when large-scale production of sugar was encouraged by the Dutch, having recognized sugar as a major revenue earner therefore its cultivation was imposed on the native population, the Chinese were at a vantage position to exploit the opportunity, having the necessary wherewithal - capital, know-how, and labor - at their disposal. The same was true in Thailand. Sugar cane was introduced by Chinese immigrants in the early 1800s and had become a major export crop by the mid-19th century. In Malaysia, the pioneers of the sugar industry were the Chinese who reportedly started planting sugar cane shortly before 1800, long before Sir Stamford Raffles set foot in Singapore. As in Indonesia, large-scale production was first encouraged by the British. Financing and labor supply were again not found wanting as Chinese merchants in Penang immediately grabbed the opportunity opened to them. The sugar industry in the Philippines had a slightly different profile. Filipinos of Spanish-descent owned most of the sugar plantations (hacien-das) for the Chinese were prohibited from owning land. Nonetheless, the Chinese were active in sugar trading. All told, in Indonesia, Malaysia and Thailand, sugar production was a Chinese monopoly until the sugar slump in 1884.

The production of pepper, gambier, and tapioca in Malaysia was likewise a Chinese affair. And so was the trading of these products. In some branches of agricultural production were the Chinese
were not allowed to participate, processing and trading of these products, however, were in Chinese hands. One example is rice. In Thailand, rice production has always been a Thai preserve. However, after rice was converted to a cash crop, only its cultivation remained the Thai farmer’s domain. Rice milling and marketing were exclusively Chinese. The Philippine's rice industry is an exact replica of Thailand's, with the natives doing the planting and harvesting, while milling and trading are in Chinese hands. In Malaysia, since the land could produce only a quarter of the people's need for rice, the rest had to be imported from neighboring Burma and Thailand. Rice import was in the hands of the Chinese even as the milling of rice produced in Malaysia was done by the Chinese. Another example is in the coconut industry. In Indonesia and the Philippines, the native population grew coconut trees on parcels of land they owned. However, copra trading and, later, processing were Chinese territories.

"Double colonization" in Indonesia and Malaysia

The political and economic complexities of the Dutch colonial rule in Indonesia and that of the British in Malaysia led to a rather anomalous situation of "double colonization" in both Indonesia and Malaysia. One form of colonization is the rule of Dutch and British colonizers over the native population and the Chinese immigrants in both countries. Although the British gave the Malay chiefs the trappings of sovereignty by allowing them to retain their traditional authority over their Malay subjects, for all intents and purposes however, the British colonizers ruled the land. Nonetheless, the Chinese were not on an equal footing with the indigenous Indonesians and Malays. Instead, they occupied a position between the colonizers on one hand, and the native population on the other. Because of their economic usefulness to the colonial government, they enjoyed certain privileges that were not accorded to the natives. In Indonesia, they were exempt from rendering mandatory work for the Dutch East India Company in exchange for paying a poll tax, a good source of revenue for the Company. They were relatively free to conduct trade often with the encouragement and support of colonial officials who themselves derived substantial economic gains from it. In Malaysia, the Chinese who had little to do with the bumiputras were left on their own devices. They financed and worked the tin mines and rubber plantations, cultivated cash crops, and they engaged in trade. The export economy of British Malaysia was largely dependent on Chinese produce.

The other form of colonization is the economic dominance of the Chinese over the indigenous population. Firstly, by being officially commissioned by the Dutch colonial government to collect taxes and other duties from the pribumis (Indonesians), the Chinese were (rightly) regarded as (willing) tools of the colonizers for the oppression of the native population. Indeed, Chinese tax collectors had abused their function that Dutch officials had to eliminate their abuses by abolishing tax contracting. Secondly, with retail trade under their grip, the Chinese did not hesitate to exploit the weak economic position of the bumiputras and the pribumis. Perennially short of cash, the natives would get their provisions from Chinese shops on credit which the Chinese were too willing to give, often on the condition that payment should be made in kind, that is, with agricultural produce. In this manner, the Chinese had realized a double profit: from the sale of goods from the shop
and, from the sale of the agricultural produce which the Chinese received as payment for the goods he sold on credit.

Thus viewed, the Chinese were peculiarly situated in the course of their stay in the region. During the pre-colonial period, they dealt with the indigenous population directly, be it as traders or hired workers of Indonesian and Malay chiefs to work on their tin mines or on their pepper plantations. After the coming of the colonizers, however, the nature of the relationship had changed. The Chinese were accorded by the colonizers a status slightly higher than that of the natives. Whereas during the pre-colonial period, the natives were beholden only to their native rulers, during the colonial period, the native population became beholden both to the colonial officials and to the Chinese. It was during this time that the seeds of anti-Chinese animosities were sown.

**Chinese Entrepreneurship on the eve of the Second World War**

While Chinese entrepreneurship in the region practically started at the dawn of history, it was not until the advent of European colonization in the region and the introduction of the capitalist system of production that it started to develop in earnest and later flourished. It is not surprising, therefore, that on the eve of the Pacific War, Chinese capital was second only to Western capital except in Thailand where it was dominant. Considering further that the indigenous population, except the landed gentry in the Philippines, had a very limited participation in the capitalist production of the colonial economy, a wide economic gap existed between them and the Chinese community as a whole, - compradors, industrialists, small traders, artisans, fishermen, and workers combined, who in varying capacities were participants in the economic activities of the colonial economy. Anti-Chinese sentiment on the part of the native population was rising, no less fueled by the colonizers themselves who found the Chinese a convenient scapegoat for the former’s economic misery.

**c) Post-Colonial Southeast Asia**

All Chinese enterprises in the region suffered severe setbacks during the war as they were, due to their support of China in its war against Japan, deliberately attacked by Japanese forces. Nonetheless, they were quick to recover. In the Philippines, they were the first to restore the country’s commercial activities. In other parts of Southeast Asia, the pattern was similar.

Without exception, all post-colonial governments of Indonesia, the Philippines, and Malaysia quickly moved to redress the economic imbalance between the Chinese and the native population. To pursue this end, their policies were likewise similar. The Chinese were legislated out of the retailing business in an attempt to break their stranglehold of this sector. Preferential credit from government banks were made available to indigenous enterprises who wanted to start or expand their businesses even as certain sectors were made off limits for the Chinese. Good intentions notwithstanding, the results were not always encouraging. In Indonesia, for example, only the pribumis were granted licenses to operate transport vehicles. Lack of experience, among others, led several license-holder pribumis to let the Chinese operate the business and the pribumis merely collect a fixed, monthly fee from the China. This phenomenon is referred to as Ali-Baba capitalism, Ali being the Chinese, and Baba being the pribumi. A similar situation exists in the
Philippines where the Chinese made use of dummies, in most cases their Filipina common-law-wives, in order to circumvent the law. In Malaysia, a law was passed that compelled Chinese enterprises to allow Malay participation with a minimum of 30% share of equities. In Thailand, the process of Thai-ification of the economy started as early as 1932 when, in the aftermath of the Palace Revolution, most Chinese businesses were seized. The aims were to establish effective control and supervision over existing Chinese enterprises, and to transfer to the hands of the Thais the Chinese dominated sectors of the economy. Needless to say, despite massive government initiated and supported programs in all four countries to weaken Chinese economic dominance, Chinese capital remained basically unscathed. When the governments became harsher, the Chinese never hesitated to resort to time-proven tactics: bribery and collaboration with the powers-that-be.

A Chinese-Filipino entrepreneur made a differentiation between bribery committed by the Chinese and that commited by a Filipino. The former pays in order to buy his peace while the latter pay for his personal aggrandizement. In a perverse sort of way, ‘Chinese bribery’ is not anti-developmental since, in wanting only peace in order to be able to conduct his business unhampered, the Chinese does not ask for government spoils, while ‘Filipino bribery’ often means spending government funds for private ends or depriving the government of much-needed revenues as in tax evasion. Not too seldom are Chinese-Filipinos prey to corrupt government officials who exploit the former’s willingness to pay almost any price in exchange for their peace.

Meanwhile, all four countries likewise embarked on a similar path to industrialization by firstly adopting the import-substitution strategy. As Chinese capital was part of local capital, it de facto enjoyed state protection from foreign competition even as doors were opened to them to move into manufacturing, although several Chinese enterprises were already engaged in light manufacturing, primarily processing of raw agricultural products, during the colonial period. Here again, Chinese entrepreneurs who already had long experience in manufacturing had a decisive advantage over indigenous entrepreneurs who were barely starting. Thus, despite government support and incentives, the latter could hardly match the capital and know-how of the Chinese. At this stage, it was clear to all four governments, even without openly acknowledging it (for they could not even if they wished to), that Chinese entrepreneurs are a necessary evil. And the Chinese knew it. Thus, despite occasional diatribes of the government against the Chinese, in reality, it is ‘business as usual’. The ironical result, therefore, of the import-substitution strategy was the transformation of the Chinese entrepreneur from a discriminated to a protected investor. Indeed, the comparative advantage of the Chinese which they had built for centuries had afforded them an almost unshakeable protection in the face of fierce onslaughts from all sectors of the economy.

As the import-substituting strategy started to reach its limits, all four governments, again, proceeded to adopt a similar strategy - export-oriented industrialization coupled with a liberalization of the economy. Foreign investments were invited. Chinese entrepreneurs were the prime beneficiaries of this shift in industrialization strategy. They were the favored local partners of foreign investors, particularly the Japanese, the Taiwanese, and the Hong Kongese, not only because of cultural affinity, but because of their mastery of the complexities of the domestic market. Their control of the distribution system is likewise an added factor. And through their foreign partners,
Chinese entrepreneurs started learning (re-learning for some) the ABC of foreign trade especially since, during the import-substituting stage, they had been confined to domestic manufacturing and trading. More importantly, through their foreign partners, their access to the world market was facilitated even as they started to establish regional as well as international links.

Evolution and changes of Chinese entrepreneurship in the region can be mirrored through the changes in occupational roles of Indonesian-Chinese from 1930-1986 (see Table VI). Though covering only Indonesia, Mackie's concise description of the Indonesian situation no doubt reflects, albeit with slight modifications, the situation in Thailand, Malaysia and the Philippines.
<table>
<thead>
<tr>
<th>Table VI: Occupational Roles of Indonesian-Chinese 1930-1986</th>
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<tr>
<td>Land ownership and agriculture</td>
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<td>Land ownership by Chinese generally prohibited, except in West Kalimantan, Bangka, and a few places in Java &amp; Sumatra. Earlier, many coolies on East Sumatra plantations; few by 1930. Many Chinese active as tengkulaks (commodity purchasing), fish marketing and rice milling.</td>
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<tr>
<td>Trade and commerce</td>
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<td>Finance and property markets</td>
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<td>Manufacturing industry, processing, etc.</td>
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<td>Transportation</td>
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Nature of Present-Day Overseas Chinese Entrepreneurship

a) Varied in size

The bulk of existing literature on Overseas Chinese enterprises in Southeast Asia devote a disproportionately high attention to conglomerates. What is often portrayed are the business empires of Indonesia's Liem Sioe Liong, Malaysia's Robert Kuok, and Bangkok's Dhanin Chearavont as well as the Sophonpanich family of the Bangkok Bank. Because of their sheer size and exposure, it is inevitable that the conglomerates easily catch international attention. The danger however is that, for an uninformed reader, this portrayal could easily convey the message that all Overseas Chinese enterprises in the region are conglomerates. Moreover, this misleading portrayal is often accompanied with exaggerated accounts of a complex web of networks that link all these conglomerates and forming an almost impregnable group of mighty economic institutions that dominate the region. And this is precisely the image of Overseas Chinese enterprises which is popularized and propagated in the West. The section on the Philippines shows how highly differentiated Chinese businesses are in terms of size. I argue that this situation is true for the entire region. A visit to each country's Chinatown, or its equivalent, as well as to the major financial and commercial districts, is enough to convince one how varied in size indeed are Chinese enterprises. They can be classified as conglomerates, big business, medium-sized, and retail stores. Conglomerates usually encompass several companies, with diverse lines of business, and operate beyond national borders. Typical examples are Liem Sioe Liong's Salim Group, Robert Kuok's group of companies, Dhanin's CP Group and Gokongwei's JG Summit Holdings. Huge businesses are considerably smaller in size, although the total paid-up capitalization of some of them are in several million US dollars, and usually include a couple of companies that may, or may not, be engaged in complementary lines of business, such as Chinese-Filipino taipan George Ty's Metrobank Group which includes banking and insurance. Unlike the conglomerates, most of their operations are confined within the country. Medium-sized enterprises are comparably smaller in size, that is, in terms of capitalization and operation. Traditionally, these are those engaged in wholesale trading. A new breed of medium-sized enterprises though are engaged in food processing. Retail stores are the ubiquitous mom-and-pop stores that are omnipresent in all nooks and crannies of the region.

It should be noted that the existence of a Chinese conglomerate is not a new phenomenon. The Oei Tiong Ham Concern of Indonesia, which was founded at about the turn of the 20th century and lasted until 1961, had offices scattered all throughout the region even as its operation was diversified, its major lines of business included, among others, domestic and international trading of sugar, shipping, insurance, food processing, and rubber production. It even went into a joint venture with the Chinese government in Shanghai. What is phenomenal in today's conglomerates is that, they are not only found in one country but they practically dot the business landscape of the region. In addition, they do not only have offices in the region but in major cities in North America and Europe as well. Like their predecessor, the Oei Tiong Ham Concern, they have several joint-ventures in and outside the region. But probably unlike Oei Tiong Ham, they have acquired the
skills to match the Japanese, North Americans, and Europeans in today's dog-eat-dog competition in the international business arena.

The current conglomerates are often presented in the literature as "new money" since they represent capital that was invested on the eve, or right after the end, of the Pacific War. Classifying them as "new money", however, is a misnomer for most conglomerates were either given start-up capital ("old money") by relatives, as in the case of Gokongwei, or is actually a continuation of a family's old business only that it has been reorganized or has diversified, as in the case of Robert Kuok and Dhanin Chearavont. All Chinese-Filipino enterprises presented in chapter two are evidences of how "old money" (those belonging to the first generation Chinese) is simply passed on to the next generation, who in turn either continue the old line of business, such as the coconut-oil processing giant Lu Do and Lu Ym, or has venture into a new field, such as the shift from trading to food processing of Cam Food Company. In this regard, it is therefore more accurate to say that, on the whole, Overseas Chinese capital is self-perpetuating capital. It is only in how it is being invested that could differ from generation to generation.

b) Family businesses

According to an old Chinese proverb, wealth never survives the third generation. This could be one reason why many conglomerates are going public. When Chinese-Filipino taipan Gokongwei opened his Robinson's Land Corporation to public ownership, he stressed that such a move was done primarily to make management more dynamic. He maintained that a listed company can live longer because family companies that go to the second or third generation simply disappear as there is no pressure in it, no new blood. But doesn't public ownership weaken family control? Not quite. To ensure continued family control, only a limited amount of share is opened to the public. In the case of Gokongwei's JG Summit Holdings, Inc., for example, only 15.3% of the total subscribed shares are owned publicly. Another measure adopted to ensure that the family retains the majority of the shares is to compel family members, by law, to sell their shares to the other members should they decide to liquidate their share. An example is the Gokongwei Brothers Foundation, a legal entity separate from the JG Summit Holdings, Inc., which is exclusively composed of the members of the Gokongwei family. Under the Foundation's constitution, shares could not be sold or disposed of outside the Foundation. As a separate entity, the Foundation holds 24.3%, nearly a quarter, of the total subscribed shares of JG Summit Holdings, Inc.. A hefty 31.7% of the total shares belongs to the taipan himself. Should a family member, who invariably also belongs to the Foundation, want to liquidate his or her share, he or she could only do it within the family. Thus, by having the Foundation hold a major stake in JG Summit Holdings, Gokongwei has employed a legal device to ensure continuing family control of his flagship organization. What Gokongwei is doing is not unique. This is a standard practice adhered to by many, if not the majority of, family-owned corporations which are publicly listed, whether Chinese-owned or not. The other reason of course for family enterprises to go public is to raise additional capital as traditional sources of financing such as family and friends, banks, and company profits have become inadequate to finance their expansion. The need for public capital was already acknowledged by the Oei
Tiong Ham Concern early in the century. Too bad for the company, the capital market was not yet developed at that time.

Going public is not only the buzz word for Chinese-Filipino conglomerates. The same applies to their counterparts in Indonesia, Malaysia, and Thailand. Moreover, all conglomerates that have gone public are not only listed in their own countries, they are listed in the region, and in some bourses in Europe and North America as well. Shares of Gokongwei's JG Summit Holdings is being traded in the Luxembourg Stock Exchange.

Some big businesses in the Philippines have likewise gone public such as Metrobank and William Lines, Inc., the country's banking and shipping giants, respectively. It is safe to assume that the considerations that taipan Gokongwei had in offering his flagship for public ownership are the same considerations that had moved both corporations to follow suit. Medium-sized enterprises and retail stores, however, tend to remain family-owned. On one hand, one could surmise that their size does not necessitate the raising of public capital. On the other hand, what happens when the business is passed on to the third generation? At present, invariably all of them are increasingly co-managed by the second generation. Would the old Chinese proverb be proven correct in this respect?

That all Chinese enterprises, irrespective of size, are family-owned businesses is often presented as a unique Chinese practice. This is grossly incorrect. Family enterprise is not uniquely Chinese. Neither is it a phenomenon found only in developing countries. Recent studies indicate that, in Italy, 99% of all businesses are run by families, in the United States 96%, and in Switzerland 88%. In a study of 500 of the best Mittelstand firms in Germany, it was found that more than three-quarters are family-owned or closely held and that nearly two-thirds are managed by their owners.

As mentioned earlier, a popular notion that governs many a layman's understanding of Chinese enterprises is that they are stitched together by a powerful network. A nearly overwhelming majority of works written, whether journalistic or academic, point to the existence of networks as a key to the success of Overseas Chinese businesses. While there is no denying that some kind of, mostly business, relationships connect Overseas Chinese enterprises, what published as well as unpublished works on Chinese networks tend to suggest is that networking is uniquely Chinese. This study strongly argues that networking is not uniquely Chinese. It is a universal practice that is adhered to by all ethnic groups, in business, in the profession, in politics, and in all types of social relationships.

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228 The Economist, 2 March 1996: 64
229 The Economist, 16 December 1995: 69
Underlying assumption of Chinese networks: homogeneity and unity based on a common culture

Overseas Chinese are, almost always, portrayed as a homogenous group which adheres to a common culture. One major proponent of this view is S. Gordon Redding, author of the book *The Spirit of Chinese Capitalism*, who claims that “the majority of them (Overseas Chinese) have not psychologically left China, or at least not left some ideal and perhaps romanticized notion of Chinese civilization. This is the feature that unites them, and which provides them with one of their most distinct strengths - a capacity to cooperate.” Moreover, Redding suggests that the Overseas Chinese remain Chinese despite being away for so long from their homeland, or put another way, ‘once a Chinese, always a Chinese’. He asserts that their identity “has not often been displaced by other forms of identity, of the kind experienced when, for instance, a Pole becomes an American, say something about the vitality, validity and fundamental good sense of the set of traditional beliefs and values which unite Chinese people”. This assertion is severely flawed. First, by claiming that the majority of the Chinese have not really psychologically left China grossly ignores the fact that the majority of Overseas Chinese today belong to the second and third generation who were born in the chosen countries of residence of their forbears. They could not have left China, not even psychologically, for they were never there in the first place. Secondly, how much romanticized notion of Chinese civilization they harbor is purely a matter of conjecture. The fact of the matter is that most of the second-generation Overseas Chinese do not even speak Chinese! A second generation Chinese-Filipino who is a senior executive officer in one of the country’s biggest Chinese commercial banks admits, matter-of-factly, that he does not speak a word of Chinese. One big Chinese-Filipino entrepreneur admitted to me how sorry he is for not having taught, trained, and disciplined his children to speak Chinese, in this case, Fukienese. Instead, the children are fluent in English and, in the national language, in that order. Chinese high schools in the Philippines, which are allowed by law to include the teaching of Chinese in their curriculum, could serve as purveyor of Chinese language and culture. The directress of the Davao Christian High School, a Chinese high school, however, points out the severe limitation of the school to fulfill this function. With barely 7 hours a week devoted to teaching both Fukienese and Mandarin, it is unrealistic, she claimed, to expect proficiency from the students, unless this is supplemented at home. Unfortunately, the parents are often too busy attending to their business so that most children are left to the care of their Filipina nannies who speak only their native language and some English. See refers to the local-born Chinese-Filipinos as a ‘deculturated’ Chinese group, Westernized in ideology but not really assimilated to the Filipino culture. They retain Chinese identity but feel strongly that the Philippines is home where they belong. The provincial (those born in the provinces outside Manila) local-born grew up in a predominantly Filipino environment which makes them more Filipino than Chinese in outlook despite their Chinese blood and family background.

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Emotionally, they do not share their China-born parents' sentiment towards China or things Chinese.

I dare say that the situation in Malaysia, Indonesia, and Thailand is no different from that in the Philippines. What is it then, if any, which unites second and third-generation Chinese-Filipinos firstly, among themselves and, secondly, with their counterparts outside the country who, like them, were likewise born in Southeast Asia? A vague notion of being "Chinese"? Could one ever sincerely believe that there is anything in common among the children of Gokongwei, Kuok, and Liem other than having Chinese parents?

If the assumed unity among second and third-generation Overseas Chinese in Southeast Asia is not anchored on solid ground, so is the much talked-about unity among their forbears, those first-generation Chinese who blazed the trail in the Nanyang. One prevailing notion is that all Overseas Chinese, irrespective of their regional origins in China, are united or linked with each other. This is a fallacy for the Chinese are, by no means, a homogenous group. Social lines between and among different dialect groups are drawn strictly, each group having a highly exclusionist nature. Thus, associations based on speech group or dialect proliferate in the region. Moreover, not only are dialect groups distinctly separate, they had, among themselves, a history of mutual hostility in China. Skinner noted that during the 1860s, fights between the Hakkas and the Cantonese in China's Kwangtung province cost an estimated 100,000 lives. In Thailand, their (the Hakkas' and the Cantonese's) feuds sometimes led to armed battles between the tongs or secret societies. A Sino-Thai professor in Bangkok amusingly told me how the parents of his wife, also a Sino-Thai, made sure that he is a Teochiu (therefore not a Hakka or Cantonese) like his wife, before they consented to their marriage. In a rather absurd way, it seems that members of various dialect groups could not, even in death, exist side by side peacefully. Skinner noted that various dialect groups in Thailand had their own separate cemetery in Bangkok!

Another fact in the course of Chinese migration to the Nanyang where anything except unity is clearly depicted was in the profitable coolie trade. One good example is how coolies were supplied for the tin mines in Malaysia. Although these mines belonged to Malay chiefs, their operation was financed by wealthy Chinese merchants in the Straits Settlements and worked by immigrant Chinese labor with the understanding that the Chinese merchants received all the tin produced. Coolie labor was recruited in the ports of south China by coolie-brokers who worked in conjunction with other brokers in Singapore to pay the expenses of the voyage. The coolies were contracted under the so-called 'credit-ticket' system whereby all passage expenses would be later deducted from their wages. The amount paid to charterers depended on the type of immigrant labor they delivered. Thus, for delivering a master craftsman, tailor, goldsmith, or carpenter, they received $10-15, for a coolie $6-$10, and for a sickly man $3-$4. In view of the rather dirty nature of the

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234 Skinner, p. 131
whole affair, coolies so recruited were often called 'pigs' and the people in charge of the coolie-importing lodging houses were consequently called 'pig-bosses' or 'pig-herders'. There were many abuses in the system and many coolies were continually kept in debt by advances of cash or provisions, gambling, and through encouragement of opium addiction. Moreover, they were apparently compelled to work under the impression that they were still legally bound to their employers or towkays. The fact was, workers rarely earned enough money for savings and, as a result, became bound for so long to exploitative economic conditions.236 In Thailand, some Chinese tin mine financiers and operators recruited coolies themselves. An example is Khaw Soo Cheang, the ennobled rich merchant, tax farm operator, and appointed governor of Ranong.

Khaw owned a shipping company whose main cargo was coolie workers. By running sailing ships in the Malayan coastal waters, Khaw could easily import coolie labor from Penang and perhaps from as far away as Singapore.237 One implication of buying monopoly rights for tax farming is that the bidder must find more money to meet his new obligations. Thus, Khaw as monopolist tax farmer and governor of Ranong at the same time was faced with the necessity of increasing production in order to be able to remit to the central government the exact amount of revenue expected from them. Other alternatives were to spend less on provincial improvements or to keep less of the tax they collected for themselves. The last alternative being the less attractive, additional funds was thus raised by importing greater numbers of workers to work in the mines thereby increasing the revenue. By the simple expedient of importing more coolies, the receipts from the most lucrative farms - opium, gambling, and prostitution - were increased because there were more people to whom to sell them. An enlarged labor pool also meant that imports increased so that receipts from the 3 percent tax import monopoly were also greater. In any case, more workers meant more revenue for the government and for the tax farmer. In the mid-1800s, however, Chinese coolies in Ranong rose up against the governor and other officials and mine operators because they claimed to have been oppressed by their employers.238

Human trafficking was brisk business in the 19th century, it continues to be just as brisk in the 20th century. And the Chinese are certainly not the only ones guilty of this. It is a practice that cuts across cultural as well as territorial boundaries. Despite having been outlawed in many countries, scrupulous labor recruiters do not find it difficult to prey on innocent victims, as quite a good number are willing to pay any price in exchange for a promise of better-paying jobs outside the national territory. Thus, for those who subscribe to the argument put forward by Sender that "for those inside the Chinese network, there is a sense of fair play"239, the coolie trade to Malaysia and Thailand are convincing examples to illustrate that cultural affinity, much less, unity, does not count in business. And fair play? For whom? As historical accounts suggest, the coolie trade was clearly eschewed in favor of the financiers and the recruiters at the expense of the coolies.

236 Chun 1989, p. 240
238 Cushman 1991, p. 39
If unity is a given among all Overseas Chinese, then it should be **sacrosant** within the family. The literature abounds with accounts of how fiercely loyal and devoted the members of a Chinese family are. It is not the aim of this study to dispute this, rather, it aims to show that even within a family, personal business interests could take precedence over family loyalty. Results of a study conducted by Yao Souchou (1995)\(^{240}\) on the Chinese traders in Belaga, Sarawak East Malaysia, bears this out. The following is an adaptation from Yao’s study.

Belaga, a hardly accessible jungle town, is what many would easily refer to as a God-forsaken place. To reach it requires a two-day arduous journey by boat from Kuching, the capital of Sarawak. Belaga has a population of 800. It is a trading center for local produce such as rubber, pepper, coffee, cocoa, fish and game, and jungle goods like ilipe nuts and rattan as well as woven mats and basket wares. A prominent feature of the town are the ubiquitous Chinese shophouses. The shop Lee Ken Ong Bazaar is the largest trading store with a turnover of just under M$20,000 (Malaysian dollar) a month, a sizeable sum indeed in such a remote place. Though still carrying the name of the original owner, Lee Ken Ong, the shop is now run by his nephew Lee Sin Kin. The old Lee first came to Belaga in the early 1960s to fish, at a time when the river still teemed with fish and which fetched good prices. He recognized the commercial opportunity of fishing. Though profitable and promising, it was hard work to move up and down the river from early in the morning till dawn. With savings from his business, and help from his brother, he opened his store in 1971 and, three years later, he operated the first regular tukang ferry service between Belaga and Kapit. Lee’s elder brother is a merchant from Sibu who has made his modest fortune from dealing in pepper, rubber and timber. When Lee started the ferry service, the M$25,000 capital was supplemented by a substantial loan from his brother who also acted as a personal guarantor for Lee who depended on credit for the supply of petrol and other goods for his store. Sibling support was thus crucial for Lee in realizing his business ambitions through a relationship mixed with kin sentiment and economic pragmatism. Some of the loans were returned with interest. In addition, Lee offered his elder brother a 40 per cent share of his cash-tight but otherwise blooming business as security against his outstanding loans. Liquidity, however, continued to plague Lee and, heavily in debt, he went into insolvency in 1979. His elder brother then took over his store and installed his youngest son, Sin Kin, as the manager. Most of the orders for supplies now goes through the main business in Sibu; the valuable wild boar and deer carcasses are sent there from Kapit before being transported to wholesalers in Kuching. By acquiring the shop, Lee’s brother acquired a major stake in the profitable trade upriver by supplying retail goods and the sourcing of jungle produce.

One may argue that Lee Ken Ong’s misfortune is a mere aberration of the standard Chinese ethical business behavior, that trust and fair play are still being strictly adhered to by members of the networks. Without disparaging the honesty and integrity of ‘networkers’ (those belonging to network/s), this study argues that the label "Chinese business ethic" is an attempt by Western writers (academicians and journalists alike) as well as their Asian counterparts to portray the Overseas Chinese as being different from the others. In so doing, the task of explaining the phenomenal

business success of the Overseas Chinese becomes simpler, easier and, more importantly, more convincing.

**Networking by other immigrant ethnic entrepreneurs**

Other ethnic immigrant entrepreneurs do observe networking as well albeit in differing forms. Alumni associations and churches, for example, brought Koreans in Los Angeles together for purposes unrelated to business. After the meetings, the participants adjourned for an informal round of conversation during which they exchanged information about business conditions and techniques. Kinship and friendship links provided the supporting linkages by which church members or fellow alumni referred one another to someone in a position to help. Thus, if Kim asked Lee, a member of the same church congregation for tax advice, Lee could refer Kim to Lee's cousin, an accountant, in whom Kim could reposes his confidence. Kim trusted Lee because he is a member of the same religious congregation, and Kim trusted Lee's cousin because he is related to Lee. This way, the mesh of voluntary and ascriptive social ties greatly expands the personal relationships of trust available to individual Korean entrepreneurs, thus enhancing their ability to obtain reliable information.

Ethnic entrepreneurs also gather information from specialized associations and media. In 1980, for example, about 100 local Pakistani manufacturers in Britain set up the Northwest Clothing Association. They met twice a month and exchanged information about prices, costs, customers, and new orders. Korean real estate developers and traders in Los Angeles set up the Korean Development Association, and Koreans involved in the garment trade established the Korean Sewing Contractors Association. Turkish entrepreneurs in West Berlin tried to develop association networks brought from their homeland, with political organizations the most stable. In the early 1980s, a left-wing kemalist group was reported to have organized and attempted to mobilize Turkish entrepreneurs. Since then, it has provided advice, particularly on taxation and law, and organized regular meetings. Special contacts likewise exist among the mosque associations and business matters are often discussed in mosques. Until 1985, the Surinamese community in the Netherlands had not founded specialized associations to service the interests of the entrepreneurs among their ranks. Surinamese magazines, however, have featured articles on the various business activities in which members of the community are engaged in. The Los Angeles Korean newspaper Hankook Ilbo likewise ran a series, on 16 successive dates, that provided detailed information about selected enterprises. The articles covered retail shoe stores, real estate, florists, laundries and dry cleaners, grocery stores, jewelry stores, construction, architecture, auto body re-

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242 Light & Bonacich, ibid
244 Waldinger et al. p. 136
pairs, nightclubs, liquor stores, food wholesaling, restaurants, automobile dealerships, printing, and gift shops.245

The Levantines in Latin America, who started migrating in large numbers around the last quarter of the nineteenth century, were assisted by family and kinship networks in helping mobilize loan and equity capital.246

From the foregoing, it is unmistakably clear that networking, in whatever form, is likewise being practiced by non-Chinese immigrant ethnic entrepreneurs in all corners of the globe where they do business. Once again a strong evidence to show that networking is not uniquely Chinese.

Networking: a problem of definition

To set the exact premises, it is important to define the term network and to determine how so-called Overseas Chinese networks are different, if at all, from non-Chinese networks. Writing about the organization of Chinese firms in Singapore, Tong247 maintains that business networking can be in the form of ownership links, economic links of mutual cooperation, or marital links (the eldest son of the founder of Singapore’s Wing Tai Holdings, for example, is married to a daughter of Sir Y.K. Pao, Hong Kong’s property and shipping magnate). Thus, among the Chinese, Tong added, kin groups and associations forge networks of information, credit and business contracts. While there is no denying that Overseas Chinese entrepreneurs were (or to some extent still are), in one way or another, members, and make use, of existing Chinese networks, there is nonetheless no sufficient ground to contend that business networking is being done only by the Chinese. On the contrary, it is a universal practice since time immemorial. It is an irrefutable fact that the establishment of business links, often cemented through marital links, is definitely not a practice of the Overseas Chinese alone. History is replete with facts of arranged marriages between offsprings of royal families, of feudal lords, of rich merchants - all with the purpose of consolidating political as well as economic power. It is a disturbing trend among the ‘network theorists’ to merely present networking as it is practiced by Overseas Chinese while ignoring to indicate that it is practiced by non-Chinese as well. Business partnerships among Indonesia’s Liem Sioe Liong, Malaysia’s Robert Kuok and Thailand’s late Chin Sophonpanich is often cited as a classic example of Chinese networking. However, the recently concluded partnership between the media moguls Australian Rupert Murdoch and Bavarian Leo Kirch is hardly regarded as networking. Instead, their ‘business marriage’ is being denounced as monopolist. Indeed, there is a strong tendency among ‘network theorists’ and their followers to immediately classify the business strategies of Overseas Chinese, such as establishing relationships with fellow Chinese, as a uniquely Chinese strategy -

245 Light & Bonacich, pp. 187-188
networking - despite glaring evidences which show that all businesses worldwide, irrespective of ethnicity, do the same.

Overseas Chinese networks are almost invariably portrayed in the literature as exclusionist. Business is conducted within the network and it is extremely difficult, if not altogether impossible, for those outside the network to take part in the business much less penetrate its thick walls. In a way, this creates an impression that Chinese networks are conspirative since their modus vivendi is not only different, worse, it is beyond the comprehension of outsiders. My own investigation of Chinese-Filipino enterprises, however, yielded results which are contrary to the prevailing notion of Chinese networks as exclusionist and conspirative.

The conglomerates of the so-called ‘6 taipans’ (these 6, in comparison to other Chinese-Filipino entrepreneurs, are acknowledged to have the biggest conglomeration of businesses) are found in the same sectors of the economy. They are in merchandising, manufacturing, banking and finance, real estate and property development, hotel, recreation and other services, telecommunications, and transportation (see Exhibit IX).

Exhibit IX: Profile of the Top Six Chinese-Filipino Conglomerates

- **GOKONGWEI Group of Companies**
  - manufacturing
  - retail business
  - agribusiness
  - banking and finance
  - real estate and property development
  - telecommunication
  - power generation
  - air transport
  - hotels and apartments
  - oil & gas exploration
  - mining

- **GOTIANUN Group of Companies**
  - banking and finance
  - real estate and property development
  - agribusiness
  - manufacturing

- **SY Group of Companies**
  - manufacturing
  - retail business
  - hotel and restaurants
  - banking and finance
  - real estate and property development
  - oil & gas exploration

- **TAN Group of Companies**
  - manufacturing
  - banking and finance
  - real estate and property development
  - hotel and travel services

- **TY Group of Companies**
  - manufacturing
  - trading
  - banking and finance
  - real estate and property development
  - recreation and other services

Needless to say, they compete for the same buyers of goods and services and the competition is fierce. One such fierce competition is that between taipans Henry Sy and John Gokongwei, Jr. in the field of merchandising. Adopting the concept of convenience shopping, Sy built the first shopping mall in the country in the mid-1970s and has not stopped building more malls since then. Located barely a stone’s throw away from each other, Sy’s SM Megamall, said to be the third largest of such kind in the world behind Canada’s West Edmonton Mall and Minnesota’s Mall of America, towers over Gokongwei’s Robinson’s Galleria. Another competition is between Sy and the retail empire of the Gaisano family, rumored (convincing evidence has not surfaced, as yet, to
empire of the Gaisano family, rumored (convincing evidence has not surfaced, as yet, to prove otherwise) to be a blood relative of taipan Gokongwei. Based in Central Philippines, in the country’s second largest city Cebu, the Gaisanos were the unrivalled leader in retail merchandising in that part of the country and down into the southern part of the archipelago. With the completion of Sy’s shopping mall in Cebu City, the Gaisano family had to painfully surrender part of its market share to the newcomer. As Sy moves south, members of the Gaisano family who are operating there are likewise bracing themselves up for the competition. In an interview with one of the Gaisano brothers, I asked him about the family’s reaction to Sy’s expansion. Self-assured, he simply smiled and said: “Competition is good for the business”. While he could be right, there is no denying that Sy’s presence could make a sizeable dent in the Gaisano’s once dominant share of the market. Sy’s foray though may not hurt the Gaisanos as much as it does the small retailers. One Chinese shop-owner told me how textile dealers in a major city in southern Philippines are losing a growing number of middle-class customers who, with the country’s economic boom, now have sufficient purchasing power to buy more expensive goods sold in Sy’s mall or in the Gaisano families’ newly refurbished department stores.

In terms of foreign partnership, Gokongwei’s major foreign partners are Japan's Nissin, the world’s largest maker of instant noodles, US Hunt-Wesson Foods, and UK's United Biscuits. Thus far, none is Chinese. In an interview with Gokongwei’s son, the heir-apparent, the son claimed that their company does not have any ethnic preference in choosing their business partners. Quality and professionalism are what count, he stressed. This could be the same principle which taipan Andrew Gotianun, reputed to be a cousin of Gokongwei, adheres to. Gotianun's real estate firm Filinvest is a member of a consortium led by Metro Pacific of the Hong Kong-based First Pacific Group, owned by Indonesian-Chinese Liem Sioe Liong, which beat out the Spanish mestizo-owned Ayala Land in a bid to develop the government’s Fort Bonifacio property. That the First Pacific Group is Chinese-owned is, I dare say, not crucial for Gotianun's decision to align his Filinvest with it. Rather, it is part of the taipan’s ongoing fierce battle with the Ayalas in property development. In 1994, the once formidable and market leader in property development, Spanish mestizo Ayala, was bested out by Gotianun in the acquisition of a prime residential area south of Manila. Similarly, the four other Chinese-Filipino taipans have non-Chinese foreign partners. By their sheer size, Chinese-Filipino conglomerates have the luxury of choosing their foreign partners and, even if they wished to have Chinese partners, they know that the best and the biggest in the field is not necessarily Chinese.

It seems that Chinese-Filipino conglomerates are not the only ones who do not necessarily adhere to the principle of ethnic preference in choosing their foreign partners. Among the local partners of Malaysia’s Robert Kuok’s Kuok Philippine Properties, Inc. is the Soriano family, a Filipino of Spanish-descent. Thailand’s agrobusiness giant, CP Group, except for its partners in its joint-venture undertakings in China, does not have Chinese partners in its overseas operations.

While conglomerates tend to ignore ‘ethnicity’ as a basis for partnership, most big businesses, however, tend to still abide by it. One big business tycoon I interviewed admitted his unqualified preference to go into joint-ventures only with fellow Chinese. Likewise, one report had it that a
Chinese-Filipino tycoon tapped the help of his Taiwanese friends as he embarked on an ambitious and expensive property development project. Upon completion, the management function was entrusted to a Singaporean-Chinese company. Another property developer has been making brisk sales of condominium units to Hong Kong Chinese who, jittery about the colony's future after June 1997, are busy hedging their bets and are buying condos in the Philippines. Unlike the conglomerates who, through their exposure of doing business on a regional and, increasingly on the international field, have developed the skills and confidence to deal with various foreign businessmen who either represent or own business empires just as big as theirs, or even bigger, big businesses have a fairly limited foreign exposure particularly in the area of joint venture. Thus, they proceed with caution and tend to "play it safe", that is, to work with those whom they feel a certain affinity with, on the basis of that vague notion of "being Chinese". Still, this is no argument to prove that networking is indeed uniquely Chinese. The decision of conglomerates and some big businesses to team up with fellow Chinese is a matter of business expediency rather than ethnic consideration.

To recapitulate, networking is not uniquely Chinese, and the widely propagated notion of Chinese networks as though they were different from the networks of other immigrant ethnic groups is nothing but a myth, an attempt to portray the Overseas Chinese as different in order to serve specific geopolitical ends.

There is no denying that ethnic immigrant entrepreneurs do a great deal of networking among themselves. Such being the case, one may argue, as is often done, that ethnicity does play a role in ethnic networks. Indeed it does but not as a primordial factor, rather as an organizational resource. In rejecting the primordialist argument, Waldinger contends that ethnicity is defined not in terms of deeply ingrained 'cultural endowments'. Instead, it is a self-identification with a particular group which is an outcome of the patterns by which intra- and intergroup interactions are structured, that is, when the social connections among ethnic group members help establish distinct occupation, industrial or spatial connections. Ethnicity, therefore, is acquired. Once these different concentrations are established, frequent and intensive face-to-face interactions ensure which invariably breed a sense of commonality and identification with members of the same ethnic group. Moreover, ethnic concentrations may also give rise to common ethnic interests, reinforcing a sense of identity. In other words, once social structures which are results of ethnicity (self-identification) are in place, ethnic identity becomes a self-reinforcing process.

Yao likewise argues that "cultural traits" do not exist 'out there' without history, without the self-conscious making and remaking by the people concerned in a particular circumstance, a process Yao refers to as "self-inscription of virtue". Nowhere is this more evident than in the interviews I conducted with Chinese-Filipino entrepreneurs. Hardship and sacrifice are the virtues that are common to taipan Gokongwei's grandfather, the taipan himself, William Chiongbian, Delfin Go, and Lim I Tei, the Chinese in our village. Measured against the majority of the Filipino population, they are undoubtedly economically successful. Compared among themselves, however, success

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248 Waldinger et al. 1990, p. 34
becomes relative. Both Gokongwei and Lim received seed money from relatives and friends to start their respective businesses but with different results. Gokongwei rose to become one of the country's richest Overseas Chinese entrepreneurs while Lim is stuck in our village. Now retired, he has left the management of his general merchandise store to one of his sons, the only one who decided to stay with his father, while at the same time complaining that loyal customers such as my late grandfather is a thing of the past. If hardship and virtue were indeed the key to economic success, why did Gokongwei make it and not Lim? In his study of the Chinese traders in Belaga, Sarawak, East Malaysia, Yao noted how these traders, who have long migrated to this God-forsaken place of Belaga, repeat over and over again the tale of hardship and sacrifice that characterize their business undertakings. One trader, however, tired with his companions' tales of 'bravado of face-saving' and 'blowing of horn', violently interjects, "We are in Belaga because we have to; we have no choice". Being in Belaga, Yao stresses, means therefore that they (the traders) simply cannot locate themselves in places more economically and socially desirable. On the other hand, Yao discovers how the perception of the native people (the Belagas) of the Chinese mirrors and circulates the way the Chinese see themselves. His native informants show admiration for the Chinese traders for their ability to assemble wealth, trustworthiness (when the business relationship benefits the client as well), commercial cunning and deception (when business dealings clearly benefit only the towkay (Chinese capitalist)). In other words, the Chinese's self-inscripted values are being recognized by the natives as Chinese values indeed. The Belaga episode is true for the Philippines, and undoutedly, for the other parts of Southeast Asia as well. In the Philippines, being Chinese is invariably equated with industry, thrift, success, and wealth. This is summed up in the common expression: "Chinese are rich", and conversely, "They are rich because they are Chinese". As a contrast to Yao's self-inscriptive value, I refer to this as the native Filipinos' ascription of values to the Chinese. This ascription, however, becomes a convenient explanation to many Filipinos to explain their weak economic position vis-a-vis the Chinese. Worse still, this is repeatedly being used by the government as an excuse for its failure or inability to correct certain structural inequalities, such as concentration of land ownership on only a few families, which have nothing to do with the Chinese. On the whole, the self-reinforcing process of clinging to their ethnic identity, which many Chinese indulge in, is further reinforced by the native population's ascriptive process of Chinese identity.

Once strongly in place, ethnicity begets what Waldinger\textsuperscript{250} refers to as a subcultural dimension. By this he refers to the social structures through which members of an ethnic group are attached to one another and the ways in which those structures are used. Among the most significant social structures are the networks of kinship and friendship around which ethnic communities are arranged. These structures are the ones that could provide a valuable organizational resource in establishing a business enterprise. Thus, following Waldinger's analysis, it is firstly the emergence of ethnic communities and networks which may generate the infrastructure and resources for ethnic

\footnotesize{\textsuperscript{249} Yao 1995, p. 3 \textsuperscript{250} Waldinger, pp. 34-35}
business before a sense of group awareness develops, in this case, ethnic identity. It is only after an ethnic business niche has been in place before group consciousness may arise.

To summarize, while Chinese businesses and networks tend to follow kinship or regional ties, it is commercial or entrepreneurial interests, and not ethnicity, which serve as an invisible hand that joins them.

Along with networking, another popularized notion about the uniqueness of Chinese entrepreneurs, hence of Chinese entrepreneurship in general, is the adherence to a distinct culture which has its roots in Confucianism. To ascertain whether there is validity to this claim or not, a look at the emergence of the merchants class in China and the values they accordingly developed as a class is important. The presentation that follows draws heavily from Wang Gungwu’s treatise on ‘The Culture of Chinese Merchants’.²⁵¹

With the growth of marketing centres and towns from the Song Dynasty to the 19th century, an urban merchant class, consisting mainly of small professional traders, had developed. As it grew in size, it came to assume an intermediate position between the literati and the peasant majority. Eventually, it consisted of at least three groups: a) the sons or descendants of merchant families, the nucleus of the merchant ‘class’, b) the poorer artisans and peasants who turned to trade and through their entrepreneurial talents helped them form this new urban class, and c) the lesser kin of literati families who abandoned official or teaching careers and turned to commerce for their livelihood.²⁵² The culture that the merchants espoused was eclectic. They shared some common Confucian values of Chinese people everywhere. This culture recognized the family as the primary unit of trade. However, although this culture may seem Confucian in origin, and therefore endorsed by the literati, Wang²⁵³ noted that it probably pre-dated Confucianism in origin, instead, it was deeply rooted in the agrarian society of pre-imperial China. Thus, Wang stressed, “the family and the central values associated with it did become a pillar of Confucian ethics, but as a cultural value, the primacy of the family in business was not dictated by Confucian concerns, nor was it forced on them by the literati and the mandarins. Confucian rhetoric was used mainly to reinforce what was a most practical and effective way to get business started and to defend that business”.²⁵⁴

Values which are usually regarded as peculiar to the merchants are those of thrift, honesty, trust, loyalty, and industriousness. Wang, however, maintained that these values are not peculiar to the merchants. Like the family, Wang stressed, all these virtues were endorsed in Confucianism. But they were not literati values as such, nor were they seen as qualities inspired by mandarins. Mandarins were certainly enjoined to value these qualities, but Confucius and his followers had given emphasis to these values as essential for order in an agrarian society, and therefore applied to rulers and ruled alike.²⁵⁵ Merchants, by recognizing these qualities as valuable for their class, were

²⁵² Wang, p. 185
²⁵³ Wang, ibid
²⁵⁴ Wang, pp. 185-186
²⁵⁵ Wang, p. 186
therefore not imitative or derivative, they were merely rational and practical. Despite adhering to these virtues, however, merchants were not elevated to become Confucians. In this respect, it would be more accurate to say, as Wang argued, that the merchants saw themselves as sharing a common culture with the literati, peasants and artisans and therefore accepted the orthodox wisdom that China should preserve its agrarian past. Clearly, mere adherence to these virtues does not prove the importance of Confucianism in merchant culture. Asserting otherwise is an erroneous interpretation of history.

Wang likewise pointed out that while the merchants shared the values of the literati, peasants, and artisans, they subscribe to certain values which the literati, the peasants, and the artisans did not share, namely: attitudes towards profit-seeking and risk-taking, business organizations like occupational guilds, native-place associations and trade coalitions, and, the use of philanthropy. The literati vigorously rejected the virtue of profit-seeking because it challenged the public good and was therefore immoral. Risk-taking was likewise frowned upon because it was not only opportunistic, it endangered a family's fortune or reputation as well. For the merchants, however, these values were central to, though not sufficient conditions for, the qualities of entrepreneurship which they valued. Given that there was literati disapproval, the merchants did tone down the profit-seeking motive and warned sensibly against excessive risks being taken. But they were fully aware that without high profits and the risks that had to be taken to produce such profits, the chances of a successful entrepreneurship would be slim. And without entrepreneurship, the merchant class could not hope to rise above that of respectable artisans.

The existence of business guilds was peculiar to merchants operating in towns. The earliest and most common form were the guilds. Their difference from that of the artisan's guild was in its lack of formal structure for training or apprenticeship to sustain professional skills. They were more like mutual-aid societies with welfare and other social functions. They were also agencies for representing merchant interests before officialdom. Fully aware of how biased the mandarins were about merchant enterprises, the merchants were often in dire need of active help to protect or represent their interest. Eventually, other specialized kinds of organizations, like the native-place associations and trade coalitions which would strengthen their hand against their competitors and rivals, developed. What is striking was that no philosophy of management and training emerged from these organizations. They seemed to have accepted that running business enterprises was no different from heading a family and these larger organizations were managed like extended families. In short, these organizations were not innovative but remained primarily organizations which provided a consultative machinery subscribed to for the defence of common interests. But, at another level, the welfare aspect was linked to something like a philosophy that stressed the importance of philanthropy.

Philanthropy was a multi-faceted phenomenon urged on all classes in China but most systematically developed among successful merchants. As people from a class with low social status, they saw their wealth as their only weapon for gaining respectability. How that wealth was used was an

256 Wang, ibid
257 Wang, pp. 186-188
essential part of the strategy for upward social mobility. It was part of a social strategy that made the rich merchants the most philanthropic group of people in China and made their brand of philanthropy unique to their class.

The members of China's merchants class therefore that ventured to the Nanyang, an unfamiliar, and potentially dangerous, terrain, were a risk-taking lot and were driven with profit-seeking motives. Unlike the hostile environment they faced in China, these traders realized quick enough that the trading environment in the region was different and could be turned to their advantage. The values which their class subscribe to in China became an important organizational resource. One is the formation of guild-like associations which centered around ancestral temples, hometown associations, and dialect groups. Since they received no official protection from China, these merchants were completely on their own to fend for themselves. These organizations which, in most cases, functioned as welfare units, afforded them a sense of security, desperately needed in a foreign environment. Despite great difficulties, these traders persisted knowing the considerable profits they could realize from the Nanyang trade.

Another factor that the Chinese immediately used to their advantage was their experience and skill in dealing with antagonistic and arbitrary mandarins. Colonial officials were no more predictable than Chinese mandarins and foreign laws were no less arbitrary than Chinese ones. Racial discrimination was a real threat even as political machinations of Western powers in the native affairs were often aimed against Chinese merchants. It was thus clear to the latter that their survival depended on a certain amount of patronage. The difference with the kind of patronage in this foreign environment with that practised in China is that it was more open and flexible and often could be renegotiated under changing conditions, and in ways quite different from the dealings with mandarins in a centralized bureaucratic system. For example, in dealing with the ruling elite of a non-colonized country like Thailand, local interest in as well as dependence on foreign trade was so great that the Chinese merchants were in a strong bargaining position. In dealing with colonial officials, on the other hand, the Chinese recognized that these Westerners were different from the Chinese mandarins in one very important respect. They were dedicated to profit and appreciated Chinese trading and ingenuity in ways impossible for the mandarins in China. Hence, though they lived and did business under Western control at key ports like Batavia, Singapore, and Manila, Chinese merchants found that working in an environment with laws that encouraged and protected trade, and being accountable to officials who abided by such laws, gave them the freedom to develop their talents and expand their businesses in ways unknown in Chinese history.

It is clear from the foregoing that there is nothing 'distinctly Confucian' in the much vaunted business culture which is ostensibly a very important ingredient to the success of Overseas Chinese entrepreneurs. That the immigrant Chinese merchants imparted to their offsprings the values they took with them from China is beyond doubt. Unlike their parents, none of the present generation of taipans in the entire region had experienced dealing with Chinese mandarins as well as with colonial officials. Undoubtedly guided by the wisdom which their parents have gained through long, tedious years of experience, they have mastered the art of backdoor wheeling-and-dealing with gov-
ernment officials, and not to a lesser extent, with foreign businesses. Just as it is erroneous to claim that the first wave of Chinese traders were imbued with a 'Confucian business culture', it is likewise downright inaccurate to apply this to the present generation of Chinese entrepreneurs, much less to their children and would-be successors.
Chapter Five

Conclusion

On the strength of the data presented here, the study has achieved two results. Firstly and most importantly, it has validated its hypothesis, and secondly, it has shown the limitations of the theories of Hoselitz and Kilby regarding the role of marginal groups in development when they are applied to the Overseas Chinese entrepreneurs in Southeast Asia.

Limitations of existing theories on the developmental role of marginal minorities

In his theory on the role of culturally marginal groups in promoting economic development, Hoselitz argued that "marginal men, because of their ambiguous position from a cultural or social standpoint, are peculiarly suited to make creative adjustments in situations of change and, in the course of this adjustment process, to develop genuine innovations in social behavior".259 With respect to marginality, this theory does apply to the Overseas Chinese, although to a limited extent only. They are marginal men in the sense that, as aliens, they do not belong to the Southeast Asian society. This marginal status, however, was viewed with irritating ambivalence by the colonial powers in the region who, on one hand, viewed the Chinese as a threat to their personal security (since they were often outnumbered by the Chinese), and on the other hand, considered them essential, even indispensable, to the rapid economic development of their respective colonies. The attitude of the Thai monarchs were no less different. Their commercial pursuits, which depended to a large extent on Chinese traders, overrode their desire to protect the interests of the native population. On their part, the Chinese were engaged (and succeeded) in making creative adjustments, at first with the native rulers and later with the colonizers, in order to protect not only their lives and properties, but also to secure a certain degree of permission, or tolerance at the very least, to enable them to pursue their economic activities further.

It is in the area of so-called innovative social behavior which could come from marginal groups that the theories of Hoselitz and Kilby face serious limitations. Hoselitz’s theory assumed that ‘the marginal men’, in the course of their adjustment process, are able to develop genuine innovations in social behavior’ (italics mine). To this, Kilby added by maintaining that ‘scattered individuals from the elite groups are induced to imitate the technological leaders from the subordinated group whose new wealth threatens the status of the accepted elites and that, by this process, innovation gradually spreads throughout the society’ (italics mine).260 With respect to the Overseas Chinese in Southeast Asia, the evidence thus far presented here can not bear these assumptions out. Firstly, as capitalist development in the region went underway during the colonial period, the Chinese, - capitalists, traders, artisans, and coolies alike - had very little to do with the native population except from buying their crops and extending them credit at usurious rates. The relationship between them and the natives was purely governed by nothing more than economic considerations even as

the latter considered them to be parts of the exploitative, colonial apparatus. Hence, for the native population, there could hardly have been anything conceivably favorable on the part of the Chinese that was worthy of emulation. Secondly, Hoselitz and Kilby seemed to have argued on the basis of an assumption that these marginal men or subordinated group were operating in an independent country whose indigenous elites were free to decide which development strategies to pursue. This was not the case in Southeast Asia. During the entire period of colonization, the nature of development in each of the colonies in the region was determined by the colonial rulers whose primary interest was to extract as much wealth from the colony to serve the economic needs of their home country. The elites were therefore not composed of the natives but of Western officials. These were obviously not the elites (who are induced to imitate the behavior of the successful subordinated group) who Kilby referred to. The Western elites, whose economic dominance was never threatened by the Chinese, could have never regarded the latter as a source of innovation. To them, the Chinese were useful tools for their economic pursuits, no more and no less. Furthermore, except in the Philippines where a small indigenous capitalist class had developed, there were no indigenous entrepreneurs in the region who, despite their contempt for the Chinese, would still have looked at the business tactics of the latter in order to help them enhance their competitiveness. Yet, even among the indigenous entrepreneurs in the Philippines, social innovation as a result of an economic threat coming from the Chinese did not materialize. For one, the Chinese, who were barred from owning land, did not pose quite a threat to the the native capitalists who were, at the same time, the landed gentry. And for so long as the economy was based on the export of agricultural products that were mostly grown on plantations or haciendas belonging to them, their position was secure despite the Chinese’s dominant presence in trading. For another, for so long as the exploitation of natural resources such as gold and other mineral resources was the exclusive domain of the Filipinos (and the Americans who likewise handled most of the trading in the world market during the American regime), the indigenous capitalists were securely under control of another major source of wealth. In a sense, since there was little to fear from the Chinese, there was hardly any reason to learn from them, for a change in social or business behavior.

Although the Overseas Chinese have done little to promote creative social change, they have irrefutably exercised the Schumpeterian or ‘new type’ entrepreneurship (see ‘Functions of an entrepreneur’, chapter 1) where an entrepreneur exercises a gap-filling function in order to make up for market deficiencies, and marshall all inputs required for the establishment of a firm that produces good for the market. The gap-filling function is best illustrated through the intermediation function of the Overseas Chinese particularly in their role as traders. They fill a gap in the existing market by providing goods, as well as services, that are not available. Financiers of tin mines and operators of rubber plantations provided both capital and labor, thus bringing together all the factors of production necessary to mine tin, and plant and harvest rubber. In other areas of agricultural production, however, such as sugar, rice, and copra, where planting was a native affair, Chinese participation is limited to financing, milling, and trading. Yet, even in such situations, precisely because of market imperfections, the Chinese were able to exercise an important intermediation

function by providing those factors of production that other players in the economy, such as the natives and the Western elites, were either not able or not prepared to provide.

**Hypothesis validated**

The evolution of Overseas Chinese entrepreneurship in Southeast Asia, which is presented at length in chapter 4, clearly shows how Chinese capital has moved from its subordinate position to Western capital, to that of a dominant player in the regional economy. By encompassing an entire region, this makes Overseas Chinese entrepreneurship in Southeast Asia remarkably different from its counterpart in the rest of the world which, though successful in their own right, has essentially dominated only a niche economy.

Arguing that Chinese capital, during the colonial period, merely assumed a subordinate role to foreign capital is, on one hand, accurate. On the other hand, however, it is, merely half of the truth. For the truth of the matter is that, the colonial export economy was deeply anchored on Chinese capital, labor, and know-how. To highlight just a few examples (for details, see chapters 2 & 3), the Dutch in Indonesia, despite encouraging large-scale production of sugar, were interested only in sugar trading. Growing and milling, however, were left to the Chinese. Since they did not grow the sugar cane themselves, the Chinese bought the cane from Javanese territorial chiefs and processed it. The Chinese provided therefore the capital necessary for buying and processing sugar cane. Thus, it can be argued that, in terms of sugar trading, the Dutch East India Company merely lived of the backs of Chinese entrepreneurs, for without the Chinese supplying processed sugar, the Company could not have engaged itself in such a profitable sugar trade. One can argue, however, that the Company could have undertaken the production of sugar itself. Still, the Company would not have done it for it knew that it was more profitable to concentrate only on trading and to leave the production process to the Chinese, who were already producing sugar in huge quantity in Indonesia long before the Dutch came. A similar case was that of tin mining, also in Indonesia. Although the Dutch were the first to discover tin deposits on the Sumatran island of Bangka, like sugar, they were merely interested in controlling the trade of tin. The rulers of Palembang, in whose lands the tin deposits were found, recruited Chinese miners from Yunnan where mining methods, in other words know-how, and experience were, to this time, already well established. As to the tin mining industry in Malaysia and Thailand, labor in tin mines was provided exclusively through the coolie trade. Moreover, one should keep in mind that sugar cane was introduced by the Chinese in Java and Thailand, and tin deposits in Malaysia and Thailand were discovered by the Chinese and were already mined by them, on a small scale, before the onset of colonization. Thus, not only was the colonial economy largely dependent on Chinese capital, know-how, and labor, it likewise utilized crops, such as sugar cane, which the Chinese introduced, and exploited mineral ores, such as tin, which the Chinese had discovered and had started to mine.

It was thus fairly logical that Chinese entrepreneurs, equipped with capital (unrivalled in the case of Malaysia and Indonesia), know-how, and experience (both almost unparalleled), took over the business interests of the departing colonial powers. In turn, the inexperienced post-colonial gov-
ernments had not much of a choice than to enjoin the participation of Chinese entrepreneurs in the post-colonial efforts towards industrialization. Although Chinese capital is, in terms of its share in the country’s corporate capital, dominant in all four countries — Indonesia, Malaysia, Thailand, and the Philippines — on a regional scale, however, it is "downgraded" to a major share in the face of the towering presence of foreign, mainly Japanese, capital. The significance of the major role that Overseas Chinese entrepreneurship in the region plays lies in the fact that it is successfully exercised by a group belonging to a discriminated (as in the case of Indonesia and Malaysia) ethnic minority.

Southeast Asia is host to a type of entrepreneurship - Overseas Chinese entrepreneurship - that evolved and developed throughout the centuries, and proven for its resiliency and risk-taking abilities. It did not create the boom in the region Liberal government policies, the inflow of huge foreign capital, and the availability of cheap and skilled labor among the indigenous population are among the more crucial factors that facilitated this transformation. However, without Overseas Chinese capital and know-how that were crucial during the import-substitution stage, and later, during the shift to export-oriented industrialization, the region’s economic upturn could certainly not have been that fast. Thus, viewed historically, from the pre-colonial period, on to the era of Western colonization, and from the start of decolonization to the present boom, Overseas Chinese entrepreneurship has been indispensable to the region’s development.
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