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# The role of overseas Chinese investment in the emerging countries of Southeast and East Asia : a confucian model of the foreign direct investment decision making process using factors unconsidered in the west

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**FLORIDA INTERNATIONAL UNIVERSITY**

**Miami, Florida**

**THE ROLE OF OVERSEAS CHINESE INVESTMENT IN THE  
EMERGING COUNTRIES OF SOUTHEAST AND EAST ASIA: A CONFUCIAN  
MODEL OF THE FOREIGN DIRECT INVESTMENT DECISION MAKING  
PROCESS USING FACTORS UNCONSIDERED IN THE WEST**

**A dissertation submitted in partial satisfaction of the**

**requirements for the degree of**

**DOCTOR OF PHILOSOPHY**

**IN**

**BUSINESS ADMINISTRATION**

**by**

**Linda Dunn Clarke**

**1998**

**To: Dean Joyce Elam  
College of Business Administration**

**This dissertation, written by Linda Dunn Clarke, and entitled, The Role of Overseas Chinese Investment in the Emerging Countries of Southeast and East Asia: A Confucian Model of the Foreign Direct Investment Decision Making Process Using Factors Unconsidered in the West, having been approved in respect to style and intellectual content, is referred to you for judgment.**

**We have read this dissertation and recommend that it be approved.**

**Peggy Golden**

**Richard Hodgetts**

**John Zdanowicz**

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**Date of Defense: April 3, 1998**

**The dissertation of Linda Dunn Clarke is approved.**

**Dean Joyce Elam  
College of Business Administration**

**Dr. Richard L. Campbell  
Dean of Graduate Studies**

**Florida International University, 1998**

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I dedicate this dissertation in honor of Reggie, Chelsea, Gracie, Sophie, Sebastian, Rosie, Tiger Lily, Figaro, Chloe, Millicent, Sergio, Sterling, my parents, grandparents, Mary Ann, and in honor of all homeless and mistreated animals everywhere; as well as in loving memory of Camille, Paul, Percy, Maizy and my grandfathers. Without their patience, understanding, support, and most of all love, the completion of this work would not have been possible.

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**ABSTRACT OF THE DISSERTATION**

**THE ROLE OF OVERSEAS CHINESE INVESTMENT IN THE EMERGING  
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**Linda Dunn Clarke**

**Florida International University, 1998**

**Miami, Florida**

**Professor Mary Ann Von Glinow, Major Professor**

The purpose of this study was to gain a better understanding of the foreign direct investment location decision making process through the examination of non-Western investors and their investment strategies in non-traditional markets. This was accomplished through in-depth personal interviews with 50 Overseas Chinese business owners and executives in several different industries from Hong Kong, Singapore, Taiwan, Malaysia, and Thailand about 97 separate investment projects in Southeast and East Asia, including The Philippines, Malaysia, Hong Kong, Singapore, Vietnam, India, Pakistan, South Korea, Australia, Indonesia, Cambodia, Thailand, Burma, Taiwan, and Mainland China.

Traditional factors utilized in Western models of the foreign direct investment decision making process are reviewed, as well literature on Asian management systems and the current state of business practices in emerging countries of Southeast and East Asia. Because of the lack of institutionalization in these markets and the strong influences of Confucian and patriarchal value systems on the Overseas Chinese, it was suspected that while some aspects of Western rational economic models of foreign direct investment are utilized, these models are insufficient in this context, and thus are not fully generalizable to the unique conditions of the Overseas Chinese business network in the region without further modification.

Thus, other factors based on a Confucian value system need to be integrated into these models. Results from the analysis of structured interviews suggest Overseas Chinese businesses rely more heavily on their network and traditional Confucian values than rational economic factors when making their foreign direct investment location decisions in emerging countries in Asia. This effect is moderated by the firm's industry and the age of the firm's owners.



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## **CHAPTER 1**

### **INTRODUCTION**

#### **HISTORICAL ORIGINS OF THE OVERSEAS CHINESE AND THEIR ARRIVAL AND IMPACT ON SOUTHEAST AND EAST ASIA**

China and its overseas network form the single largest foreign investor in the world. With economic activities linked across national boundaries, this Overseas Chinese network is becoming a market force of unprecedented magnitude. Increasingly, all internationally active companies will encounter Chinese businesses as competitors and pursue them as partners throughout the world. Indeed, the rest of the world is just now recognizing the potential strategic importance of this emerging network whose impact will be even greater than that of the emergence of the Japanese as a dynamic force in the global marketplace many years ago.

Even as they become the new dynamic in the global marketplace, the Overseas Chinese already number as many as 57 million worldwide. Although they may appear to be a thoroughly modern economic force, their origins and prowess for international trade can be traced all the way back to ancient China.

## **Historical Origins of the Overseas Chinese in Ancient China**

In 139 BC, Emperor Wu sent his minister Zhang Qian to Ferghana in Central Asia to buy horses. On the way, he was captured by the rival camp of Xiongnu. When Zhang Qian was released and finally returned to China a decade later, he brought with him valuable information about countries to the west in Central Asia. The first Chinese merchants ventured into this region in 114 BC and the trade route they established became known as the Silk Road. Within just a few years, camel caravans were traversing it frequently.

The trade along this route began when neighboring peoples wanted luxury goods made in China. Initially, there was more raiding than trading, but soon the Chinese began to exchange silk for the Ferghana horses of Central Asia. Overland, the Silk Road eventually extended from Chang'an in China to countries in the Mediterranean region. This route through arid lands was only possible because the ancient Chinese had camels for transport. The camels could each carry up to 440 lbs. (200 kg) of cargo across the "white dragon dunes" of the relentless Taklamakan Desert. They could smell underground water, and warned their riders of deadly, suffocating sandstorms by huddling together, snarling, and burying their mouths in the sand.

The overland route was treacherous, but with increasing demand for their products to the West and sturdy beasts of burden, the earliest overseas markets for the Chinese were established. Markets for Chinese goods and skills abroad were not only to be found in the West, however. They also ventured to the South and East of the Mainland in search of freedom from oppression at home as well as greater economic opportunities for themselves and their families.

### **The First Arrival of the Overseas Chinese in Southeast and East Asia**

From at least as early as the Han dynasty (206 B.C.-220 A.D.), Chinese traders took seas routes to Vietnam and later to Korea and Japan. Inside Mainland China, merchants transported goods such as grain and salt along the canals and roads that linked the large cities. Also during Han times, Chinese camel caravans stopped at Kashgar in Central Asia. From there, Middle Eastern merchants took the expensive goods to places as distant as ancient Rome for a share of the profits. Han traders carried silk along the Silk Road to the West, selling a roll of silk for the same price as 795 lbs. of rice. In Rome, the writer Pliny complained that women's desire to wear the expensive fabric was ruining the Roman Empire [Simpson 1996].

This trade in goods made the Chinese people's lives more comfortable. Merchants exchanged Chinese silk, lacquerware, tea and spices for gold, silver, glass, wool, pearls and other luxury goods. The Chinese also needed horses to help fight off mounted nomads

which roamed their borders. These horses were difficult to breed in northern China, so the Chinese imported them from the West.

It was really not until the Song Dynasty (960-1279), however, that foreign trade was expanded using the sea-going junks with red sails that the Chinese so characteristically built. This practice was made possible through Chinese innovations such as star charts and the "south-pointing fish" compass which were used by navigators at sea.

When Mongols conquered China and founded the Yuan Dynasty (1279-1368), they brought great wealth to the country through international trade. Kublai Khan was the most famous Mongolian emperor. During the Ming Dynasty (1368-1644), the Ming emperors were constantly threatened by the Mongols, who fought to regain their lost empire. To fend off these attacks, the Ming rebuilt the Qin dynasty's (221-207 B.C.) Long Wall into the Great Wall of China.

From a historical perspective, the overseas Chinese are old hands at doing business in the East and Southeast Asian regions. Early on, they left their hometowns in Mainland China, taking enormous risks to venture overseas, merely hoping to survive there long enough to make some money. In these circumstances, family members were the only thing the overseas Chinese could place their trust in, pooling their financial resources together in order to start small businesses, and working hard together in order

to insure these businesses were able to survive. The bonds of kinship served as the social glue that held every family member tightly united in the common cause.

## **SOCIETAL NORMS FROM ANCIENT CHINESE SCHOOLS OF THOUGHT**

In order to understand modern Overseas Chinese business practices in Southeast and East Asia, as well as their social context, it is first necessary to examine the three main ancient Chinese schools of thought and how each of these contributed to the basis of modern Chinese societal norms throughout the world.

Many Chinese scholars who lived during the time of the Zhou Dynasty (1150-221 B.C.) pondered issues of law and order. The new ideas they created would come to shape Chinese society and thought for centuries. During this era, three distinct systems emerged. The philosopher Confucius outlined a code of proper behavior, arguing that if families were strong and united, the country would also be strong and united. Confucius taught obedience within the family and respect for ancestors. He also praised strict government.

The followers of Daoism, however, did not agree. They wanted as few rules as possible and said that everyone should live by the laws of nature and should not be governed by too many regulations made by people. Laozi, a legendary figure linked with the beginnings of Daoism, was called "The Old Philosopher". Daoists thought that there would be fewer wars and crimes when people stopped wanting things they could not obtain

honestly. Followers of Daoism worshipped a small group of "immortals", or disciples, who were supposed to possess magical powers such as becoming invisible, turning objects into gold and raising the dead.

A third school of thought, called Legalism, said that everyone must obey the State's ruler and contribute to the army and food production. Although it developed important concepts, its influence was not as pervasive in early China as that of Confucianism or Daoism. Nonetheless, all three ways of thinking; Confucianism, Daoism, and Legalism, greatly influenced the ancient Chinese. It is also important to note that these philosophies were not considered to be mutually exclusive, rather it was thought that each one might help with a different aspect of everyday life.

In addition to these three philosophies, the religion of Buddhism taught believers that they could be reincarnated many times and that performing good deeds in this life meant better chances in the next one. Buddha, also called "The Enlightened One", gave up worldly pleasures to achieve nirvana, or perfect peace. Foreigners also brought ideas from Christianity, Judaism, and the beliefs of Islam into ancient China.

Of all the traditional philosophies and religions to come from and to ancient China, however, none has had a more pervasive influence to the present day on both mainland and overseas Chinese social structure, business practices, and value systems than the philosophy of Confucianism. The great thinker Confucius was known throughout China as "The

Master". Confucianism is not a religion like Buddhism, rather, it is a moral code that governs all the principle relationships in a society and how persons should interact within these relationships. The concept of ren, was the basis of Confucian teaching. Ren is often translated as "virtue" or "goodness". Confucius himself explained ren as "to love all men". The sayings of Confucius were collected in a book called The Analects. In it, Confucius said that society would be orderly if prince, subject, father and son kept to their proper places.

Indeed, there are five cardinal relationships in Confucianism, each of which is still honored today and together govern Chinese social order. The five relationships are: sincerity between father and son, righteousness between ruler and subjects, separate functions of husband and wife, order between older and younger brother, and faithfulness between friends.

### **Chinese Social Order**

Ancient Chinese Society was divided into four main classes. The scholar-gentry class was the highest and most esteemed. Scholars were respected above everyone else because they could read and write. Peasants were the next most important class because the country depended on them to produce food. Artisans used their skills to make things that everyone needed, such as weapons, tools and cooking utensils. The lowest class were merchants. They made nothing, yet often grew rich from trading goods. Laws governed



the lifestyle of people in all classes. For example, the size and decoration of officials' houses depended on their rank. An official of the third rank could build a house with five pillars in a row. Officials of the highest importance could add a gate that was three pillars wide.

A district magistrate was a low-ranking official in the many-layered government bureaucracy. He enforced law and order; collected taxes; counted people; registered births, deaths, marriages and property; inspected schools; supervised building programs; and judged court cases. Together, scholars, peasants, artisans and merchants formed the basic social order of ancient China. Soldiers who made a career of being in the army were not highly regarded and did not belong to a class of their own. Scholars who were interested in the government trained for imperial civil service. The Han Emperor, Wu, started a university where students learned the teachings of Confucius. These men usually came from wealthy land-owning families, but anyone could take the imperial civil service exams, and sometimes whole villages sponsored a candidate. The few who passed the exams became government officials and magistrates. Thus, the well-bred and well-educated in ancient China were also almost always well removed from the nation's commerce.

As a result, the average ancient Chinese were always looking for practical ways to solve problems. For example, farmers hung bags of killer ants in their orchards to eat the insect pests that would have otherwise destroyed the mandarin orange crop. Ancient Chinese inventors were also way ahead of the rest of the world. They developed

wheelbarrows, for example, about 1,300 years before Europeans copied the idea. Their inventions of paper, printing, the compass and gunpowder have probably made more of an impact on the world than anything else that has ever been invented. The earliest compass, called a "south-pointing fish", consisted of a wooden fish containing a piece of metal floating in a bowl of water. Gunpowder, made from saltpeter, sulfur and charcoal, was used by alchemists and physicians long before it was used for weapons. Other notable inventions included matches, the game of chess and mechanical clocks.

Ancient Chinese ships had rudders, an essential tool for steering properly, by the first century A.D. By contrast, European navigators only began to use rudders around A.D. 1180. Other ancient Chinese inventions included trace harnesses for horses, kites, fishing reels, tea shredders, umbrellas, and a primitive earthquake detector [Simpson 1996].

## **MARITIME CHINA**

The contrast between Maritime China and Continental China was vast. Indeed, it was almost as great as that between China and Inner Asia. Chinese seafarers, being of the merchant class, were largely illiterate, and thus did not write memoirs. Since most of ancient China's historians worked in the imperial court, few ever went to sea to record in writing what went on there. Unlike the steppe of China's interior, the sea did not harbor rivals for power, and so was given little importance in Chinese history. Nonetheless, from its very start, Chinese life had had an important, albeit unappreciated maritime component.

In order to reach their trading ports in Southeast Asia, Chinese sailors relied on the monsoon, a seasonal wind that blew north in summer from the equatorial zone and south in winter. With the monsoon, navigating to and from the coast of China was not difficult, even though there were occasional typhoons to deal with in the summer. The predictability of these monsoon winds was far more reliable than the rainfall on which North China agriculture depended. Consequently, Chinese seafaring developed in Neolithic times, long before Chinese written history.

Experienced and massive coastal seafaring was essential to this early extension of the empire to southernmost China. Many thousands of years later, the reliability of sea transport facilitated the Qin-Han absorption of the area of Guangzhou and North Vietnam as part of China's first unified empire. Access to the area by land alone, following barge routes on rivers and portage roads connecting them, could never have reached so far with enough military force to take control. Thus, the Chinese must have had a high degree of nautical sophistication very early on.

The spice trade, which eventually helped motivate European expansion to the Far East, much earlier and more easily reached China, where spices were equally prized for preserving food. The extensive Muslim contact with China under the Mongols was both by land across Central Asia over the Silk Road and by sea at coastal ports. Within the Muslim world Arabs were joined by Persians and Turks and some Indians in the shifting

configuration of Muslim states and their rivalries. Against this complex background there were a plenitude of Chinese trading junks on well-established coastal routes providing a matrix for the long-distance Muslim commerce at China's big Fujian ports like Quanzhou (Arab Zayton).

While Arab traders had come first to China, Chinese merchant junks began to trade at ports along the peninsulas of Southeast Asia and the islands of the East Indies by at least the tenth century. Even before the Tang Dynasty, however, references in the dynastic histories to Chinese trade with Southeast Asia were growing more and more numerous. By the time of the Zheng He expeditions of 1405-1433, Chinese trade goods were finding markets all across Southeast and South Asia and even the east coast of Africa. At least twenty petty states were recorded in 1589 as sending tribute to the Ming. These states were mainly the ports of call on the two trade routes that went down the coast of Malaysia to the straits of Malacca and through the Philippines and the island kingdom of Sulu to the East Indies. Chinese traders also established their agents or other connections at these ports of trade, where Overseas Chinese communities of sojourners began to grow up. By 1818 ports of call on the Malay peninsula such as Ligor, Sungora, Patani, Trengganu, Pahang, and Johore were listed in Chinese government records as "non-tributary trading countries," i.e., places frequented by Chinese merchants that paid no tribute to Beijing. This far-flung Chinese trading community was already established by the time Portuguese and Spanish invaders reached East Asia in the sixteenth century.

Chinese sojourners' communities abroad were not under official Chinese control, however. In fact, the growth of these Overseas Chinese settlements was neither cultivated by, or even approved of by the Chinese imperial government. In China, while the gentry-elite let no merchant subculture grow up comparable to that in Japan and Europe in sixteenth century, the Chinese abroad in Southeast Asia were under quite different local, official and social constraints. They were often able to create for themselves a unique lifestyle through the accumulation of capital and becoming risk-taking entrepreneurs. Their family enterprises in the British, Dutch, and French colonial areas (in Burma, Malaysia, the East Indies, and Indochina) benefited greatly from the rule of European law. In Bangkok and Manila the Overseas Chinese also advanced through marriage ties with local patricians. Philanthropy and conspicuous consumption were less useful social climbing tools overseas, however, than had been the case in Mainland China. Economic development, however, was more appreciated by the local rulers.

Not unlike the local gentry in China, the Overseas Chinese in Southeast Asia found their social level and functions to be in between the European rulers and the local villages. At that level, they became brokers who helped in tax collections and in maintaining local services like ferries, bridges, and bazaars. They were generally a stabilizing element in colonial communities, being too few to seize power, and interested in profiting from services rendered as well as local trade.

In general, the Overseas Chinese created fraternal associations and secret societies for protection of their interests, as well as guilds complete with temples to Guandi and the Empress of Heaven for their commercial welfare. Their trade was not dominated by large corporations with a modern capacity to invest and manage overseas transactions, however. The durable and seaworthy sailing junks that carried the trade were privately owned, and their cargoes were generally the property of individuals or family merchant firms. Many Overseas Chinese quickly learned the European commercial technology of the day, however.

As time went on, these Chinese trading communities overseas became the active outer fringe of Maritime China that conquered the land-based and agrarian-centered Ming and Qing empires. Maritime China had grown up in obscurity in the ports where the river traffic from inland China met the ships from Chinese enclaves abroad. Despite a ban on overseas trade by Beijing during the Ming and early Qing dynasties, at least a hundred big Chinese junks traded every year with Southeast Asia. These traders were ready to expand into international commerce as opportunities allowed. Their principal location on the China coast was Xiamen (Amoy), a port in Fujian that, unlike nearby Quanzhou and Fuzhou, had not been the site of an official superintendency of merchant shipping, called a shibosi.

## **The Canton Trade**

Sea trade with Europe increased with the growth rate of Maritime China. The East India Companies, inaugurated about 1600 by the British and Dutch, were powerful corporate bodies that accumulated capital from joint stock investors and were empowered by their national kings to monopolize trade and govern territories abroad. These powerful engines of commercial expansion created British India and the Dutch East Indies. The British developed a staple trade with China in exports of tea, silk, and porcelain and imports of silver, woolen textiles, and eventually opium from India. At first they followed the routes and used the pilots of the Chinese junk trade. Chinese and foreigners in international commerce became a trade-centered community that formed the first Sino-Western meeting place of the modern age.

Although Xiamen had been a major focus of the Chinese trade to Southeast Asia and up the China coast, after 1759 Guangzhou (Canton) was made the sole port open for trade with the Europeans. The Canton trade, as it has been known in the West, was organized on typical Chinese lines: the government commissioned a group of Chinese merchant families to act as brokers supervising the foreign traders. Responsibility for each Western ship was taken on by one Chinese firm, which acted as its security merchant. The security merchants formed a guild called a Cohong, which answered to the emperor's specially appointed superintendent of maritime customs for the Guangdong region. This official, usually a Manchu from the Imperial Household Department of the Inner Court in

Beijing, was known to foreigners as the Hoppo. The Cohong and the Hoppo were responsible for taxing foreigners' imports and especially their exports of silks and teas.

Until 1834, when the British East India Company lost its royal charter to monopolize British staple trade with China, the company fitted into this special "Canton system". Its supercargoes were sent by the East India Company board of directors in London, and their local managers lived in style in the British factory (business center and residence) on the banks of the river outside the big provincial capital of Guangzhou during the trading season, which ran from October to March. In the off season from April to September they moved downriver to the Portuguese settlement of Macao just off the coast.

The Hoppo often leaned on the Hong merchants for special assessments to meet imperial needs. As a result, the Chinese merchants were often short of capital to purchase the cargoes of teas and silks to lade on the East Indiamen, who contracted with the company. Thus, they tended to go into debt with the British. When official exactions kept these licensed merchants in debt or even bankrupt, the British complained about this effect of the merchant guild monopoly. The shortage of investment funds for the tea and silk cargoes to England was a continuing problem for the Company.

Another factor in the Sino-foreign trade was the continued importation into China in the sixteenth and seventeenth centuries of silver, especially from Japan and the Americas. Estimates suggest that as much as \$10 million worth of silver annually came into China's



domestic trade. This inflow led to rising prices, greater monetization, and increased commerce in China as it had in Europe. In the middle decades of the seventeenth century, however, events in Japan, Spain, and China combined in what some have called a “seventeenth century crisis” to reduce China’s silver import. The consequences, including a sudden fall of prices, were disastrous. In this way, China was drawn into the international trading world long before the fact was actually realized.

Late imperial China’s foreign trade played a subordinate but important role both as a source of imported silver and as a market to stimulate production for export. One estimate is that as much as one seventh of the tea that went to market in China was bought by the British East India Company in its high period after 1759, especially after the rival European smugglers of China tea into the British market were undone by the Commutation Act of 1784, which lowered the duties collected in England.

An omen of China’s future was provided in 1793 when the British East India Company, which would continue to rule India until 1858, sent a diplomatic mission to China. Its head, Lord George Macartney, took scientists and artists in an entourage of 100 on a 66-gun man-of-war plus two escort vessels loaded with examples of British manufacturing technology that the Qing court promptly labeled “tribute from England”. The Industrial Revolution was gaining momentum, but remained quite unknown to the senescent Qianlong Emperor. The British requests for broader trade opportunities under a published tariff, as well as diplomatic representation at Beijing, were an invitation to China

to join the modern world then being born. Beijing politely and complacently turned it all down. Twenty-three years later another embassy under Lord Amherst was rudely treated and sent away. By this time Britain and British India were already playing key roles in opening up China to international trade. Unfortunately, the Qing court was little concerned with Maritime China and had no idea of the outside world it would soon have to deal with. Its concern was to preserve its authority both within China and on its sea and land frontiers.

Early in the nineteenth century while trouble was brewing at Guangzhou, rebellion also flared up in Inner Asia over control of non-Chinese on the imperial frontier. The Qing reestablished its rule over the area, but its policy toward the British in 1834-1842 was based on its experiences on the trading frontier of Central Asia. In the end, the Qing had achieved a stable frontier by giving local commercial concessions and paying some money.

After 1759 European trade at Guangzhou under the Cohong and the Hoppo was still nominally conducted as though it were a boon granted tributary states. However opium imports from India into China were about to precipitate a crisis known as the Opium Wars. In half a dozen engagements along the southeast coast, Britain's gunboats won the Opium War of 1839-1842 and secured Qing agreement to the Treaty of Nanjing in August 1842. The treaty provisions included the following: 1. Extraterritoriality (foreign consular jurisdiction over foreign nationals), an upgrading of an old Chinese practice, 2. An indemnity, 3. A moderate tariff and direct foreign contact with the customs collectors, 4. Most-favored-nation treatment (an expression of China's "impartial benevolence" to all

outsiders), 5. Freedom to trade with all comers, no monopoly, and designated places for trade, now to be called treaty ports.

To appease the British, the Qing gave them the barren island of Hong Kong in perpetuity and opened the first five treaty ports. The top Manchu negotiator even visited Hong Kong on a British gunboat! Yet the principles embodied in the treaty of Nanjing were not fully accepted on the Chinese side, and the treaty privileges seemed inadequate from the British side. Consequently, the treaty system was not really established until the British and French had fought a second war against the Qing and secured treaties at Tianjin in 1858. Even then the new order was not acknowledged by the reluctant dynasty until an Anglo-French expedition occupied Beijing itself in 1860. The transition from tribute relations to treaty relations occupied a generation of friction at Guangzhou before 1840, and twenty years of trade, negotiation, and coercion thereafter.

The British and Americans at Guangzhou before the Opium War had demanded extraterritoriality because most of all foreign traders needed the help of their own law of contract. This was something the Chinese sojourners along the coast had no need for, and so the tradition of legal contracts was never established in their business practices, preferring instead to rely on family connections and trust in friends, making deals materialize on the basis of mutual economic advantage rather than the rule of law and individualistic entrepreneurialism. However, the most-favored-nation clause, (a diplomatic device), allowed all foreign powers to share in whatever privileges any of them could

squeeze out of China. This too, lead the Maritime Chinese to look for trade advantages further south [Fairbank 1992].

## **THE OVERSEAS CHINESE NETWORK TODAY**

Today in East and Southeast Asia, the three strongest economies, and also the three predominant ethnic groups are the Chinese, the Japanese, and the Koreans. Each of these groups uses their own unique form of networking to compete in the market. This is why the study of the networking strategies of each of these groups will serve to provide greater understanding of the phenomenon of East Asian regionalism.

Even as they become the new dynamic in the global marketplace, the Overseas Chinese already number as many as 57 million worldwide. Appearing to be a thoroughly modern economic force, their origins and prowess for international trade can be traced all the way back to ancient China.

Many different approaches have been used to analyze the success factors of the Asian economic miracle. A different approach, which will be used herein, does not attempt to identify East Asian economic success factors, but rather looks at the combining of economic and cultural factors into business networks in the region in order to more fully understand its integration process. Specifically, the impact overseas Chinese business networks are having on Asian regional economic development through

their foreign direct investment location decisions is analyzed in order to determine which factors are important to include in a more comprehensive and generalizable model of the foreign direct investment location decision process.

## CHAPTER 2

### LITERATURE REVEIW

If the market mechanism is considered to be the most important factor driving Asian economic development, then who are the players and how do they operate in the market? The answer is that the players in this market are primarily small business entrepreneurs, themselves from the region, who operate and compete in the market using kinship-based networks and networking strategies.

Chinese family business networks are at the heart of Asian economic development. Indeed, everywhere in Asia where there are enclaves of overseas Chinese businesses, dynamic, new, cross-border growth triangles have arisen. Despite recent setbacks in the financial markets, the economic development of Asia has been progressing at an unprecedented rate as demonstrated by the following table:

**Table 1: Asian Regional Economic Development Indicators**

Country	Popu- lation (mil) mid- 1994	Land Area (000's sq. km)	GNP/ Cap US\$	Avg. Ann. Infla- tion Rate (%) 1984- 94	Avg. Annual Growth Rate GDP (%) 1990- 94	Avg. Annual Growth Rate (%) Agri- culture 1990-94	Avg. Annual Growth Rate (%) Indus- try 1990- 94	Avg. Annual Growth Rate (%) Ser- vices 1990-94
China	1,190.9	9,561	530	8.4	12.9	4.1	18.8	9.9
Hong Kong	6.1	1	21,650	9.0	5.7	..	..	..
Singapore	2.9	1	22,500	3.9	8.3	-1.3	8.7	8.1
S. Korea	44.5	99	8,260	6.8	6.6	1.8	6.1	7.5
Malaysia	19.7	330	3,480	3.1	8.4	2.8	9.8	9.1
Indonesia	190.4	1,905	880	8.9	7.6	3.0	9.8	7.6
Brunei	280	5.77	14,240	..	..	..	..	..
Thailand	58.0	513	2,410	5.0	8.2	3.1	10.9	7.4
Laos	4.7	237	320	24.2	6.2	..	..	..
Cambodia	9.9	181.04	..	..	..	..	..	..
Vietnam	72.0	332	200	102.6	8.0	4.5	..	..
Myanmar (Burma)	45.6	677	..	26.5	5.7	5.1	9.4	5.5
Philippines	67.0	300	950	10.0	1.6	1.6	0.9	2.1
Japan	125.0	375	34,630	1.3	1.2	-2.8	0.7	2.6

Source: World Bank World Development Report 1996, p.188-209.

## THE OVERSEAS CHINESE IN ASIA

Despite their successful ventures in almost every corner of East and Southeast Asia, the Overseas Chinese groups who ventured into each of the countries of this region are themselves quite distinct from each other, depending upon which clan, or region of Mainland China their families came from originally.

Table 2 gives a breakdown of each of the major Overseas Chinese groups and their respective concentrations in Asian countries in the region.

**Table 2: Ethnic Breakdown of Overseas Chinese Populations in East and Southeast Asia (Millions)**

Country	Total Population (millions)	% of Chinese in Total Population	Hokkien	Hakka	Can-tonese	Chiu-Chow	Hain anese	Other
Singapore	2.9	77.6	40	9	18	23	7	3
Indonesia	200	2.5	50	16.5	11.5	7.5	..	14.5
Malaysia	20	30.0	31.7	21.8	21.7	12.1	5.3	7.4
Thailand	59.5	14.0	7	16	7	56	12	2
Hong Kong	6.1	93.4	2	..	90	..	..	8
Taiwan	21.3	98.0	85	10	..	..	..	5
Philippines	73.3	1.5	85	..	15	..	..	..

Source: Asia, Inc., April 1996.

### **The Overseas Chinese and “Greater China”**

The influence of Confucianism on the societies of “Greater China”; Hong Kong, Macau, Taiwan, and the People’s Republic of China itself, as well as Japan and Korea, suggests the unique framework of business and management practices of the Overseas Chinese as outlined above. These Confucian attitudes can be expressed in three general dictates that are observed in the workplace. First, individualism should be insignificant in the workplace. Second, employees should be generalists rather than specialists. This means they must be very knowledgeable in every aspect of the company. Third, employees should be monitored and disciplined, yet they are expected to be loyal and ethical, regardless of monitoring.



The Chinese of Hong Kong, Macau and Taiwan are qualitatively different from the Chinese of China or Southeast Asia, particularly in their business practices. Consequently, they cannot be considered the same as Mainland Chinese. They form a category of their own. Their business methods are quite different than those of the Chinese in China, particularly given the very different rules and institutions under which the Hong Kong and Taiwan business communities have developed. Yet, the Hong Kong and Taiwan Chinese remain very China-focused and most of their investment abroad goes into China.

### **The Overseas Chinese in Hong Kong**

The integration of the capitalistic enclave of Hong Kong into communist China under a “one country, two systems” declaration as of July 1997 remains full of uncertainties. Through this integration process, Hong Kong faces its greatest challenge: how to maintain its income generating momentum if businessmen and investors adopt a “wait and see” attitude towards the Chinese integration plan.

Under the proposed integration plan, most of the fundamentals upon which Hong Kong’s reputation as the pre-eminent of Asia’s four tiger economies has not changed and probably will not change. These traditionally attractive features of Hong Kong’s economy include:

- a laissez-faire (local) government

- low tax rates
- no foreign exchange controls of currencies; gold and precious metals can be freely exchanged
- excellent freight and transport facilities
- business conducted primarily in English
- a free port
- modern international communications system
- Asia's leading banking and financial center
- a skilled and industrious workforce
- excellent trade support infrastructure
- experienced re-export center
- efficient transportation center
- no business visas required for temporary visits

The challenges to Hong Kong's future have strengthened the government's commitment to make Hong Kong one of the most dynamic and successful cities and business centers in Asia. Despite its reintegration into the economy of mainland China, by promoting the financial, infrastructure and managerial advantages of Hong Kong, the government is confident that the territory will continue to play a major role in both Asian and international commerce well into the future.

Hong Kong has a population of around 6.3 million, 98% of which is ethnic Chinese. Most of Hong Kong's Chinese are Cantonese, (approximately 90%), with their ancestral origins in China's neighboring Guangdong Province. The 2% of the population that is not ethnic Chinese is made up of many other groups; including other Asians, such as 39,000 Filipinos, and 16,000 Indians.

Many other Chinese dialect groups are also represented in Hong Kong, however; 2% is Hokkien, 1,6% Hakka, 0.7 % Shanghainese, 1.4% Teochiu (Chiuchow), and at least 1.1 % is Putonghua; (Mandarin speakers who originate from central and northern China). Some senior business people are ancestrally non-Cantonese, but speak Cantonese.

The Cantonese are the major business group in Hong Kong in general, and the Shanghainese are probably the most prominent in manufacturing. After the Cantonese, the Teochiu are the most prominent in business. They are also said to be the most "clan conscious", having their own Teochiu Chamber of Commerce under which various Teochiu community associations and eight separate Teochiu county associations are organized. As in many parts of Southeast Asia, the Teochiu are very prominent in importing rice into Hong Kong.

There is also a sizable Hakka population, which mostly resides in the New Territories. This group tends to cluster in occupations at the lower end of the socio-economic scale, for example, as construction industry laborers. Rural Hakka landowners in

Hong Kong have benefited from the territory's real estate boom, however, and many others have also benefited from its construction boom. There are at least six formal Hakka community associations in Hong Kong.

The Chinese community in Hong Kong also contains sub-groups of ethnic Chinese from Southeast Asia who have settled in Hong Kong. They came from Indonesia, Myanmar, the Philippines, and Vietnam, and have formed small enclaves in Hong Kong. Indonesian Chinese make up possibly 2% of Hong Kong Chinese. Many of them left Indonesia after the passage of Anti-Chinese legislation in 1959 and the subsequent unrest. Most went to China until 1979, when looser emigration rules made it easier for them to leave China for Hong Kong. About 70% of the Indonesian Chinese who went to China now live in Hong Kong. They have their own association in Hong Kong, although they are not particularly prominent in Hong Kong business, except for trade with Indonesia.

Many large Hong Kong business groups appear Western in style, but are family controlled. As late as 1988, ten family groups controlled 54% of Hong Kong's market capitalization, seven of these were Chinese, the other three were British.

Today, the Cantonese dominate commerce in Hong Kong, particularly at the level of small- and medium-sized enterprises. Most of these firms are family-owned and managed. They have been responsible for much of Hong Kong's investment in Guangdong, setting up thousands of small manufacturing plants, as wages, land prices, and

other costs of doing business in Hong Kong have risen, and the economy of the mainland has become more open.

Buddhism and Taoism are the primary Chinese religions in Hong Kong, but the Chinese population also practices ancestry worship as advocated by Confucius. Nearly all of the Chinese population speaks Cantonese, but there also seems to be an increase in the number of people learning to speak Putonghua, or Mandarin Chinese; no doubt because it is the official language of the People's Republic of China of which Hong is becoming an integral part. English, however, is still widely spoken and understood in financial and commercial communication.

### **The Overseas Chinese in Macau**

Tourism and gambling, along with exporting, (mainly textiles), are the major industries in which the Chinese in Macau are involved. Hong Kong entrepreneurs are also prominent, running hotels and ferries between Macau and Hong Kong.

Around 97% of the 460,000 population of the Portuguese territory of Macau is ethnic Chinese. The majority of these are Cantonese. Also there are significant numbers of Burmese and Indonesian Chinese who sought, unsuccessfully, to gain entry into Hong Kong from China after Hong Kong's entry rules were tightened. Most are in small business.

## **The Overseas Chinese in Taiwan**

Today, Taiwan's Chinese have strong ethnic links to markets outside Taiwan. Taiwan is one of the biggest sources of investment into China, and is strongly connected to the United States with its sizeable Taiwanese community, particularly in Los Angeles. To the extent that international Chinese networks are used, Taiwan business people tend to use family rather than clan links. Taiwanese business families tend to locate close family members around the world to extend their business networks. The use of clan connections for this purpose is essentially a foreign concept to most Taiwanese.

Around 97% of Taiwan's population of 21 million is ethnically Chinese. The Chinese are overwhelmingly of Hokkien ancestry, and at least 85% can be considered "native Taiwanese", meaning that their families lived in Taiwan prior to the arrival of the KMT. Over 85% of Taiwan's population speak Taiwanese, (a variant of southern Hokkien), as a first or second language, including as many as ten percent of the population who are ancestrally Hakka.

Taiwan has not attracted "returnees" from Southeast Asia in significant numbers compared to Hong Kong. There are some Burmese Chinese residents in Taiwan, but almost no Indonesian Chinese, and only a small number of Vietnamese Chinese. The Chinese who arrived in Taiwan in the wake of the 1949 defeat of the KMT came from provinces all over

China, but particularly from Jiangsu, Zhejiang and Shanghai, Sichuan, Shangdong, Guangdong and Fujian.

Today, at least 95% of Taiwan's enterprises are small-to-medium-sized and are family-owned and managed. There are several enormous companies, such as Acer, Evergreen and Formosa plastics, but these too are family-controlled with various family members playing key roles in management. There are no holding companies in Taiwan, as they are prohibited by law. Instead, related companies arrange themselves through cross-holdings into the type of group structures permitted elsewhere.

In recent years, there has been a substantial "hollowing out" of Taiwan's industrial sector, as much manufacturing has shifted offshore as labor costs have risen. A common phenomenon has been for several members of a business group or cluster with complementary production to move offshore together, recreating the cluster in places like Shenzhen, Fujian, or Malaysia.

The main division in Taiwanese society and commerce is between the native Taiwanese and those who came from China after 1949. Although mainlanders came from all parts of China, those who stand out in business today came from Shanghai, Sichuan and Shangdong. As in Hong Kong, the Shanghainese who arrived in Hong Kong after 1949 represented Shanghai's business elite. They tended to set up textiles and cotton-spinning factories in much the same way as the Shanghainese did in Hong Kong.

Mandarin Chinese is the official language of Taiwan, however, Taiwanese is the major local dialect. Hakka, another local dialect, is also spoken by those who migrated from Mayshien, China. Taiwanese employers consider fluently spoken Taiwanese as an important criterion for position applicants. There is a contradiction in this, however, as Taiwanese dialects have no proper written words for publications and computers. Therefore, when Taiwanese people speak, they use Mandarin and Taiwanese, however, when they write, they use only standard Mandarin.

Taiwan's total population is in excess of 21 million people, consisting of 84% Taiwanese, 14% mainland Chinese, and 2% aborigine. The native Taiwanese, who number more than 17 million, are descendants of Chinese who migrated from coastal provinces of Fujian and Guangdong in the eighteenth and nineteenth centuries. The "mainlanders", which number almost 3 million, arrived in Taiwan after 1949, and are natives from all parts of China. The remaining aborigine population is believed to be of Malayo-Polynesian origin.

Religion in Taiwan is a combination of Taoist, Buddhist, and Confucian beliefs for about 93% of the population. Adherents of Christianity make up another 4.5% of the population, and the other 2.5% is comprised of small minorities of various groups, including Islam. The Taoist-Buddhist combination of beliefs was brought to Taiwan by the



original Chinese settlers of the island, although Confucianism is considered to be the official value system of the country.

### **The Overseas Chinese and Mainland China**

China's economic growth has attracted entrepreneurs from all over the world. Some of the most eager business people have been the Overseas Chinese, amid seas of change. For those who have found success in their business operations in countries such as Thailand, Indonesia, Hong Kong and Taiwan, they are now seeking to re-establish their cultural roots, and perhaps, cash in on what appears to be a gold mine of opportunity.

By 1994 more than 100,000 joint ventures, totaling \$17 billion had been established by Overseas Chinese within China. These joint ventures are powered by capital to build export industries, but the investors also bring with them valuable management skills and technological expertise. The provinces attracting the most foreign investment have been Guangdong and Fujian.

The pattern followed by Overseas Chinese interested in returning to China to set up businesses often begins with the ancestral village, which bears the family identity. Links with the native village are revived by acts of benevolence, such as building a school or hospital, to demonstrate Confucian respect for familial and clan ties. Such donations are

practical as well in that they assist in building relations with influential village elders, who usually have clout in deciding about potential business investments.

The return of Overseas Chinese has also created negative consequences. For example, there have been protests in Fuzhou against land developments by the Chinese-born Indonesian tycoon, Liem Sioe Liong. Entire neighborhoods have disappeared as his money has spurred incredible growth. Some local residents complain that they have been forced to relocate out of the center of the city because a wealthy foreign businessman has been able to bribe his way into land dealings.

In addition, some Overseas Chinese experience discrimination upon their return to China. After years of government propaganda which branded Overseas Chinese as impure and tainted, people in Mainland China still regard Overseas Chinese with suspicion. For those who choose to move their families back to China, many find it difficult to get into colleges and to find jobs.

Even though there has been a lot of renewed interest in China, some Overseas Chinese feel that although the overall policy may have changed, in fact there has been no fundamental change in the attitude toward returning Overseas Chinese. Despite all the problems associated with Overseas Chinese returning to China, some move back to ease an inner longing for home. Some plan to move back to their hometowns after their children are grown and on their own. They feel their roots are in China, so they must retire there.

The overall impact the returning Overseas Chinese have on Chinese society is still unclear, but it appears that the present trend will continue. Whether they go back to China to visit, invest, or retire, many Overseas Chinese are looking to China once again.

### **The Importance of Shanghai**

Prior to the Cultural Revolution, Shanghai was the hub of trade between China and the West. A cosmopolitan city of enormous wealth, fashion, and cultural complexity, it was often referred to as the “Paris of the Orient”. Both Chinese and foreigners collaborated in Shanghai’s commerce. Although sharply segregated, they formed secret but essential financial alliances. Shanghai has known the extremes of both prosperity and poverty, however, as it was also the birthplace of the Chinese Communist Party. Today thanks to Overseas Chinese investment, which is once again flowing to the city, Shanghai is experiencing an economic revival. Its shops are filled with Western luxury goods, and its streets are increasingly filled with automobiles. Its historic skyline still reminds visitors of its exotic past, while its new vibrancy is signaling a return to its former status as the gateway to China, as well as its industrial and financial capital.

Indeed, China's next generation of leaders may well be Overseas Chinese. The 1949 fall of Shanghai sparked an exodus of wealthy Shanghainese to Hong Kong and Taiwan, where they played key roles in creating the two tiger economies. Today, many of their sons

and daughters are returning to help inspire the resurgence of the region in and around Shanghai, in particular.

Indeed, Hong Kong is the second largest trading partner of Shanghai, second only to Japan, with total trade worth US\$3.5 billion in 1995. Hong Kong investment in Shanghai dwarfs that of any other area. By the end of 1995, Hong Kong was the top outside investor accounting for US\$16 billion out of Shanghai's total cumulative foreign investment of US\$34 billion.

The ethnic Chinese have also headed further inland, but with mixed success. The People's Republic of China offers significant incentives, opportunities and special considerations for overseas Chinese investors from Hong Kong and Macao who put their resources into projects on the mainland. Compared to Hong Kong's sky-high real estate prices, and with coastal production costs rising, China's hinterland looks cheap as more ethnic Chinese investors continue to head inland, despite the risks.

### **The Overseas Chinese and South Korea**

Over the centuries, Korea maintained a close relationship with China and the Chinese influenced Korea's politics and culture significantly. Nevertheless, South Korea has maintained an independent identity. After the Korean War, there was official discrimination against the Chinese community in South Korea, and many Chinese

immigrated to North America. South Korea currently has a population of more than 43 million people, with at least 75% living in an urban setting. Today, some 20,000 ethnic Chinese live in South Korea, 90% of whose ancestors came from Shandong Province in Mainland China.

The ethnic Chinese are not well assimilated into mainstream Korean society, nor are they integral to its commercial sector, concentrating mainly on family-run Chinese restaurants. The ethnic Chinese in South Korea identify more closely with Taiwan, with some 75% of those seeking higher education doing so in Taiwan. Furthermore, nearly all ethnic Chinese in South Korea hold Taiwanese passports.

There are still many similarities between the Korean chaebol, the earlier Japanese zaibatsus, and the Overseas Chinese, however. These include a long history of family management and control of the group, with family ownership yielded only under intense government pressure, a multisubsidiary organizational structure that helps the family maintain control of the group, government officials as patrons, sponsors, and protectors, and a strong, entrepreneurial founder who runs the group system with an iron hand with the aid of favors from the government.

Unlike Asia's other 3 tiger economies, the businesses of Korea are not lead by emigres from China. Thus, the country's workforce and labor practices are distinctly Korean. The Confucian system of ethics in Korea emphasizes hierarchical social

relationships, filial respect and piety, elaborate etiquette, patriotism, and male domination. Since Confucianism is central to Korean thought, its philosophy is evidenced in all aspects of work and everyday life. Korean adherents of Confucianism strongly believe in collectivism, or the concentration of that which benefits the group as a whole. Koreans are not preoccupied with personal achievement as much as group achievement. This collectivism allows for social harmony within Korean society.

### **The Overseas Chinese in Japan**

The first significant group of ethnic Chinese immigrants to Japan arrived shortly before World War II, when emigrants from China's Guangdong and Fujian Provinces and Shanghai settled in Nagasaki, Kobe and Yokohama, looking for business opportunities. After the war, another group arrived, fleeing Communist repression at home. Now more than 110,000 ethnic Chinese live in Japan. Japan's Chinese do not play a significant commercial role in Japan. About one third are involved in many of the estimated 6,000 Chinese restaurants scattered across Japan and a small number are involved in trade between Japan and China.

### **The Overseas Chinese and ASEAN**

The ten member nations of the Association of Southeast Asian Nations, or ASEAN comprise some of the world's most dynamic and newest emerging markets (see Table 3),

yet, it is an area that until very recently has received little research attention, particularly from management scholars in the West. Many factors interplay in this region to make these nations so similar and yet so unique. Few Westerners realize just how many different ethnic groups inhabit these countries and how diverse their cultures and everyday lives really are.

From the mountain highlands of Vietnam and the Philippines in the northern hemisphere, to the rapidly growing, modern, sophisticated cities of Singapore, which virtually straddles the equator, and Jakarta in the southern hemisphere, this region of the world contains no less than five of the fastest growing economies in the world. It also includes one of Asia's four dragons, Singapore, and the fourth most populous nation on earth, Indonesia, which is also the world's largest Muslim society. This region contains a large population of Overseas Chinese who form the backbone of the area's commerce and trade. Today, at least one in every five people on earth is Chinese, and though their overall concentration in the ASEAN Nation's is not nearly so high, the Overseas Chinese constitute one of the largest, fastest-growing, and most complicated business networks in the region.

The growing international influence of this region as it industrializes during the next century will most certainly have significant impact on the global marketplace. The possibilities for the enhancement of the global economy and the world business community from the emergence of Southeast Asia onto the world stage in the next century are immense. Until the rest of the world comes to know and understand its people in terms of

their cultures, their similarities and differences, and how each of these affect their business practices, it will be ill-prepared to deal successfully with the challenges of doing business in and with this vastly diverse region. Both Eastern and Western understanding and respect for the management practices and business norms that have evolved in Southeast Asia over the centuries will serve as fitting welcome to these newly industrializing neighbors as they become full members of the global economy.

**TABLE 3: ASEAN Member Nations**

<b>Country</b>	<b>Year Admitted to ASEAN</b>
Brunei	1984
Indonesia	1967
Malaysia	1967
Singapore	1967
Thailand	1967
The Philippines	1967
Vietnam	1995
Myanmar (Burma)	1997
Cambodia	1997
Laos	1997



## **The Confucian Framework in Southeast Asia**

The influence of Confucianism on the societies of greater China, as previously outlined, also suggests a unique framework for management practices in Southeast Asia. This is particularly true in light of the disproportionate representation of the ethnic Chinese to that of the indigenous populations in almost all commercial activities in the region.

## **The Overseas Chinese in Singapore**

Although Singapore is even smaller than Hong Kong, this city state with its high per capita income, growing service economy and powerful regional banks is rapidly becoming the "Switzerland of Southeast Asia". Despite considerable effort, however, Singapore has not managed to topple Hong Kong's dominance as the major financial center in the region. In spite of generous tax incentives and other benefits offered by Singapore, international firms continue to prefer Hong Kong as an area headquarters over Singapore. Hong Kong's advantage seems to be clear: the presence of a massive Chinese hinterland upon which to draw a seemingly endless supply of land and labor; neither of which Singapore has or has access to in abundance.

The Chinese account for 77% of Singapore's 2.7 million people and are estimated to control 81% of Singapore's listed companies by market capitalization. Over 40% of Singapore's Chinese have their ancestral roots in Fujian Province and 40% in Guangdong

Province. In terms of dialect, 40% are ancestrally Hokkien speakers; 18% are Cantonese; 23% are Teochiu; 9% are Hakka; 7% Hainanese; and the remainder an assortment of other dialects. Before Mandarin usage became widespread in Singapore, Hokkien was the lingua franca of the Chinese community. Around 20% of Singaporean Chinese speak English as their preferred language. Notwithstanding this diversity, the Hokkien, followed by the Teochiu, dominate business.

Unlike other Southeast Asian countries, the Chinese are the overwhelming majority in Singapore. They and their country are prosperous and secure. These conditions create the values and culture of Singapore's Chinese, which increasingly diverge from those of ethnic Chinese elsewhere in Southeast Asia.

The government sector plays a very large role in encouraging, directing and cajoling the private sector. A range of so-called "government-linked" companies often play an important role in leading the way, particularly in foreign investment. Private sector firms find they can prosper more if they can enter into partnerships with these companies, as it gives them access to government-sponsored projects, particularly in China.

Indeed, traditional clan associations have largely been supplanted by the various government boards or by the governing People's Action Party (PAP). Senior positions in either of these bring kudos; senior positions in clan associations do not.

Singapore's Chinese community is fairly homogeneous, differentiated primarily by dialects. Recently, interest in clan associations has been reviving. Many of these associations hold valuable real estate and are re-energizing on the strength of this. They are also re-energizing by developing their ancestral areas of China. Several Singapore-based clan associations have formed holding companies through which clansmen can invest in China using their ancestral links.

The religious beliefs of the Chinese Singaporeans are a combination of Buddhism and Taoism, while the Malays are Moslems, the Indians, Hindus, and the Europeans are adherents of various Christian faiths for the most part. Given this religious and ethnic mix, Singapore is something of an outsider in its own little corner of Southeast Asia, where it has been likened to a "small Chinese Island in a Muslim Sea". Further, the view of Singapore as the "Jew of the Orient" has become firmly entrenched almost everywhere in the region where there has been hostility towards the Overseas Chinese.

The country has taken advantage of its strategic port position, however, to build a trading empire with imports and exports combining to exceed its own GDP by nearly four times.

## **The Overseas Chinese in Thailand**

The Chinese have a historically long presence in Thailand, dating back at least to the 1600s. It is difficult to estimate the number of Chinese in Thailand due to their high degree of assimilation and generations of intermarriages with ethnic Thais. Ten percent is the most commonly used figure, although it is thought to be a serious under-estimate. Using the 10% estimate, however, there are approximately 5.8 million Sino-Thais. Around 56% of these are of Teochiu descent. The next largest group is the Hakka, followed by the Hokkien and the Cantonese. There is also a sizeable Yunanese Chinese community, particularly in the northern provinces. For the most part, the Chinese in Thailand are based in the larger towns, particularly Bangkok.

The Sino-Thai community has played an important role in developing Thailand's private sector. They are estimated to control 81% of listed companies by market capitalization. The Sino-Thai community is active in all sectors of the economy, including agriculture (rubber, sugar, maize, vegetables - but barely rice, manufacturing, banking and finance, construction, real estate, and retail and wholesale trading.

An important feature of ethnic Chinese in Thailand, compared with the Chinese of other Southeast Asian countries, is the extent of their assimilation. Many senior Thai military officials and politicians are now either ethnic Chinese or have a mixed Thai-Chinese heritage. Intermarriage is common, so the distinction between Thais and Chinese

are blurring, especially in Bangkok. Even though assimilation is not complete and some underlying tensions do exist, particularly in rural areas, racially motivated violence against ethnic Chinese in Thailand is virtually unheard of. Indeed, Thailand has generally led the way amongst Southeast Asian nations in fostering a culture of tolerance towards the ethnic Chinese.

The relative acculturation of the Sino-Thais has been a factor in their assimilation. Thai monks often bless new Chinese enterprises, and photos showing the clan patriarch or matriarch prostrate before the Thai royal family are often prominently displayed in many Sino-Thai offices.

For much of this century, Sino-Thais have bolstered their dominant position in industry and commerce by cultivating high level government and military connections. Most of the major political parties receive much of their backing from major Sino-Thai controlled conglomerates. Several prominent Sino-Thai business families have subsequently groomed individuals from within their ranks to play a role in government.

Unlike clans in Singapore and Malaysia, however, Bangkok-based clan associations do not form holding companies to pursue clan-based investment in ancestral areas of China. Nonetheless, clan business in Thailand is still big business. The clans are major property holders in Bangkok, as are the Chinese-operated schools. They usually operate on a non-profit basis, or any profits are reinvested, further adding to the clan's wealth.

The Thai economy is unique in Southeast Asia because no class of indigenous big business entrepreneurs exists. Even smaller businesses in Bangkok, especially in retailing, are mostly owned and operated by Sino-Thais. Also, the original founding families dominate the private sector, both owning and operating most major enterprises.

The big four private banks in Thailand (Bangkok Bank, Thai farmers Bank, Bank of Ayudha and the Bangkok Commercial Bank) are Sino-Thai family concerns. They also control significant commercial, manufacturing and property investments. The five key families in Thailand's business community are Teochiu with ancestral origins in Shantou, China. If anything, the trend for large businesses to be family controlled in Thailand is increasing.

### **The Overseas Chinese in Malaysia**

Malaysia's ethnic Chinese form a well defined group within Malaysian society. They have not attempted to acculturate. Most ethnic Chinese in Malaysia today descend from Chinese who came to Malaya under the British colonial administration. They were employed as "coolie" labor, (many of whom were indentured), in the tin mines of northern Malaysia. The Hakka were among the poorest people in China at the time of the "coolie" trade, and thus accepted these positions as laborers in the colonies. This accounts for the relatively high proportion of Hakka in Malaysia today.

Generally, the position of Malaysia's Chinese has been significantly influenced by the Malaysian Government's attitude towards China and the threat of Communism. Approximately 29% of Malaysia's population is of ethnic Chinese descent. They are estimated to control 61% of share capital in Malaysia by market capitalization. The Chinese continue to make up the bulk of the professional class, accounting for about 60% of all private sector administrative and managerial positions.

Malaysia's ethnic Chinese community comprises a multitude of dialects. The main ones are the Hokkien (about 32%), the Teochiu (12%), the Cantonese (22%), the Hainanese (5%). Given that the pressures for assimilation have been comparatively weak, traditional social structures among the ethnic Chinese in Malaysia are still relatively strong. There are more than 4000 Chinese associations in Malaysia. Traditional ethnic Chinese social structures are probably best observed in Penang, where the Chinese form most of the population and tend to be more traditional than their counterparts in places like Kuala Lumpur.

Generally, as the importance of foreign, particularly British, capital has declined in Malaysia, Malaysian Chinese interests have increased. The New Economic Policy was enacted in 1971 in response to perceived inequities in wealth, however, largely between the ethnic Chinese and the poorer Malays. To give Malays a greater stake in the economy, it introduced wide-ranging measures that had the character of "affirmative action", in a

commercial sense, in favor of the Malays. Over the NEP period from 1970-1990, for example, it required firms to use Malay distributors to the maximum extent possible, but no less than 30% of turnover.

Most small-and medium-sized enterprises in Malaysia are still Chinese-owned. Typically, they are family-owned. Most of these enterprises are involved in foundry, import-export, and plantations. Unlike Indonesia, however, there are relatively few conglomerates in Malaysia. Larger Malaysian Chinese companies tend to concentrate on one or two core businesses.

As in many countries, “know who” as well as “know how” has become an important factor in determining business success. Despite this, banks have supplanted traditional sources for business capital within the Malaysian Chinese community. Even small Chinese-owned businesses now raise money from financial institutions rather than from other members of the network. The exception appears in Penang, where many traditional Chinese business practices continue to flourish. Increasingly, Malaysian Chinese have also turned to the stock market to fund their rapid business expansion.

### **The Overseas Chinese in Indonesia**

Approximately 3.5% of Indonesia’s population is of ethnic Chinese descent. Most Indonesian Chinese are ancestrally Hokkien although other dialect groups from



southeastern China are also represented. Many ethnic Chinese in Sumatra are Hakka, descended from indentured or “coolie” laborers imported to work on the plantations. There are also a small number of Hainanese in Indonesia.

The Indonesian Chinese can be broadly classified into two groups, the Totok and the Peranakan. The Totoks usually arrived more recently in Indonesia. They are primarily Buddhists, speak Chinese, and follow Chinese customs. They tend to retain links the ethnic Chinese outside Indonesia, and many Totoks are also prominent business leaders in Indonesia.

The Peranakan are ethnic Chinese who have lived in Indonesia for at least several generations and have lost many aspects of their Chinese heritage, having few linkages to China or Chinese communities elsewhere. The Dutch originally imported many Chinese into Indonesia as “coolies” for cheap labor, and Chinese businessmen were used as intermediaries and brokers for the colonial administration.

In the anti-Communist campaign of 1965-66, significant numbers of ethnic Chinese were killed. Although the situation of ethnic Chinese in Indonesia has greatly improved since then, even today displays of Chinese culture are still banned in many areas. Some blame the conspicuousness and wealth of the Totoks for the political vulnerability of the wider Chinese community. Anti-Chinese violence has occasionally returned, but such

incidents are often more motivated by economic issues such as the perceived inequitable wealth distribution than sheer racism.

Citizenship is still a problem for a considerable number of ethnic Chinese in Indonesia. This is an important issue because without citizenship, they cannot be issued passports. Even though many Sino-Indonesians have lived in Indonesia for several generations, they are still considered residents and not citizens. The government is looking for ways to improve the citizenship process, and hopes to make nearly all of these residents citizens in the near future.

Sino-Indonesians control about 73% of listed firms by market capitalization. By the end of 1993, they controlled 68% of the top 300 conglomerates and nine of the top ten private sector groups in the country. In recent years, businesses controlled by Sino-Indonesian have also grown more rapidly than other businesses in Indonesia.

Unlike other Chinese communities in Southeast Asia, there are few social organizations for Sino-Indonesians based on common regional heritage in China. One important factor, which works against the formation of such groups in Indonesia, is the fact that most of Indonesia's ethnic Chinese are Peranakan, and thus cannot speak any Chinese dialect. Indonesia's Peranakan have less contact with ethnic Chinese networks than their Totok counterparts, and so networks have not played a major role in their success.

Although Chinese are not strongly represented in government, Chinese individuals and Chinese-supported institutions do influence policy and play a role in national affairs in Indonesia. For example, the ethnic Chinese community funds the Center for Strategic and International Studies, which has acted as a think-tank for the government.

### **The Overseas Chinese in Brunei**

Throughout most of the period of British protection, ethnic Chinese were encouraged to settle in Brunei because of their commercial skills. It was hoped that they would help develop Brunei as a trading center in the same way they had helped to develop Singapore and Malaysia.

About 15%, or 42,800 of Brunei's total population of 285,000 people are ethnic Chinese. The ethnic Chinese population is decreasing as a proportion of the total because its growth rate is lower than that of the Malay and other indigenous populations and all further immigration is prohibited.

The biggest Chinese dialect group in Brunei is the Hokkien, many of whose members originated in Jinmen in China. The Hakka and the Cantonese are also represented, but in small numbers. Most of Brunei's ethnic Chinese are Christian.

Fewer than 10% of the ethnic Chinese in the country hold Bruneian citizenship. Unless the father is a citizen, a person born in Brunei is not eligible for citizenship. Despite their relatively small numbers, Hokkien are prominent in Brunei's private sector. In many cases, Brunei's ethnic Chinese entrepreneurs have a prominent Malay partner. The ethnic Chinese provide the commercial expertise, and the Malay partner provides governmental entree.

### **The Overseas Chinese in Vietnam**

The Cantonese dominate the Sino-Vietnamese community. During ten centuries of Chinese colonization, Vietnam received enormous numbers of Chinese migrants. Also between 1923 and 1951, as many as 1.2 million Chinese emigrated from China to Vietnam. The ethnic Chinese, known as the Hoa in Vietnam, constitute the third largest ethnic group in the country, making up 12% of the minority population, or approximately one million of the country's total population of around 72 million. Most ethnic Chinese live in the south, particularly in the metropolitan area of Ho Chi Minh City, and less than one percent live in the north. The commercial role of the ethnic Chinese community in Ho Chi Minh City has quickly rebounded since doi moi, or economic renovation, although it is not yet back to the same level it was before 1975.

Throughout one thousand years of Chinese political domination, French colonialization, Japanese occupation, and Communist rule, the Hoa have continued to

maintain a distinct community in Vietnam. As with ethnic Chinese communities in other parts of Southeast Asia, dialect and occupation are closely associated. The Cantonese handled most rice trade in Vietnam as well as the manufacture of metal household goods. The Hokkien specialized in trading, import-export, shipbuilding and ocean shipping, intermediary business, hotels and restaurants, and the manufacture of rubber products. They also owned most large enterprises and were the second most commercially powerful dialect group. The Teochius were the second largest dialect group, but the third most powerful economically. They specialized in rice trading and handicrafts but were not as advanced in these areas as the Cantonese. Most Teochiu worked as laborers, porters, and tradesmen. The Hakka specialized in handicrafts. The Hainanese were mostly fishermen and plantation workers.

The Vietnamese Government's "socialist transformation" campaign of 1978-79 stopped much of the independent business and social activity of the Hoa community and virtually all businesses closed down. There was an exodus of much of the Hoa community from Vietnam as a result, dramatically reducing Vietnam's ethnic Chinese population.

Since the early 1980s, the Government has gradually reintegrated the Hoa into mainstream economic development. However, it was not until the introduction of doi moi in 1986 that the Chinese were actively encouraged to take part in economic development. In the 1990s, their influence is again substantial. The Chinese business community takes full advantage of the doi moi reform process, which aims to increase living standards and

establish strong business links with regional neighbors. As a result, international Chinese-Vietnamese networks are likely to become increasingly common.

Indeed, Vietnam's ethnic Chinese business community is re-emerging, but despite the renewed activity, Vietnam's ethnic Chinese are still cautious. Ever mindful of the 1978 crackdown, they prefer to invest in medium-sized rather than large business endeavors.

### **The Overseas Chinese in Myanmar (Burma)**

In Myanmar, like China, legal and other "soft" infrastructures are still being developed, and good connections are essential for doing business. The Overseas Chinese are therefore at their most competitive in countries like Myanmar. Myanmar's Chinese have been careful not to just network with each other, but to establish good relationships with senior government officials as well. Many senior members of the Myanmar government and military are avid golfers, and so many ethnic Chinese businessmen in Myanmar have also become keen golfers.

Chinese immigrants arrived in Burma from Guangdong and Fujian in the Song and Ming Dynasties. Few Chinese took up residence in Burma, however, until the Yuan Dynasty when Chinese business activities expanded beyond seasonal visits. At the turn of the twentieth century, many came to Burma from Malaya; both countries had a common colonial administration at the time. Many also came from China.

Reliable estimates of the proportion of Myanmar's population who are of Chinese or largely Chinese descent are hard to find, but estimates range from 15-20%. As far as the ethnic Chinese are concerned, Myanmar can be divided into two parts: upper and lower Myanmar. The ethnic Chinese community of upper Myanmar is dominated by the Yunnanese, with significant numbers of Hokkien in Mandalay and a concentration of Hakka in the northern town of Lashio. There is also the Kokang, an ethnic Chinese minority.

The ethnic Chinese community of lower Myanmar centers on Yangon and is dominated by the Hokkien, (approximately 60%), with Cantonese making up most of the remainder. The Hokkien operate small- to medium-sized family enterprises in timber products exports, rice, bean, and legume trading, and cooking oil production. The ethnic Chinese of lower Myanmar tend to be relatively well integrated and assimilated into Myanmar society. The wealth of the Chinese in upper Myanmar has grown rapidly in recent years because of both legal and illegal border trade with China.

Historically, the Hokkien were the dominant business force among the Chinese in Yangon, particularly the Fuzhou Hokkien. Yangon's Cantonese community traditionally was involved in the small-scale manufacturing of handicrafts and similar products.

After 1962 when Ne Win came to power, Burma embraced socialism, and private factories and commercial establishments were nationalized. Chinese economic activity in

the country was seriously curtailed as a result. Their opportunities became limited to some service industries, small cottage industries, or the burgeoning black market.

Today Myanmar's ethnic Chinese are at the forefront of opening up of the country's economy. Much of the foreign investment now entering Myanmar is being channeled through ethnic Chinese networks. Indeed, many members of the ethnic Chinese business community often act as agents (or fronts) for ethnic Chinese investors outside of Myanmar.

### **The Overseas Chinese in Laos**

About 50,000 ethnic Chinese live in Laos, accounting for 1.3% of the population. As many as 70% are Teochiu; the bulk of the remainder are Cantonese, then Hainanese. Most live in the capital Vientiane, or in Savannakhet. Laos' northern provinces bordering China are home to an ethnic Chinese minority known as the Ho (or Haw).

There is little friction between the majority Lao and ethnic Chinese communities, although in the past, the relationship was at times uneasy. Most of Laos' ethnic Chinese have resident status but carry PRC or third country passports. Chinese are free to apply for Lao citizenship.



Many of Laos' ethnic Chinese fled during the Communist takeover in 1975. Nonetheless, ethnic Chinese are still prominent today in Laos' commercial sector, where they specialize in retail and repair shops, restaurants and hotels.

### **The Overseas Chinese in Cambodia**

Cambodia's ethnic Chinese community currently numbers between 200,000 and 300,000. Prior to the 1975 Khmer Rouge takeover, this number was around 500,000. About 77% are Teochiu, 10% Cantonese, 8% Hainanese, 3% Hakka, and 2% Hokkien. Most of Cambodia's ethnic Chinese live in the major cities or towns, such as Phnom Penh, Sihanoukville, Battambang and Kampong Cham.

According to one estimate, about half of Cambodia's Chinese population perished under the Khmer Rouge, a death toll twice as high as that among the ethnic Khmer urban population. In 1990, Cambodia's State Council passed a bill giving ethnic Chinese the same rights as other Cambodians.

Traditionally, the Chinese in Cambodia engaged in trading, and to a lesser extent, construction, small-scale manufacturing (such as textiles) and food processing such as rice-milling. Historically, the rice merchants in Cambodia were ethnic Chinese. Just before the Khmer Rouge takeover, the Chinese comprised about 5% of the population, but controlled about 70% of industrial investment. The ethnic Khmers traditionally worked in agriculture.

The Phnom Penh Chinese community currently owns most of the city's retail enterprises and imports most consumer goods. Market reforms of the mid 1980s has attracted a new generation of wealthy ethnic Chinese business entrepreneurs to Cambodia. They are exploiting opportunities in property development and general trading. The Taiwanese in particular, are involved in small-scale manufacturing.

### **The Overseas Chinese in The Philippines**

Almost all Filipino Chinese have their ancestral origins in Fujian. Immigration from China to The Philippines continues and illegal Chinese immigration poses a major problem for the Philippine government.

The ethnic Chinese community is one of the most economically influential groups in The Philippines today. It is prosperous in business, well assimilated, has strong community and clan associations, and tends to be concentrated in the urban areas.

The community of about 1.2 million, (or about 2% of the total population), controls between 50 and 60% of share capital by market capitalization. Also, about 35% of sales in The Philippines can be attributed to firms controlled by ethnic Chinese. Approximately 10% of the Filipino Chinese community were born outside The Philippines, and

approximately 85% are ancestrally Hokkien. Around 50% live in metropolitan Manila. Of those who live in Manila, about half live in Manila's Chinatown district.

Chinese Filipinos are relatively well integrated into national life, although there is still some residual resentment towards them. Citizenship is an important issue for the ethnic Chinese community. Before the Marcos Presidency, it was extremely difficult for Chinese Filipinos, even those born in the country, to obtain citizenship. There remain several thousand unresolved applications for citizenship.

Throughout the Spanish and American periods, the ethnic Chinese prospered in wholesale and retail trade. During the 1950s, however, they began to move into other areas of economic activity, particularly after the enactment of the Retail Trade Nationalization law in 1954. This act required non-Philippine citizens with retail trade businesses to liquidate their assets, either within ten years or upon the death of the owner of the business, whichever came first. The law affected more than 80% of ethnic Chinese-owned businesses. The passage of similar laws nationalizing the rice and corn trades during this period also adversely affected the ethnic Chinese community.

Paradoxically, however, and in line with the experience of ethnic Chinese communities elsewhere in Southeast Asia, the impact of this essentially anti-Chinese legislation was to strengthen the economic base of the community. Since obtaining Philippine citizenship was difficult, many Chinese moved out of the retail sector into areas

such as manufacturing and textiles. As a result, the Chinese business community was at the forefront of post-war Philippine industrialization.

In a further move against the Chinese influence in the economy, the Government enacted the Republic Act No. 3018 of 1960, stipulating that all alien-operated businesses in the retail and wholesale trade, cultivation, and transportation sectors were to cease operating within two years, and mills and warehouses within three years. The Chinese channeled the liquified funds from these businesses into foreign trade, manufacturing and banking. In 1956, there were only four Chinese-controlled banks in the Philippines; by 1971, there were 9, and by 1974 there were 16. In 1991, Filipino Chinese had majority shareholdings in 10 out of 26 private commercial banks.

Apart from banking, ethnic Chinese interests also dominate in coconut products, food processing, textiles, plastics, footwear, glass, and some metal products. The ethnic Chinese also have significant interests in wholesale and merchandise trade, especially exporting, and control the major department store chains.

Filipino Chinese who are members of the Philippine economic elite include Lucio Tan, John Gokongwei, Andrew Gotianum, Henry Sy, George Ty, and Alfonso Yuchengco.

Increasingly, senior Filipino Chinese business interests are asserting themselves over established local Spanish-descent Filipino interests. In 1995, a consortium of Filipino

and other Chinese bid successfully for the right to develop a huge tract of land adjacent to Manila's Makati business district. The consortium, which bid an unprecedented US\$1.6 billion, is headed by the Metro-pacific Corporation, which is ultimately controlled by the Sino-Indonesian, Liem Sioe Liong. Other members included companies controlled by Malaysian Chinese Robert Kuok, and Filipino Chinese Andrew Gotianum, Henry Sy, George Ty, and Lucio Tan.

## **A NEW APPROACH**

In the Post Cold War Era, a new brand of regionalism is emerging that needs to be assessed in the context of the business networks that are giving it shape. Regional integration around the globe from the European Union, to NAFTA and ASEAN, are changing the nature and structure of international business relations in unprecedented ways.

In terms of markets, if the entire East Asian region is analyzed, patterns of subregional development, or "growth triangles" also emerge. For example, the China-Taiwan-Hong Kong, or "Greater China" area, or the Singapore-Malaysia-Indonesia area cooperative developments. One of the most important factors in this development process has been the gradual opening up of Mainland China's economy to the outside world. Indeed, much of the modernization of the rest of the East Asian region in recent years would not have been possible without burgeoning demand from the China market

providing fuel for the region's engine of economic growth. This demand is not only for goods and services, but also for jobs to employ the multitudes of Chinese workers who seek a better life for themselves and their families.

Although the economic prospects for growth are excellent, there still remain many obstacles to integration in the region, however, from struggles over territorial claims, to national security issues, and emerging tides of nationalism. One of the biggest challenges Asia faces is underinstitutionalization [Katzenstein 1996]. A lot of work has already been done by scholars in examining the "Asian miracle" of its four newly industrialized economies, the "four dragons" of Hong Kong, Singapore, Taiwan, and South Korea. Their research has sought to identify these nations' success factors, such as strong governments, export-oriented economic policies, and the inflow of foreign aid.

### **The Phenomenon of Subregionalization in Asia**

The main growth triangles in Asia are as follows: First, there is the "Golden Quadrangle" of southwest China, Burma, Thailand, and Laos. Second, there is the Japan Sea Economic Zone, consisting of Japan, the two Koreas, northeast China and the Russian Far East. Third, there is the Yellow Sea Economic Zone of maritime China from Zhanjiang in the south to Liaoning province in the north, the Koreas and Japan.

There is also a Yangzi River-based growth circle of Wuhan and Shanghai in China backed by investment from both Taiwan and Hong Kong. Additionally, there is Taiwan and the neighboring province of Fujian; Hong Kong, Guangdong province and Macau; South China, Vietnam, Cambodia, Laos and northeastern Thailand; The Straits Growth Triangle of Singapore, Malaysia's Johor state and Indonesia's Riau province; The Northern Growth Triangle of northern Malaysia, southern Thailand and northern Sumatra in Indonesia. Further; there is a Sulu Sea-based growth circle including the Malaysian- and Indonesian-governed parts of Bornea, the southern Philippines, and northern Sulawesi; and finally, a growth circle linking Indonesia's southern Sulawesi province with Australia's northern territory [Mellor, 1994a].

In the Hong Kong- Guangdong Province - Macau Growth Triangle the three economies are continuing to mesh. Some 80% of Guangdong's investment already comes from Hong Kong and half of its industrial workers are employed by Hong Kong companies. Hong Kong investment in China totaled more than \$40 billion as early as December 1993. As the ancestral homeland of so many overseas Chinese, Guangdong will continue to benefit from the economic might of a 50-million-strong diaspora. As Hong Kong and Macau are returned to Mainland China in 1997 and 1999, respectively, most observers see the growth circle around the Pearl River becoming one of the largest economies in the world. Victor Fung Kwok-King, chairman of the Hong Kong Trade Development Council, recently urged Guangdong, Hong Kong and Macau to form an

economic partnership to tap the potential of the Chinese hinterland in the same way Hong Kong has until now used Guangdong as its hinterland [Mellor, 1993a].

An Indonesian businessman named only Kasman, is investing US\$30 million in the most remote and arguably the most exciting of the Asian growth circles - a region covering southwestern China, Burma, Thailand, and Laos. Infrastructure, particularly communications, can be appalling there, especially in Burma and Laos, where trucks sometimes take 29 hours to travel less than 200 km on alternatively heat-baked and monsoon lashed dirt roads. Power outages in some areas are a constant threat.

The potential is immense, however. The five provinces of southwest China comprise a market of 220 million increasingly affluent consumers, half of them living in Sichuan, China's most populous province. These five provinces, if independent of Beijing, would be the world's fourth largest nation. Thailand, Burma, and Laos have a combined population of another 105 million. This total market of 325 million rivals in size the world's most formidable trading blocs - the European Community and the North American Free Trade Agreement, NAFTA.

Equally important, this southwestern growth circle is a natural trading market due to its geography. For example, much of southwest China is far closer to the ports of Burma and Thailand than to Guangzhou and Shanghai. Ruili, where Kasman has brought up half the border street, is 4,000 km from Beijing, but only 1,100 km from Burma's



capital, Rangoon. Shipping goods south to the Indian Ocean or Gulf of Thailand rather than east to Chinese seaports can save more than 9,000 km and weeks of traveling time for goods destined for Europe.

Indeed, thousands of years before politicians in distant capitals laid down often arbitrarily defined modern international borders, the people of this southwestern growth circle had turned the area into an international trade crossroads. During China's Qin dynasty, (221 to 207 B.C.), at least two centuries before the fabled Silk Road lined China's then capital, Chang'an, with Europe, a lesser-known southern silk route stretched from what is now the Sichuan provincial capital, Chengdu, to Assam, India. En route it passed through Yunnan province into present-day northern Burma near Ruili, while several sub-routes forged south into what are now Laos and Thailand.

Trade thrived for 2,000 years until colonial and Cold War boundaries began to disrupt the flow of goods in the 19<sup>th</sup> and 20<sup>th</sup> centuries. Now with frontiers reopening, businessmen such as Kasman are anticipating a new golden age of trade along the ancient route, with mules and porters being replaced by Japanese pickup trucks, riverboats, trains and aircraft.

As in other areas, a driving force in China trade within the southwestern growth circle comes from the overseas Chinese - especially Thailand's dynamic ethnic Chinese community. But in this region there is also another important diaspora. Spread in the

crescent across southern Asia from northern India through Burma, Laos, China and Vietnam are more 20 million ethnic Tai, cousins of the 57 million inhabitants of Thailand.

This creates a cultural and linguistic community of almost 80 million - comparable in size to either of Europe's French- or German - speaking peoples. For Thailand, it is akin to the situation of West Germany's reunification with East Germany at the close of the Cold War, only without the inherent problems of reunification.

Cheap manufactured goods from China are desperately needed in impoverished Burma and Laos, and the more affluent Chinese are increasingly seeking Thailand's more sophisticated and better-finished products. Both Thailand and China need the timber, hydroelectric resources, and cheap labor from Burma and Laos. Northern Thai businesspeople are also eager to reach southwest China's huge market of consumers and potential tourists as well [Mellor, 1993b].

Bintan is part of the booming area where Singapore, Indonesia, and Malaysia have formed what they call a "growth triangle" encompassing the island republic, Indonesia's Riau Islands and Malaysia's Johor state. The ambitious development of Bintan is only the latest manifestation of a phenomenon that has spread throughout Asia: new growth circles, natural trading areas that transcend international borders.

In some ways, the wheel of history has come full circle with the economic integration of Singapore, the Riau Islands and Johore. In pre-colonial times, after the fall of the Malacca sultanate in the 16<sup>th</sup> century, the area was united as the Johore-Riau Empire. For 300 years it was the center of Malay civilization. In 1819, however, Singapore was ceded to the British, and five years later, the British and the Dutch drew a line through the Singapore Strait, giving the Malay peninsula to the British and the Riau islands to the Dutch East Indies.

Separate postwar independence movements led to the creation of Malaysia and Indonesia, with the largely Malay population of the Riau Islands again on the southern side of the line drawn by the Anglo-Dutch treaty of 1824. During the stormy period known as “Confrontation” - instigated in 1963 by Indonesia’s then-ruler, Sukarno, against the former British colonies around him - the ethnically related inhabitants of the former Johor-Riau Empire found themselves on opposite sides of a shooting match.

After peace was restored in 1965, Malaysia and Singapore split, and Singapore became an independent nation. More recently, it appeared Indonesia was trying to develop Batam island, just 20 km from Singapore, as an oil refining center to rival the Lion City. Then in 1989, Singapore’s deputy prime minister, Goh Chok Tong, called for a “triangle of growth” involving Singapore, Johore, and Batam. Singapore was running out of land and labor, and what was available was expensive. By forming a growth

triangle, Goh argued, the three politically divided, but geographically adjacent areas could pool their resources.

Indeed, triangles beget triangles. In addition to the growth circle based on Singapore, four more subregional trading groups are in various stages of discussion or development along the 2,000 km length of the Indonesian archipelago. They are: The so-called Northern Growth Triangle linking northern Malaysia with southern Thailand and the northern tip of Indonesia's Sumatra Island. In Malaysia, the proposal has patronage from the highest level: Mahathir and his heir apparent, Anwar Ibrahim, hail from Kedah and Penang, respectively, two of the northern states included in the growth region. And the highly influential former finance minister and government advisor, Tun Daim Zainuddin, has been appointed coordinator of the Malaysian project.

There is also a Sulu Sea-based growth circle linking the Malaysian and Indonesian parts of Borneo Island - Sabah, Sarawak and Kalimantan - with the Philippines' Mindanao Island and the northern part of Indonesia's Sulawesi Island. The Sulu Sea is rife with piracy and insurgency, while East Malaysia is often referred to as the country's "Wild East". Despite these difficulties, the region has positive potential. Borneo, for example, is a treasure house of natural resources.

A third new growth circle links Indonesia's South Sulawesi province with Australia's Northern Territory. The "top end" of Australia, centered on the city of

Darwin, is only 400 km from Indonesia's Tanimbar Islands, but 3,000 km from Australia's major population centers in the south. In another example of growth circles coming full circle, Macassars from Sulawesi traded in trepang (sea slugs) with Australian aborigines for hundreds of years until British settlers stopped the trade in the early 20<sup>th</sup> century by imposing customs duties. Now the local Northern Territory government realizes it has closer economic ties with its neighbors than with its more far-flung fellow countrymen.

Like its southern counterpart, the so-called northern triangle is not equilateral. Trade potential between southern Thailand and Aceh, for example, in northern Sumatra, is tenuous at best. But northern Sumatra is one of the most developed parts of Indonesia; its capital, Medan, is a thriving city. Judging by turnouts at the plethora of seminars held in border regions, there are plenty of local businesspeople who are willing to seek opportunities.

For Singapore, its ties with Johor and the Riau Islands is a means for the small country to stay competitive in a region that will soon be dominated by the world's most populous nation. Goh's predecessor, Lee Kuan Yew, has warned however, that Indonesian wages on Batam had better stay competitive or Singaporean companies might turn increasingly to China as an alternative [Mellor 1994b].

It can be seen from the characteristics of these subregional growth triangles that they consist of several pieces of territories from different countries, but not a whole country (with the exception of Singapore). These small pieces of separate sovereign territories all had historical linkages in the pre-colonial era. Some of them had even closer ties to each other than to their home country. In addition, the trade and investment between these territories provide the real glue holding the growth triangles together, not the political initiatives. This is because these areas have similar ethnic and cultural backgrounds which makes it easier to conduct economic transactions across international boundaries. Indeed, these economic growth triangles are not formed by government contracts, which set up artificial barriers; including some and excluding others. They are very open, and encourage outsiders to do business with them.

## **NETWORK THEORY APPLIED TO THE ANALYSIS OF OVERSEAS CHINESE BUSINESSES**

In the study of overseas Chinese business, there are three types of research that have already contributed to the literature. The first is from the field of sociology and scholars of management. They emphasize the impact of Chinese culture on Chinese business activities. The second type of research considers the rational choice model, emphasizing economic activities of the Overseas Chinese rather than their cultural influences. The third type is government-sponsored institutional research, which generates basic facts and figures on the Overseas Chinese business development process.

While this type of research provides practitioners with useful practical information, it does little in the way of theory building.

Of Overseas Chinese business networks Redding [1990] writes: “The firms themselves tend to be either small, and thus limited in capacity, or large and relatively unstable. Nonetheless, the economic systems in which they are dominant, most notably those of Hong Kong and Taiwan, but also the Chinese networks of ASEAN, are vibrant and successful. How can organizations that are themselves so constrained produce economies that are so dramatically efficient? “

Although they can be divided into regional sub-groups, the overseas Chinese of East and Southeast still have a great deal of common heritage: 1. An upbringing within a powerful system of Chinese socialization that instills such Confucian virtues as familism, filial piety, respect for authority, and diligence; 2. an experience as refugees, either directly in the present generation, or indirectly via family tradition; and 3. an experience of oppression, directly in Taiwan, indirectly in Hong Kong due to the continuing threat from totalitarian China, and covertly in ASEAN (with the exception of Singapore) as a repressed, economically successful minority.

The combination of the original cultural basis of Chinese civilization, and varying degrees of oppression throughout the region, leads to a relatively homogeneous set of beliefs about the conduct of economic activity. With regard to the networking processes,

there are two main forces that nurture it and contribute to its strength. First there is an ethic of trust, combined with the relatively greater power of the key players. Second, there is the force of individual power. If negotiations with another person are to be maximally efficient, he or she needs to have the power to speak on behalf of the whole organization without having to go back to seek approval for any decision reached. The virtual domination of both strategy and operations by key individuals in the Chinese family business network serves this need [Redding 1996].

Wong Siu-lun [1996] delineates two types of trust, personal trust and system trust. Personal trust among family members can facilitate quick decisions and secrecy, making the family unit adaptable to rapidly changing situations. Trust can also extend beyond the family to sustain economic order because the boundary of the family group does not have a sharp line of demarcation between insiders and outsiders. The ethic of trust is central to the business success of Chinese entrepreneurs in Hong Kong and other overseas communities. In Hong Kong, regional ties play an important role in the establishment of a stable network of personal relations mediating economic transactions for several reasons. First of all, an individual's place-of-origin has long been emphasized by the Chinese State as a mechanism of social control, thus affirming it as a basic social identity. Secondly, because of the tradition of regional specialization in occupational activities in China, people from the same locality usually have common economic skills and outlooks. Thirdly, regional identity is flexible. The regional scope can contract or expand to suit the situation. Finally, an important condition exists in Hong Kong, which keeps most



Chinese entrepreneurs within effective reach of their regional networks. It is the credential barrier imposed by education qualifications, which reduces their possibilities for occupational and geographic mobility.

### **Benefits of the Network Perspective**

A network can be defined as a set of relations or ties among actors (either individuals or organizations). A tie between the actors has both content, (the type of relation), and form (the strength of the relation). The content of ties can include information or resource flows, advice or friendship, shared personnel or members of a board of directors, indeed any type of social relation can be mapped as a tie. Thus, organizations typically are embedded in multiple, often overlapping networks - resource exchange networks, information networks, board of director interlocking networks, and so on. [Smelser and Swedberg 1994].

The first justification for a network perspective is that it presents a very pragmatic alternative to the dominant rationalist models which see the isolated organization jockeying for position within the competitive forces of its microenvironment. According to Thorelli [1986], entire economies may be viewed as a network of organizations comprised of a huge hierarchy of dependent, latticed networks. In this, the focal network is that of “one intermediary between the single firm and the market, that is, two or more firms which, due to the intensity of their interaction, constitute a subset of one, (or

several), market(s)”. Frequently, the Chinese firm chooses inter-dependence rather than independence. This means that, within its horizontal relationships, the typical Asian organization, (an SME, or small-to-medium enterprise), has the capacity to carry out an environmental analysis within the limited research capabilities of the enterprise. Then it can follow this through by taking practical steps to ensure its value to focal and other players in its networks. The second justification is that Thorelli’s holistic viewpoint acts as a viable alternative to vertical integration and diversification, to the means of reaching new segments or country markets and even to environmental analysis at the micro or macro levels. This paradigm suggests that, as an alternative to setting independent generic strategies, the players in unison compete through their collective power. Also, in many respects, the network is the most salient part of the environment of the trading organization, which exists due to economies of scale, and the ability to reduce transaction costs. Because efficiencies within the firm are coupled with the overall effectiveness of the low transaction costs within the relationships to give the firm its competitive advantages, then it should seek to overlap with other players through interdependence, not independence [Pyatt, 1995].

The network approach emphasizes three things. First, it stresses the conceptual underpinnings of embeddedness, connectivity, and reciprocity. Second, networks are both opportunity structures and sources of constraint. Third, networks can be linked to broader social structures, particularly in terms of governance where supportive layers of infrastructure and local customs restrain cutthroat competition and foster cooperation.

These factors suggest that social and cultural forces are shaping the contours of collective action, organizations, and labor markets, and that networks erect and sustain socioeconomic boundaries between individuals and organizations.

The network approach has been applied to understanding the role that social ties play in searching for jobs, in mobilizing collective action, and in transmitting information. In addition, the research on networks of production points to the increasingly important role of spatially decentralized collaborative production in the development of new manufacturing processes and the commercialization of new products [Powell & Smith-Doerr, 1990]. Thus, the network approach can be considered as a type of analytical tool and an organizing logic for illuminating social relations, whether inside a firm, in the inter-organizational ties that link firms, or in the environments of organizations. Using this perspective, networks can be viewed simply as a way of governing relations among economic actors.

### **Theory of Networks, Chinese Networks, and a New Perspective**

Besides the market and hierarchies, networks provide the third road to understanding how individuals link to each other and the means by which they get things done. Networks are a cohesive mechanism, providing order and meaning to social life. Powell & Smith-Doerr [1990] describe network ties in the following way: “Network members are connected to, trusting of, obligated to, and dependent on certain others. In

networks, exchanges occur through neither contractual agreements nor hierarchical dictates, but through webs of individuals engaged in reciprocal actions. There are overlapping contacts, maintained through both reputation and friendship. Networks have open-ended, relational characteristics, and a relative absence of quid pro quo behavior. This greatly enhances the acquisition and transmission of new knowledge.”

Organizational control [Coase 1937], allows an entrepreneur to tackle tasks beyond their technology and personal resources. Prior to this period, Adam Smith had institutionalized the market, and since that period, a number of writers have observed that business organizations have certain limitations: the search for alternatives is the result.

Williamson [1975] suggests that the institution of the market must be added as an alternative to Coase’s organization if managers are to mediate between make-or-buy decisions, and adds later that there exists a “hybrid” alternative [Williamson, 1991].

## **A NETWORK APPROACH TO FOREIGN DIRECT INVESTMENT**

In previous Western models, the foreign direct investment decision has been investigated with respect to a number of developing countries in many regions throughout the world. Kogut and Singh [1988] found from their literature review that uncertainty over foreign markets influences managers’ decisions on how to invest overseas. In their study, Benito and Gripsrud [1992] found no support for the notion that initial FDI

generally takes place in culturally closer countries than later FDI, and further, that expansion into more culturally distant countries does not take place as the number of investments increase. Their study supports theories such as Vernon [1966], that say that firms undertake production in different countries purely as a matter of cost minimization. Furthermore, Kotabe [1990] reported that U.S. firms that were heavily engaged in international sourcing enjoyed a higher market share than those who did not.

Buckley and Casson [1981], noted that increased knowledge of a foreign country reduces both the cost and uncertainty of operations, and should increase the probability of an investment being made in that country. Moxon [1975] defined an offshore plant as a (U.S.-owned) plant located in a less-developed country whose principle mission is to manufacture products to be exported (to the U.S.). Moxon also noted that the offshore production decision process proceeds in three stages: 1. administrative readiness to consider offshore production, 2. the measurement of the benefits, costs, and risks associated with offshore production, and 3. the evolution of offshore production. This paper is concerned with the second stage of that process. That is, the development of a model to determine to what degree a Western-style systematic approach exists for the assessment of risks, costs and benefits associated with specific location choices, particularly those choices made by Overseas Chinese investors and managers in the developing countries of Southeast and East Asia.

The basic underlying premise of Western models of the foreign direct investment location decision making process was summed up by Dreyer [1991], who noted that the deciding factor for investments abroad is the expected value to the firm. This factor becomes even more important when the investment is either an expansion of existing activities in a country, or the establishment of new facilities to complement existing activities.

Based on these theories, many factors have been reported in the literature as being important variables in the FDI location decision equation. However, rigorous empirical studies have repeatedly shown only a few of these to be significantly associated with actual location decisions in FDI studies done in the West [Swamidass 1990], [Schmenner, Huber, and Cook, 1987]. These factors include: the number of related investment projects already in a country, GNP per capita, labor cost and availability, exchange rate stability, level of unionization, transportation costs, tax holidays, free trade zones, political stability, availability and price of land or office space, and availability of space in free trade zones, as well as country's total amount of land area dedicated to free trade zones.

### **Number of Existing Investments in a Country**

The number of related or similar investment projects already located in a country can serve as an indicator of the national climate towards foreign businesses operating in

that country. The developing countries of Southeast and East Asia; which can be grouped into the Asia NICs, or “four tiger” economies, and the ASEAN nations, form a well-defined set of location choices for the potential Overseas Chinese investor. In location studies of other regions of the world, the choice set is often much more ambiguous, as well as the subsequent interpretations of study findings in those regions.

### **GNP Per Capita**

A study by the World Bank [1990], concluded that the level of GNP per capita is highly correlated with the physical environment and economic and social indicators of the quality of life. Per capita electric consumption is one measure that has been used in previous studies as a proxy for the level and quality of infrastructure development [Green and Cunningham, 1975]. A correlation of this particular variable with per capita GNP for Caribbean countries for example, yielded a coefficient of .98 [Rolfe and Woodward, 1991]. A single variable that measures only one facet of infrastructure development seems unrealistic given the rapid and often uneven development within a single country in Southeast and East Asia. However, a broader variable such as the actual GNP per capita may be expected to be the more important factor that managers charged with making FDI location decisions consider.

Rolfe and Woodward [1991] also noted that while the relative affluence of the local market may not be important to export-oriented investors, per capita GNP

nonetheless provides information about the quality of both physical and financial infrastructure of a country. Thus, a positive relationship should exist between the decision to invest in a country and the relative size of its GNP per capita in the pool of location possibilities in the region.

### **Labor Costs and the Availability of Labor**

Schmenner et al. [1987] noted that labor costs are by far the most important factor considered in a country location decision. Similarly, a survey by the U.S. International Trade Commission [1988], found that 91% of respondents indicated labor cost differentials with the U.S. to be a positive factor in the investment location decision; whereas 47% stated that labor cost differentials were the most important factor in the offshore location decision. The opportunity to reduce labor costs may be a key consideration for firms making offshore location decisions. However, one of the key questions in developing countries is whether once the decision has been made to locate offshore, do lower wages amongst a set of possible low-wage locations have an impact on the final investment location decision? Further, does the availability of skilled or trainable labor in a particular country amongst a set of possible locations make a difference? Thus, a negative correlation should exist between a country's labor costs and the number of foreign direct investments it receives, and a positive correlation should exist between the availability of skilled or trainable labor available and the number of foreign direct investments a country receives.



## **Exchange Rate Change**

Calderon-Rossel [1985] noted that developing countries can attract foreign investment by devaluing their currencies. Alternatively, by clinging to unrealistic exchange rates, countries can significantly increase their relative labor costs to foreign investors [Rolfe and Woodward, 1991].

There is a measurable effect of host country currency devaluations on the decision to invest in a given location. Thus, there should exist a positive relationship between the average annual exchange rate change (devaluation) and the number of foreign direct investments a country attracts.

## **Level of Unionization**

Unionization is frequently mentioned in the FDI location literature. Several studies found that labor related factors such as unionization are some of the primary determinants of location [Miller 1977], [Schollhammer 1974], and [Townroe 1971]; as found in Swamidass [1990]. More recently, Bartik [1985], and Schmenner et al. [1987], found that avoiding unionization was a primary goal in the location decision in the West.

Thus, a negative relationship should exist between the unionization rate of a country's workforce and the number of foreign direct investments it attracts.

## **Transportation Costs**

Grunwald and Flamm [1985], argued that the propensity to produce offshore depends strongly on transportation costs as well as the separability of labor intensive operations. Austin [1990] noted that Mexico may have an advantage in offsetting the lower wage costs of some Asian countries by virtue of its proximity to the U.S., and hence its lower transportation costs to this major market. Thus, a negative relationship should exist between transportation costs to major markets and the number of foreign direct investments a country receives.

## **Tax Holidays**

Tax holidays offer foreign investors exemptions from local taxes for a specified period of time. Dreyer [1991] concluded that favored tax treatment of an FDI is a powerful incentive to invest abroad. He cautioned, however, that countries that are found to be otherwise unattractive investment locations will remain so, regardless of tax treatment. In particular, Dreyer noted that favorable tax treatment of investments would have an effect on decisions about where and how much to invest. Furthermore, the existence of bilateral tax treaties (such as TIEAs), and provisions for foreign income tax credits, were positive factors in influencing the location of FDI in the West. Thus, there

should exist a positive relationship between the length of the tax holiday a country offers and the number of foreign direct investments it attracts.

### **Free Trade Zones**

Free trade zones are an increasingly important tool for developing countries' use in attracting foreign investment. Sparks [1990] noted that 43 developing nations had created at least 283 free trade zones by 1990. According to Renforth and Pak [1991], the primary attraction of free trade zones to export-oriented investors is the exemption from export quotas and duties on components brought into the zone for processing and eventual re-exportation. Further, they noted that the presence of free trade zones in a country might be an indication of both the availability and quality of physical facilities, favorable tariff treatment, and a positive host government attitude toward foreign investment. Thus, the availability and total number of acres of free trade zones a country has should be positively related to the number of foreign direct investments it attracts.

### **Political Stability**

The literature on political stability, and hence political risk is indeterminant at best, particularly in developing countries. Agodo (1978) found that U.S. direct foreign investment decisions were affected by political instability. However, others such as Green and Cunningham [1975], Osegehale and Scott [1989], and Kobrin [1976] did not

find a significant relationship between political instability and foreign direct investment. Still other studies, such as, Nigh [1985], found that the relationship between political stability and FDI varies from country to country. In view of these findings, it is suggested that much depends on the local environment and the country of origin of the foreign direct investment and its investors. Therefore, the more traditional approach of using a numerical ranking of absolute country risk on a global level is abandoned in favor of a more qualitative approach, which ranks countries according to their relative stability within the region. Thus, the relative political stability of a country within a region is positively related to the number of FDI's it attracts.

### **Land Availability and Price**

There is a great deal of geographic diversity amongst the developing nations of Southeast and East Asia. There are huge disparities in such things as useable land, population density, navigable waterways, natural harbors, climate, and natural resource availability. Such being the case, it is possible that the larger countries have an advantage in attracting foreign investment because of larger populations available to supply a firm's labor needs, as well as a larger and more varied set of physical facilities and sites to choose from. Further, the relatively large countries are more likely to have locally available the raw materials needed for various production processes.

Thus, there should exist a positive relationship between the total land area of a country and the amount of FDI it attracts and a negative relationship between the price of land and the amount of FDI it attracts.

### **Exchange Rate Stability**

Exchange rate fluctuation is a more qualitative assessment of the exchange rate change discussed previously. Because many nations of Southeast and East Asia maintain their currencies on either a pegged or managed floating basis, a more qualitative assessment may yield insights into the nature of the effect of local exchange rate changes on the foreign direct investment decision. Both Malaysia and Thailand, for example, peg their currencies to a composite of other currencies, and their values are thus affected by events in those economies. For those countries such as Indonesia, South Korea, Singapore and Vietnam which use a managed floating system, the government usually sets the exchange rate for short intervals, and buys and sells the currency at that rate for that period. An important determinant is often the inflation differential between the country and its major market trading partner, such as the U.S. or Japan. These host governments are often keen not to allow imports from these markets to have an inflationary impact on their economies and devalue their currencies accordingly. Thus, there should exist a positive relationship between the exchange rate stability (devaluation) and the amount of FDI a country attracts.

## **Geographic Clustering of Industry**

The number of FDI projects in related industries located together, often in a nation's free trade zones serves as a measure of the export-oriented manufacturing agglomeration in that country. Rolfe and Woodward [1991] noted that agglomeration economies is often considered in location choice studies, and further, that a country with a concentrated area of manufacturing activity is more likely to have adequate labor and other resources available locally to support further manufacturing or other activities in that area. Thus there should exist a positive relationship between the number of FDIs in related industries which are located together and the total number of FDI's made in that country.

## **Availability of Free Trade Zones**

Another appropriate measure is to examine a country's commitment to free trade zones, (and thus the encouragement of new foreign investment), relative to that of other countries in the region that constitute the alternative choices. In this manner, some measure of smaller countries', (such as the territory of Hong Kong, and the city-state of Singapore for example), total commitment to free trade zones, given their scarcer land resources may be possible. Thus, there should exist a positive relationship between the availability of space in free trade zones in a country and the amount of FDI it attracts.

## NEW FACTORS TO CONSIDER

The market approach has certainly been successful in the West, but clearly in Asia, it is a hybrid alternative that is needed. Many macro-economic factors affecting the foreign direct investment location decision in the West have been identified. These factors form only part of the equation in markets where businesses and investors are so steeped in a traditional value system, and where the market is not always the overriding consideration. In this case, components of the Chinese Confucian and patriarchal value system must be included in the model if a full understanding of the phenomena of foreign direct investment and the subsequent dynamic growth of the Southeast and East Asian regions is to be developed.

Chen [1995] notes there are three key components of the Chinese Confucian-patriarchal value system which impact modern overseas Chinese business attitudes and practices the most. First, Chinese people place a great deal of importance on cultivating, maintaining and developing *guanxi*, which means “connections or relationships”. This is most visibly manifested in the vast overseas Chinese networks of businesses throughout Asia with sophisticated cross-holdings and interlocking directorates. Secondly, the Chinese are extremely sensitive to what is termed *mianzi*, or “face”. If one does not have *mianzi*, they have very limited social resources to use in cultivating and developing one’s connections network. Third, *renqing*, or “humanized obligation” resulting in a continual exchange of favors amongst members of a network is required in order to maintain

Confucian harmony through gracious reciprocity of help. These three concepts are vital to understanding overseas Chinese business and investment motivations, and so must be included in any model of their foreign direct investment location decisions. Thus:

**H1: Overseas Chinese foreign direct investors will consider the following economic and political variables as developed in Western models as important factors in their foreign direct investment location decisions:**

**H1A: Labor costs**

**H1B: Availability of (skilled or trainable) labor**

**H1C: Exchange rate stability (between home and host currencies)**

**H1D: Level of unionization**

**H1E: Transportation costs**

**H1F: Availability and length of tax holidays**

**H1G: Availability of space in free trade zones**

**H1H: Political stability**

**H1I: Host country market size**

**H1J: Geographic clustering of related industries in the host country**

**H1K: Availability of Land**

**H1L: Price of land or office space**

**In addition, however, they will consider that Overseas Chinese investment location patterns are also determined by trust and reciprocal economic advantage based upon the Confucian principles of:**



**H1M: Social relationships (guanxi)**

**H1N: “Face” (mianzi)**

**H1O: Humanized obligation (renqing).**

Ouchi [1980] suggests that one further alternative to Williamson’s two principle management institutions is the clan - and that the clan is effective when the objectives of individual members are congruent yet there is the same need for reciprocity and equity which are expected within markets and bureaucracies. Bureaucracy mediations are determined primarily by employee evaluation and reward. However, market mediations are determined mostly by the price mechanism [Thompson et al. 1993]. In competitive markets and competitive managed bureaucracies a demand for equity brings on a transaction cost, which Ouchi [1980] defines as “any activity which is engaged in to satisfy each party to an exchange that the value given is in accord with his or her expectations.” Transaction costs arise principally when it is difficult to determine the value of the goods or service (as in the transaction cost of mediating between the competitive firm and its suppliers or customers.) Jarillo [1988] added the strategic network as the fourth institution residing between individuals and their national governments [Pyatt 1996].

One of the advantages of network theory is its combination of economic activities and the social environment. The linking of these two issues, economics and social conditions, began originally with Max Weber, an economic sociologist whose ideas serve

as a basis for the approach to networking used herein. Weber's theories discussed traditional Chinese culture from the perspective that this culture contained factors that were not supportive of economic development. For example, in the absence of a Christian-style religion, there was no capitalist spirit emanating from the resultant Protestant -style work ethic. Until the 1920s, Western scholars, and indeed most Eastern scholars had a negative attitude towards Chinese traditional culture and its role in fostering economic development. As a result, they believed that the only way for this culture to advance was through the adoption of Christian religion. By the 1960s, the most popular Chinese scholars, such as John Fairbanks, still believed that China and other southeast Asian countries which are strongly influenced by Chinese culture retained a kind of conservative inertia which hindered these nations' ability to join the emerging international community.

Fairbanks viewed Confucianism and modernization as oil and water. With the emergence of Japan and the Asian NICs however, peoples' minds have been changed. Many people started to think that Chinese traditional culture did indeed have the potential to facilitate the modernization of China and the region. Rather than being viewed as the principle detractor, Confucianism was now viewed as the key element essential to the region's modernization. Scholars such as H. Kahn created a new concept, called "neo-Confucian" countries. He considered the East Asian countries, which had experienced rapid economic growth as Asian ethnic industrial areas [Kahn et al. 1979].

Kahn thinks that Confucianism emphasizes more interdependence than Western value systems. He concludes that Confucianism today is probably even better for the modernization process in the region than any Western influences would have been. Thus, it appears that parts of Max Weber's theory as applied to Chinese culture were correct, but some factors were clearly wrong, as the subsequent development of East Asia has clearly demonstrated.

### **A CONFUCIAN FRAMEWORK FOR ASIAN BUSINESS PRACTICES:**

In general, business and management practices in most Southeast and East Asian countries clearly reflect Confucian thought and tradition. For more than 2,000 years, Confucianism, along with other philosophies and religions of the Orient, including Buddhism, Legalism, Shintoism and Taoism, have strongly influenced social thought and culture throughout the region. The philosophy of Confucianism was established by Confucius who lived in China from 551 BC to 479 BC. Confucius' teachings emphasized rules that may be applied in order to achieve an orderly and honest form of government. While Buddhism focuses on all social classes by dealing with individual self-analysis, Confucius focused on social order and appealed mainly to the aristocrats and those with political power or influence. The by-product of Confucian philosophy is a set of rules for social interaction, the practice of ancestral worship, and a male-dominated family structure. According to Confucian principles, for example, a father deserves the greatest level of respect in the family, followed by the eldest son.

One of the dominant arguments of comparative and international management theorists has been that the spectacular business successes of Asia's four dragons; Hong Kong, South Korea, Taiwan, and ASEAN-member nation, Singapore, have been due in part to their being greatly influenced by Confucian thought. Furthermore, Confucianism can clearly be identified with the foundations of most South and East Asian management practices. In many areas of the Far East in general, Confucian values provide the basis for societal norms of interpersonal relationships and behavior.

### **Confucianism and Modernization**

Wong Siu-lun [1996] noted that Chinese and Western cultures differed, particularly in religious beliefs. Max Weber observed that the Confucian ethic intentionally left people in their personal relations as naturally grown. The Puritan ethic, however, made this purely personal relationships suspect as pertaining to the creational. “Trust in men, and precisely those closest to one by nature, would endanger the soul” [Weber 1951]. This difference extends from familial relationships to economic ones, which are so highly personalized among the Chinese. Talcott Parsons used the notion of “pattern variables” which have been widely used to assess traditional and modern orientations. These are the distinctions between particularism and universalism, affectivity and affective neutrality, collectivity-orientation and self-orientation, ascription and achievement, and diffuseness and specificity [Parsons and Smelser 1951]. Chinese

society was constructed with an emphasis on social bonds, not on individuals. It was built on networks and differentiation, not on groups and uniformity.

Hamilton [1990] draws out the historical distinctions between Western and Overseas Chinese family businesses. The Chinese emphasis on a hierarchy of ordered relationships and on harmony among those relationships formed a powerful worldview for creating social and political institutions. The Chinese imperial economy had always been embedded in institutions of order. Collegial relations formed the foundations for family firms. The network spawned by regional collegiality built trust and predictability in the marketplace, but the network spawned by kinship created reciprocal economic advantages. On the surface, this second relationship, the ties of kinship, would seem to be similar to that found in the West. As Chandler [1977] shows, the “traditional” business organization in the West was family-run. Upon closer examination of Chinese and Western family firms, however, it becomes apparent that they are the result of very different family structures which are embedded in very different institutional environments. In the West, the traditional family firm is actually the personal property of one individual, usually the head of the household, and the patriarch. The family firm was the individual unit of competition in the marketplace, and the owner could exercise his right over the firm as if it were an extension of his household. In time, the development of corporate law separated business property from personal property, but this separation rested on the notion that the corporation itself acted as an individual, and that the owners of the corporation, regardless of their numbers, represented that singular individual.

In China, however, families rest on social relationships and not on the patriarchal structure of authority and ownership that occurs in the West. Chinese family firms, however, typically do not grow large, but rather remain small. There are two general reasons for this. First, Chinese practice partial inheritance, with each son receiving an equal portion of his father's estate. Because of this practice, it is difficult to maintain a large firm over several generations. Large firms would eventually be split into smaller firms. Second, given the first reasons, a common strategy for prosperous families was to start multiple businesses. It seems likely that these multiple businesses would draw upon kinship ties in an effort to create a network of mutually supporting firms, each of which would be run by individuals linked through a kinship network. Thus:

**H2: The overseas Chinese are able to bypass many Western-style considerations of country foreign direct investment risk in their foreign direct investment location decisions by gathering pre-entry market and environmental intelligence from other Overseas Chinese investors in their network who are already doing business in the targeted location; and by maintaining their investments within a mono-ethnic organizational structure across countries through their network of interlocking directorates and cross-holdings.**

The East Asia Analytical Unit of the Australian Department of Foreign Affairs and Trade [1995] identified several critical success factors for the overseas Chinese in Asia. An important element underpinning their success is that ethnic Chinese immigrant communities establish their own “order” by creating a range of informal organizations, the mutual help societies, for example, and networks that support and develop their interests. This ability has made ethnic Chinese business entrepreneurs especially competitive in environments where the legal and administrative infrastructure, the externally imposed “order”, is relatively underdeveloped. Secondly, through their extensive networks, which often span several countries in the region, ethnic Chinese entrepreneurs tap the latest market intelligence to mobilize capital at short notice and to occupy market niches where the highest profits can be made. Operating to a significant degree within their own networks also enables these entrepreneurs to minimize transaction costs. In such circumstances, the element of “trust” develops naturally, although it is also underpinned by a powerful enforcement mechanism, the potential loss of business reputation, that is available to, and binds, every member of the network (though not necessarily outsiders).

The Australian study also identifies a number of other elements, but the success of the ethnic Chinese business community in the region has not been all of its own making. Governments have also played an important role in creating a suitable environment for the commercial flair of the ethnic Chinese entrepreneurs, backed by their extensive networks of mutual support, to show itself to best advantage. In some cases, their

advantage is enhanced through developing symbiotic relations with local indigenous elites. This is natural, given the commercial power wielded by ethnic Chinese business in most of the region's economies and the tendency of ethnic Chinese entrepreneurs to eschew a direct political role for themselves.

In East Asia, the Overseas Chinese are some of the most powerful economic players. Geographically, they are dispersed throughout the entire region. They use their extensive networks to conduct their businesses, from which they have made a lot of money. This gives them a very strong financial position in the region as well. In East Asia, if you consider GDP, Japan is clearly the strongest economic force in the region. If you consider the impact of interpersonal influence, however, then it is the Overseas Chinese who are the dominant economic force in the region.

The family business form was very successful for the Overseas Chinese in the beginning stages. As these businesses grew, however, they became more difficult to manage under this format. Today they have evolved to such a state that an evolutionary transformation of their organization form needs to take place in order for these businesses to continue to grow and remain viable into the future. The traditional Overseas Chinese business has remained small- to medium-size in scale. The founder continues to dominate the firm's day-to-day operations. But with the growth of these businesses, the Overseas Chinese face a challenge. In the past in general, the Overseas Chinese have not demonstrated that they knew how to manage enterprises which had grown to more than



about 300 employees. As a result, they are now being forced to give up the traditional managerial form they have become so accustomed to if they are to survive and prosper beyond this critical level. There is a need to hire professional managers to run these enterprises, which creates an enormous conflict between the managers and the traditional holder of power, the family members. Hence:

**H3: Increasing firm size will reduce the reliance of Overseas Chinese foreign direct investors on the Overseas Chinese business network and Confucian principles of guanxi, mianzi, and renqing in the foreign direct investment location decision process.**

The industry in which the Chinese firm operates is also a critical factor. Traditionally, the Overseas Chinese excelled in four industries: plantations (rubber), light industries such as toys and watches, real estate, and banking. Presently, new industrial endeavors in which the Overseas Chinese seem to be making successful inroads include such high-tech areas as electronics. With second and subsequent generations of Overseas Chinese family members receiving their education in the West, these younger family members are returning to their families' businesses armed with Western management techniques. They are challenged with the dilemma of how to employ these skills in the traditional family business structure, which is often still dominated by its traditional patriarch. Thus:

**H4: The type of industry in which the firm is engaged will change the degree of reliance of Overseas Chinese foreign direct investors on their Overseas Chinese business networks and the Confucian principles of guanxi, mianzi, and renqing in their foreign direct investment location decisions. Further, technology-intensive industries will be less reliant on these Confucian principles than traditional industries.**

The challenge arises not only from the inside of the firm, but also from the outside. With the expansion of their business networks in the region, through investment and other interactions, they have to either compete or cooperate with other foreign capital powers for which they need a similar style of institutional structure. In the meantime, they also have to deal with host country governments in the region as well as foreign international organizations. All of these factors combine to create the central issue to the Overseas Chinese - how to manage the personal style of relations and trust, and the modern demands of increasing institutionalization in the East Asian region. This challenge is particularly difficult for family businesses which are still dominated by a traditional patriarch who typically has not been educated in Western style management techniques, thus the age of the top executive of the organization will impact its investment decisions:

**H5: Overseas Chinese foreign direct investors over the age of 50 will have a higher reliance on the Overseas Chinese business network and Confucian**

**principles of guanxi, mianzi, and renqing in their foreign direct investment location decision process than younger Overseas Chinese foreign direct investors.**

Further:

**H6: Overseas Chinese foreign direct investors who do not have undergraduate or advanced degrees will have a higher reliance on the Overseas Chinese network and the Confucian principles of guanxi, mianzi, and renqing in their foreign direct investment location decision process than Overseas Chinese foreign direct investors with such degrees.**

and:

**H7: Overseas Chinese foreign direct investors whose firms are privately held by themselves or by their family, or which are publicly traded but closely held by the family will have a higher reliance on the Overseas Chinese network and the Confucian principles of guanxi, mianzi, and renqing in their foreign direct investment location decisions than Overseas Chinese foreign direct investors whose firms are publicly traded and widely held.**

## **A TENTATIVE FRAMEWORK FOR A “CONFUCIAN” MODEL OF FDI**

The phenomena of subregional economic zones, or growth triangles shows that the traditional borders between countries in East and Southeast Asia, which were drawn up by colonial powers and reinforced by the Cold War Period, are now being changed by

the combination of trade and investment with traditional cultural linkages. These interactions are redesigning the map, even though the changes are not officially acknowledged or announced by any government in the region.

We have seen that Western models of foreign direct investment tend towards a rational economic perspective based upon asset and transactional ownership advantages. The key question for this research thus becomes whether existing models of foreign direct investment which were developed assuming Western economic organization based on legal institutions and individualism adequately predict the emerging investment patterns of the Overseas Chinese in Asia? Or, would a “Confucian” model based on guanxi and paternalism, the foundations of Chinese organization principles based on inviolate social relationships, provide a better framework for examining this phenomenon?

Hamilton [1996] has noted that since the Overseas Chinese networks build on trust and reciprocal economic advantage, they largely bypass Western market institutions that lodge trust in laws and seek economic advantage only in economies of scale and individual entrepreneurship. The Western models of FDI previously reviewed do not take into account the dissimilar developmental circumstances in the emerging countries of Asia, and are not particularly behaviorally or sociologically oriented. While they recognize the need to consider the impact of culture in the FDI decision making process, they certainly do not explicitly consider the importance of things like paternalism, place of origin, and connections which are so fundamental to the Chinese value system.

By failing to consider these factors, theories about FDI developed in the Western tradition lack an appreciation for the important differences between the East and West in the social framework for doing business: kinship, collegiality, personalism, insecurity, and lack of trust of non-network members.

If these Confucian factors are empirically shown to contribute significantly to the rational economic model of the foreign direct investment location decision process, there are both strategic, practical, and theoretical implications. For example, existing Western models of foreign direct investment would not be directly generalizable to Eastern-cultural-norms and business practices. From a practical perspective, all current models of country FDI risk assume a “generic” investor. That is, published tables of absolute country risk rankings would not be valid in general, rather would be contingent upon the age and/or socio-economic culture identity of the investor. Finally, an alternative model such as this would call into question the universality of the overwhelmingly Western-developed managerial behavioral models in general, further validating the use of an emic approach to all cross-cultural research

## **CHAPTER 3**

### **METHODOLOGY**

#### **METHOD OF ANALYSIS**

The goal of this study was to develop a model of the foreign direct investment location decision-making process using variables chosen based on Chinese principles of social organization as well as macroeconomic variables previously deemed to be important in models of the foreign direct investment location decision developed in the West. This approach assumes that while a rational decision making process similar to those developed in the West is being utilized to some extent by the Overseas Chinese, they are making this decision in a physical and cultural environment that is very different from those conditions found in the West. Thus, the relative importance given to traditional, (i.e. Western), FDI decision factors is different, and the introduction of new variables based on Chinese social traditions is necessary, but not mutually exclusive.

Rather, these new elements should complement the exiting FDI framework as developed in the West, serving to expand the applicability and generalizability of these theories into a more coherent and universal framework. Thus, the need to ascertain the relative importance to the Overseas Chinese of such factors as the presence of certain aspects of their networks in the potential FDI host country, is therefore established.

In order to obtain this level of detailed information, it was necessary to meet personally with top level Overseas Chinese business executives from a variety of different industries, firm sizes, and personal backgrounds in several different countries in Asia. The sample was to represent a broad spectrum of Overseas Chinese business activity in order to achieve the maximum level of generalizability in the foreign direct investment location decision model being developed. Suitable individuals were identified through both personal and professional business and academic contacts in the region, and appointments were made to interview these executives, usually at their home offices in Asia.

## **LEVEL OF ANALYSIS**

The level of analysis of the study is that of an economic culture, i.e., the ideas, values, and symbols which are more or less directly available for, and implicated in, economic action [Robertson 1988]. While it is necessary to collect data from individual members of the Overseas Chinese network at individual firms, it is not the foreign direct investments of individual firms per se that is the subject of interest, but rather the aggregation of these individual firm level decisions into a coherent pattern of foreign direct investment strategies by a specific economic culture, i.e., the Overseas Chinese. Here, the word culture itself is taken to mean a synthesis of shared meanings which emerge from the social construction of reality and those meanings as they are reflected in the things people do and make [Robertson 1988].

## **SUBJECTS AND SETTING**

The research subjects for this study are Overseas Chinese business executives, (e.g. CEO, owner, or officer of the company), with knowledge of the firm's most recent foreign direct investment projects in the emerging countries of Southeast and East Asia. Specifically, Overseas Chinese executives based in Hong Kong, Malaysia, Singapore, Taiwan, and Thailand were personally interviewed in these countries during the period from May 19 - August 4, 1997. The goal was to collect at least 50 interviews with executives in firms of varying sizes and industries, but primarily with those who have recently located manufacturing or service operations in newly emerging economies in the region, such as the ASEAN nations, and the "Four Tiger" economies of Asia.

## **DATA COLLECTION TECHNIQUE**

The data were collected via structured, in-depth, face-to-face interviews lasting approximately 1 to 2 hours each. Confidentiality and anonymity were guaranteed to all respondents and strictly upheld, so no individual interview transcripts will be included in the text herein, but rather a compilation of the aggregate data in matrix form was assembled for the statistical analysis. The structured interview protocol utilized is given in Appendix A at the end of this study.



Tape recordings were made of the complete dialogues of all the interviews. Verbal consent for the tape recordings was obtained in advance from all respondents. Handwritten notes recording additional information from open-ended questions were also made during the interviews. In most cases, the interviews were conducted entirely in English, as many of the executives interviewed had completed advanced degrees in English speaking countries in the West. In some cases, however, it was necessary to conduct the interviews in standard Mandarin, or the Cantonese dialect of Chinese. For these interviews, a native Mandarin speaker, who was also fluent in Cantonese and English, and who had received doctoral level education in the West was present to translate. In many cases, more than one bilingual, or trilingual native speaker of the language in which the interview was being conducted was present during the interview in order to assist in translating the responses into English. In all cases, great care was taken to be certain that each question and answer was clearly understood by both the interviewer and the interviewee.

Thus, translation was done as the interviews actually occurred and was recorded on tape with them. This approach left no chance for mistranslation due to lack of context after the interviews were completed. A scoring sheet was also developed for each interviewee where answers could be recorded quickly and efficiently from the transcribed interview tapes.

## **STATISTICAL ANALYSIS**

Content analysis was used to analyze the respondents' answers to open-ended interview questions in order to find common themes. Descriptive statistics, t-tests, analysis of variance, (ANOVA), and factor analysis were used to analyze and group the respondents' answers to the structured interview questions. These answers were given in quantified form by the respondents themselves using the 5-item Likert-type scales prompted for with the structured interview protocol (see Appendix A).

## **LIMITATIONS OF THE METHODOLOGY**

The structured, in-depth interview methodology is the most appropriate to use to study the described issues, subjects and settings. No methodology is perfect, however, and this method is subject to at least two potential shortcomings. The first is that espoused theory may not always be theory in use. What respondents say they do with regard to their firms' foreign direct investment location decisions and what they actually do could be different. The interviewer was aware of this potentiality, however, and used external or secondary sources of data on the firms' foreign direct investments in order to check the correspondence of the two whenever possible.

Secondly, the in-depth structured interview technique may be subject to social desirability effects, whereby the respondents, in essence, tell the interviewer what they think

she wants to hear. The interviewer was also aware of this potentiality, and controlled for this possibility to the extent possible by asking respondents to give concrete examples of described individual behaviors and firm actions and activities whenever possible.

The completed interviews yielded dozens of hours of tapes full of rich and detailed information which provided great insights into the current state of Overseas Chinese business expansion and development through their foreign direct investment activities in Southeast and East Asia. The results of the statistical analysis of the quantified data are given in Chapter 4. Detailed analysis of the wealth of qualitative analysis obtained will take a great deal more time to develop, and is beyond the scope of the present study.

## **CHAPTER 4**

### **RESULTS**

#### **CHARACTERISTICS OF RESPONDENTS**

Structured in-depth interviews were conducted with 50 business executives or owners in sixteen different industries. These included firms in the following industries with their respective percentages of the total sample given in parentheses: food processing (5.2%), consumer electronics (5.2%), plastic injection molding machinery (10.3%), banking (8.2%), plastic injection molding products (6.2%), agribusiness (15.5%), electronics components (12.4%), construction, real estate and property development (3.1%), trading (7.2%), retail (4.1%), metal tooling and mechanical assembly (5.2%), information technology (3.1%), chemicals (1.0%), management consulting, taxation and financial services (9.3%), commercial printing (3.1%), and telecommunications (1.0%). Non-manufacturing, or service industries were included when they had significant commitments of capital, manpower, and physical infrastructure investments in foreign countries whose operations consisted of more than just a representative or sales office.

In all cases, the manager interviewed was either the president or owner of the company, a senior level executive, typically the managing director or a senior executive vice president, or was the director of finance or an equivalent title with direct knowledge and/or responsibility for the foreign direct investment activities of the firm. The principals

or key decision-makers in the firms varied widely in age and education levels. The age of 50 was chosen as the breaking point for the testing of Hypothesis 5, and the business owners were classified into two groups accordingly; with 21.6% being under the age of 50, and the remaining 78.4% being over the age of 50. This was done in order to test the hypothesis that the older generation would be more reliant on traditional Chinese business practices in their foreign direct investment location decision making than younger Overseas Chinese foreign direct investors.

The age of 50 was chosen because those executives of this age or older are from a generation that was less likely to have been educated in the West, and also because they would by this age be old enough to have sons or daughters either currently being educated in the West, or who have recently returned from such an education and are beginning to assume managerial responsibilities in the firm. Thus, the age of 50 seemed to be the natural break point with which to test this hypothesis. The sample is heavily weighted with the older group of executives, however, but this generally reflects the population of business executives worldwide; most are at least 50 years old or older, having taken many years of education and experience to reach such levels of responsibility within organizations. The younger executives tended to be in more technologically-intensive industries, especially consumer electronics, information technology, and electronics components manufacturing.

The education levels of the principals also varied widely, with 14.4% having only a grade school level of education, 11.3% finishing high school, 1.0% having gone on to

complete vocational training, 23.7% having completed an undergraduate degree, 19.6% having completed a Master's degree, and 29.9% having completed a Ph.D. The executives with the more advanced degrees tended to be in the larger firms, and also in the more technologically intensive industries.

The ownership of the parent firms also varied widely, with 36.1% of the firms being owned entirely by a single Overseas Chinese family. Another group, (14.4%), was privately owned another way, usually by two or more partners who were Overseas Chinese and also personal friends. Another 35.1% of the firms were being publicly traded, but were closely held, usually by the members of a single overseas Chinese family. The remaining 14.4% of the firms were publicly trade and widely held, with their stocks listed either in Hong Kong, Singapore, or Taipei, or Bangkok.

The size of the firms also varied from the very small, (less than 25 employees), to small firms, (25-100 employees), to medium, (101-500 employees), to large, (501-1500 employees), to very large, (over 1500 employees). Very small firms accounted for 2.1% of the total sample, small firms 12.4%, medium firms 12.4%, large firms 27.8%, and very large firms 45.4%. The sample is heavily weighted towards the very large firms because especially with foreign direct investments in China, the operations tend to be very labor intensive, however the workers have very low levels of compensation. The counterparts of these workers in the West, for example, could be earning as much as 10 to 100 times their annual salaries. Thus, very large firms such as those in this sample are quite common in

Asia, and are not necessarily the behemoth operations they would be with similar headcounts in the West.

The home countries for the parent firms of the foreign direct investments were as follows: Hong Kong (33%), Taiwan (23.7%), Singapore (30.9%), and Thailand (12.4%). The sample reflects well the relative degree of development of these countries, and thus the number firms in various industries which are headquartered there. The foreign direct investments themselves were located in 15 different host countries, including China (29.9%), Taiwan (9.3%), Hong Kong (8.2%), Malaysia (14.4%), Indonesia (13.4%), Singapore (4.1%), Vietnam (3.1%), Thailand (5.2%), Cambodia (1.0%), The Philippines (5.2%), South Korea (1.0%), India (2.1%), Pakistan (1.0%), Australia (1.0%), and Myanmar (Burma) (1.0%). This is consistent with the overall dispersion of overseas Chinese investments in Southeast and East Asia.

## **Results**

The interviewees came from a wide variety of industries and firm sizes. The interviews yielded data on 97 different foreign direct investment projects in 15 countries in Asia, including Hong Kong, Singapore, Taiwan, The Philippines, Vietnam, Cambodia, Thailand, Burma, Malaysia, India, Pakistan, Indonesia, South Korea, Australia and Mainland China.

Results from the significance levels tests revealed only 6 of the 23 variables the respondents were asked about, were considered to be of above average importance amongst all the factors they considered when making their foreign direct investment location decisions. Three of these variables were those Confucian values proposed to be importance in Hypothesis 1: *guanxi*, or “connections”, *mianzi*, or “face”, and *renqing*, or “reciprocity”. Thus, H1M, H1N, and H1O were confirmed (see Table 4).

In addition, geographic clustering of firms in the same or related industries in the potential foreign direct investment location was also found to be of above average importance amongst all factors considered by the firms. This was significant because many Overseas Chinese firms are suppliers to large Western multinationals with manufacturing facilities in the region. For these firms, their foreign direct investment locations are heavily dependent upon a customer following strategy, and so geographic clustering becomes the most important consideration. This is particularly true in the electronics-related industries. Thus, H1J was confirmed (see Table 4).

The other two variables considered to be of above average importance amongst all factors considered in the foreign direct investment location decisions both had to do with country specific risk. The first was political risk, as considered in the Western sense. That is, the relative political stability of one country location as compared with others in the set of possible location choices. Thus, H1H was confirmed (see Table 4).



The second variable was that of the use of information gathered from other Overseas Chinese investors already doing business in a firm's potential FDI target location. This was a source of intelligence gathering that allows Overseas Chinese businesses to bypass the usual Western-style evaluations and considerations of political risk when assessing the potential of a particular foreign direct investment location. The significance of this variable is important to the ability to test the second hypothesis.

The remaining variables of Hypothesis 1, which had been previously shown to be important in Western models of the foreign direct investment location decision, were not considered to be of above average importance amongst all the variables considered when making their foreign direct investment location choices. Thus, H1A, (labor costs); H1B,(labor availability); H1C,(exchange rate stability); H1D,( level of unionization); H1E, (transportation costs); H1F,(availability of tax holidays); H1G,(availability of space in free trade zones); H1I, (host country market size); H1K,(land availability in the host country); and H1L, (price of land or office space in the host country), were not confirmed (see Table 4).

**Table 4: Results of T-Test Procedure:**

<b>Variable</b>	<b>Mean*</b>	<b>t-value</b>	<b>p-value**</b>
Labor Costs	3.14	1.12	0.132
Availability of Labor	2.86	-1.09	0.140
Exchange Rate Stability	2.64	-2.77	0.003
Level of Unionization	1.79	-11.21	0.0001
Transportation Costs	2.99	-0.07	0.4721
Availability of Tax Holidays	2.82	-1.38	0.0853
Availability of Space in Free Trade Zones	2.62	-2.62	0.005
Political Stability	3.41	3.52	0.0004**
Host Country Market Size	3.09	0.56	0.2886
Geographic Clustering of Industry	3.29	2.02	0.232**
Availability of Land	2.42	-3.76	0.0002
Price of Land or Office Space	2.70	-2.25	0.013
Social Relationships – <i>Guanxi</i>	3.84	11.24	0.0001**
“Face” – <i>Mianzi</i>	3.68	9.57	0.0001**
Humanized Obligation – <i>Renqing</i>	3.67	9.02	0.0001**

\*Note: the original Likert scale responses were reverse-coded for this analysis.

\*\*1-tail test values, significant @ alpha=.05.

As mentioned earlier, another variable, which dealt with the use of host country intelligence gathered from colleagues, family or friends in the Overseas Chinese network was also shown to be a significant factor in the foreign direct investment decision making process, with a mean of 3.36, and t- and p-values of 5.11, and 0.0001\*\* respectively.

An analysis of variance was conducted using this variable as the dependent variable against respondents' answers to several questions about their use of Western-style rational economic techniques in their assessments of country risk in their foreign direct investment location decisions. These included questions about the use of statistical measures to assess risk, what elements, (i.e., variables previously developed in Western FDI models), if any, they thought were important in a country risk assessment; such as political stability, inflation, and cash flows.

The respondents were also queried as to what strategies, if any, they had explicitly developed to reduce risk to their foreign direct investments, such as horizontal diversification, hedging using derivatives, etc., (see Appendix A for a complete listing in the structured interview protocol). Responses to these questions were categorized "yes" or "no" as to whether they used Western-style rational economic techniques to assess risk in their foreign direct investment location decisions. Results from the analysis of variance of these variables with the variable on the use of information from Overseas Chinese network members already in the host country are given in Table 5.

**Table 5: Significant Relationships Between the Use of Overseas Chinese Network Host Country Intelligence and the use of Rational Economic Risk Reduction Strategies**

<b>Indepent Variable</b>	<b>Dependent Variable</b>	<b>F-value*</b>	<b>Pr&gt;{t}**</b>
Overseas Chinese Network Host-Country Intelligence Use In FDI Location Decisions (OCINFO)	Quantitative capital investment Analysis techniques used in FDI Location decision.	3.15	0.0792**
OCINFO	Statistical measures used to assess risk	7.73	0.0065**
OCINFO	Explicit quantitative FDI risk reduction strategy developed and used	5.63	0.0196
OCINFO	Western-style risk variables Assessed in FDI location decision	11.47	0.0010

\*Scheffe's test used

\*\*Significant @ alpha=0.1

As is shown in Table 5, a significant relationship exists between the propensity to use host country intelligence in the foreign direct investment location decision and the use of more Western-style rational economic approaches to country risk assessment. In essence, the Overseas are able to largely bypass the type of detailed quantitative country risk assessment that is necessary in FDI location decisions in the West because they can rely on the experience and first hand information from other Overseas Chinese businesspeople in their network who are already doing business in the targeted location. Thus, Hypothesis 2 is confirmed.

Additional analyses of variance were conducted to test the remaining hypotheses about whether characteristics of the firms' principals, its ownership, industry or size moderated the reliance of Overseas Chinese investors on guanxi, mianzi, and reqing in their foreign direct investment location decisions. Results of this analysis are given in Table 6.

**Table 6: Significant Relationships Between the Use of Confucian Principles of Social Relationships and Firm Characteristics**

<b>Indepent Variable</b>	<b>Dependent Variable</b>	<b>F-value*</b>	<b>Pr&gt;{t&gt;**</b>
<i>Guanxi</i> (network connections)	Firm size.	1.64	0.1719
<i>Guanxi</i> (network connections)	Industry	3.92	0.0001**
<i>Guanxi</i> (network connections)	Age of Principal	0.73	0.3955
<i>Guanxi</i> (network connections)	Education of Principal	1.19	0.3200
<i>Guanxi</i> (network connections)	Ownership of Firm	0.40	0.7512
<i>Mianzi</i> (“face”)	Firm size	0.04	0.9967
<i>Mianzi</i> (“face”)	Industry	3.39	0.0002**
<i>Mianzi</i> (“face”)	Age of Principal	9.24	0.0031**
<i>Mianzi</i> (“face”)	Education of Principal	0.84	0.5259
<i>Mianzi</i> (“face”)	Ownership of Firm	1.54	0.2106
<i>Renqing</i> (humanized obligation)	Firm size	0.10	0.9833
<i>Renqing</i> (humanized obligation)	Industry	3.48	0.0001**
<i>Renqing</i> (humanized obligation)	Age of Principal	12.94	0.0005**
<i>Renqing</i> (humanized obligation)	Education of Principal	0.48	0.7913
<i>Renqing</i> (humanized obligation)	Ownership of Firm	1.90	0.1348

\*Scheffe’s test used

\*\*Significant @ alpha=0.1

As Table 6 demonstrates, the results from the analyses of variance between the use of Confucian principles of social relationships in the foreign direct investment location decisions of Overseas Chinese and firm and principal's characteristics yields some interesting findings. First, the industry in which the firm is operating does matter to the relative reliance on the use of guanxi, mianzi, and renqing in the FDI location decision. Industries which were very technology intensive, such as consumer electronics, electronic components, and information technology considered these variables to be much less important to their FDI location choices than did more traditional industries such as food processing and manufacturers of plastic injection molded products for, example. Thus, Hypotheses 4 was confirmed.

Hypothesis 5 was only partially confirmed. It is interesting to note that while older Overseas Chinese investors placed a higher reliance on mianzi, (face), and renqing, (humanized obligation), than did the younger Overseas Chinese investors, it seems as though both groups continue to place a very high level of importance on guanxi, (network connections), in their FDI location decisions. Further, several interviewees commented on the fact that mianzi and renqing were somewhat more archaic and even nostalgic tenants of Confucianism, especially as regards business practices. Therefore, it may be that while all Overseas Chinese investors recognize the value of guanxi, or connections to the success of their foreign direct investments in Asia, perhaps the younger investors are taking a more pragmatic approach to cultivating their networks. Indeed, many younger investors

commented that while they thought guanxi were very important, it did not really matter whether the guanxi were with other Overseas Chinese in the region, or with persons from any ethnic group or nationality, so long as the connection was useful in their business endeavors.

Hypotheses 3, 6, and 7, which had to do with the relationship between firm size, education level of the firm's principal, and ownership of the firm with traditional Confucian values, respectively, were not confirmed. It appears that Overseas Chinese investors of all levels of education, and with a wide range of firm sizes and ownership structures consider guanxi, mianzi, and renqing to be important variables in their foreign direct investment location decisions. From the largest widely-traded firms with sophisticated management teams, to the smallest family-owned firms, all used their Overseas Chinese network connections and obligations in determining their foreign direct investment locations in the emerging countries of Southeast and East Asia.

Since the goal of this study was to develop a "Confucian" model of the foreign direct investment location decision making process, it was necessary to determine if the variables determined to be important in the Overseas Chinese' FDI location decisions could be grouped together to form factors for inclusion in the model. Thus a factor analysis was run using the variables confirmed above. The results of this analysis are given in Table 7:



**Table 7****Results of Factor Analysis**

<b>Factor</b>	<b>Variables</b>	<b>Factor Loadings*</b>
Confucian Values	Guanxi (connections)	0.89095
	Mianzi (face)	0.94472
	Renqing (reciprocity)	0.94370
Country Risk	Overseas Chinese network- Info. on host country.	0.84757
	Political Stability	-0.72624

\*Varimax rotation

As can be seen from the results given in Table 7, two factors emerged from the analysis. The first factor contains all three of the Confucian principles of social relations that were hypothesized to be important to Overseas Chinese business practices in Asia in general and to their foreign direct investment location decisions in the region in particular.

The second factor contains both the variable for an explicit Western-style assessment of risk, as well as the use of host country intelligence information gathered from other Overseas Chinese investors who were already doing business in the target country. It is interesting to note the sign difference between these two variables in this factor, which can be interpreted to mean that the Overseas Chinese are either using one of these

considerations or the other in their investment location decision process, but either serves the same purpose, just as hypothesized.

Thus, it appears that a “Confucian” model of the foreign direct investment location process does not need to explicitly consider as many macroeconomic variables as those models developed in the West, rather sophisticated networks of related businesses, family members, and close associates serve to inform the investor of the feasibility of various country location choices, and well as protect them from unforeseen difficulties. This network approach must contain some assessment of country risk, however, either through intelligence gathered from other Overseas Chinese who are already doing business in the target location, or from some explicit rational economic and political assessment of the relative riskiness of a given location.

Further, the reliance on this Confucian networking approach is moderated by the industry in which the firm is doing business. Thus, high technology industries will less reliant on this type of approach.

## CHAPTER 5

### DISCUSSION

#### THE RESEARCH QUESTION

The topic of this dissertation was an investigation into the extent to which the Overseas Chinese differ in their investment decision making approaches than would normally be expected using Western-style rational economic decision making models of the foreign direct investment location decision. In order to carry out this investigation, three key premises about the Overseas Chinese in the emerging countries of Southeast and East Asia were assumed. First, that the concepts of guanxi, face, and renqing are key to understanding Chinese social behavior patterns and their business dynamics [Chen 1995]. Second, Overseas Chinese societies in Southeast Asia remain somewhat distinct from their host country societies at large, and thus identifiable for research purposes. Third, it is important to understand the significance of the Overseas Chinese to the economic development and continued success of the region as a whole. With only 6% of ASEAN's 540+ million people, for example, the Overseas Chinese have managed to dominate every national economy in the region [Weidenbaum and Hughes 1996]. With these premises in mind, the study's research question was developed.

Thus, the key question becomes: do Overseas Chinese differ from generic investors in their organizational patterns and strategies through the use of non-Western rational economic models in determining their foreign direct investment locations in Asia.

## **SUMMARY**

Since the Confucian variables of *guanxi*, *mianzi*, and *renqing* have been empirically demonstrated to contribute significantly to the previous Western-style rational economic models of the foreign direct investment location decision process in their application to the understanding of Overseas Chinese foreign direct investment in the emerging countries of Southeast and East Asia, there are both strategic, practical, and theoretical implications. For example, existing Western models of foreign direct investment are not directly generalizable to Eastern cultural-norms and business practices.

Further, from a practical perspective, all current models of country FDI risk assume a “generic” investor. That is, published tables of absolute country risk rankings may not be valid in general, but rather are contingent upon the age and/or socio-economic culture identity of the investor. Finally, an alternative model such as the one developed here calls into question the universality of the overwhelmingly Western-developed managerial behavioral models in general, further validating the use of an emic approach to all cross-cultural research

## CONCLUSION

The first 40 years of the Asian miracle have already gone a long way towards reshaping the global economy and shifting the world's balance of economic power. There are now two big questions about the climate for continued growth and prosperity in Asia: 1. Will it continue to grow as fast as it did in the 1970-95 period? 2. Will the rise of Asia be a positive or a negative factor for the West?

Several factors that may be the keys to answering these questions should be noted: First, Asia is a vast and diverse region of the world. It is a complex mix of climate, resources, races, history, ideologies, and is ill-defined by its national borders. There has also been conflict as its people address the experience of modernization and economic growth.

Asia's governments have low levels of involvement in business. They are generally pro-business and have exhibited little compassion for the welfare states of the West or their cost burdens. Strong family structures still predominate most Asian societies and are expected to provide for the social welfare of their members without any assistance from the state.

Asians do, however, believe passionately in modernization, technology and education. The rapid pace of urbanization is creating huge cities almost overnight along with enormous demands for new infrastructure. By the year 2000, Asia will have 1.2 billion consumers with the means to buy TVs and other household goods as well as vehicles. This emerging middle class is already spreading throughout South and East Asia. Asians are also young. Some 52% are under age 25, compared with only 35% for America and 28% for Germany.

The continued spread of regionalization throughout Asia through the Overseas Chinese and other Asian ethnic business networks will no doubt speed the inevitable improvements in Mainland China along with a significant elevation of the overseas Chinese business leaders; from their already lofty perches at fashionable addresses on the peaks overlooking Hong Kong, to even greater heights at the helms of emerging, all-Chinese MNC's with potentially huge consumer and business customer bases on the mainland, and well as their finger on the very pulse of the vast Overseas Chinese business network that already spans Asia. Indeed, Overseas Chinese networks will soon not only be linked, but tightly interwoven across the globe.

## **LIMITATIONS OF THE STUDY**

The development of this model of the foreign direct investment location decision making process used by the Overseas Chinese in their FDI location decisions in the

emerging countries of Southeast and East Asia is only a first step. Additional research needs to be done in order to more fully interpret the findings of this study, as well as the substantial amount of qualitative data that was collected in this process.

Additional studies will need to be done to verify these findings, as well as to test this model with additional data gathered from a large sample of firms and foreign direct investment projects. Further research will also need to be done in order to see if this model, which, ironically, was developed in the East, is generalizable to the foreign direct investment location decisions made in the West, or do we need to abandon the search for cross-culturally generalizable models of business behavior in favor of a purely emic approach. No doubt there are many questions that remain unanswered, but hopefully this study has made some headway in the process of at least knowing which are the appropriate questions to ask.

## **RECOMMENDATIONS**

As a result of the changes that are rapidly taking place in Asia, it is important to understand the approaches used by the Overseas Chinese and other ethnic business groups as they develop this region through their foreign direct investments. We have learned that business models that are developed in the West may not always, and in fact usually, are not directly applicable to the rapidly evolving business environment in Asia. Thus further research in these markets needs to be undertaken in order to more fully develop our

understanding of business practices throughout the world so that we may better understand the dynamics that both hinder and help our own competitive positions within the global marketplace.



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## **APPENDICES**

### **APPENDIX A: THE INTERVIEW PROTOCOL/PROMPT SHEET**

#### **INTRODUCTION**

My name is Linda Clarke and I am a Ph.D. candidate in International Business in the College of Business Administration at Florida International University in Miami, Florida, USA. I am currently working on my doctoral dissertation which deals with the Overseas Chinese and their foreign direct investment patterns in Southeast and East Asia. Because I am interested only in the decision making process, the specific financial details of any particular foreign direct investment project need not be disclosed. This study will analyze aggregate data only, so no company or individual names will be used in the analysis or publicly disclosed in any manner. I will not disclose confidential financial information, individual personal or corporate identities of anyone interviewed without prior consent from those individuals and their organizations. Thank you in advance for your cooperation with this important research project.

#### **BACKGROUND INFORMATION:**

1. Name of Interviewee (can be a pseudonym):
2. Name of Organization (can be a pseudonym):



Think back to three (possibly more or less) of the most recent FDI projects with which you and/or your firm was involved and please answer the following questions with regard to each of those three investments:

1. What specific business(es) within the organization were each of these FDI projects involved (Please describe each briefly).

FDI #1:

FDI #2:

FDI #3:

2. Home Country of the FDI Project (may be different from parent company nationality above):

FDI #1:

FDI #2:

FDI #3:

3. Host Country of the FDI Project:

FDI #1:

FDI #2:

FDI #3:

4. Please describe briefly what each FDI project was about and the host country environment in which it was actually located:

FDI #1:

FDI #2:

FDI #3:

5. What other locations (countries) were considered for this project?

FDI #1:

FDI #2:

FDI #3:

6. Amongst all the factors you considered, how important was the presence of an overseas Chinese business community in the target location to your selection process:

1= The most important factor

2= Very important

3= Of average importance amongst all factors

4= Somewhat unimportant

5= Not an important factor

FDI#1:

FDI#2:

FDI#3:



7. Amongst all the factors you considered, how important was the presence of a specific family (surname) branch of the Overseas Chinese community doing business in that location?

1= The most important factor

2= Very important

3= Of average importance relative to other factors

4= Somewhat unimportant

5= Not an important factor

FDI #1:

FDI #2:

FDI #3:

8. Amongst all the factors you considered, how important was the presence of an overseas Chinese community of a specific regional origin to your final FDI location decision? (e.g. the presence of Hokkien, Hakka, Cantonese, Teochius (Chiuchow), or Hainanese business community in target FDI location.)

FDI #1:

FDI #2:

FDI #3:

9. In general, how important are *guanxi*, (e.g. network connections), to your business decisions?

- 1 = The most important factor
- 2 = Very important
- 3 = Of average importance relative to other factors
- 4 = Somewhat unimportant
- 5 = Not important

10. In general, how important is the concept of *mianzi*, (e.g. the need to give, get, or preserve “face”), to your business decisions?

- 1 = The most important factor
- 2 = Very important
- 3 = Of average importance
- 4 = Somewhat unimportant
- 5 = Not important

11. In general, how important is the concept of *renqing*, (e.g. the need to consider humanized obligations), to your business decisions?

- 1 = The most important factor
- 2 = Very important
- 3 = Of average importance
- 4 = Somewhat unimportant
- 5 = Not important

12. How often do you (and/or your firm) use existing *guanxi* in determining the location of foreign direct investment projects?

1 = Always

2 = Frequently

3 = Occasionally

4 = Rarely

5 = Never

13. If existing *guanxi* were instrumental in the foreign direct investment decision process for the three investments we're discussing, how were they useful?

FDI #1:

FDI #2:

FDI #3:

14. Which of the following capital investment analysis techniques (if any) were used to determine the feasibility of one FDI project location over another? (e.g. for FDI #1, FDI #2, & FDI #3)

1= Average Rate of Return

2=Payback period

3= Internal Rate of Return

4= Net Present value

5= Profitability

FDI #1:

FDI #2:

FDI #3:

15. If none of the above capital investment analysis techniques were utilized, how was the attractiveness of one FDI location over another, and/or the feasibility of the project in general in general assessed ( i.e. for FDI #1, FDI #2, & FDI #3? (e.g. cash flows, inflation, political risk)).

FDI #1:

FDI #2:

FDI #3:

16. Regarding each of these foreign direct investments, (e.g. FDI #1, FDI #2, and FDI #3), did you feel that the government, (i.e. either the local or the national government of the host country - have them be specific as to which), differentiated between investment projects proposed/carried out by Overseas Chinese or Overseas Chinese-owned companies and those of indigenous citizens in terms of employment policies, purchasing, tax treatment or any other legal requirements?

FDI #1:

FDI #2:

FDI #3:

17. If yes to the above, how did the government differentiate?

FDI #1:

FDI #2:

FDI #3:

18. If yes to the above, how did the differential treatment affect your decision to proceed with an FDI in this country. Did you perceive the investment to now be a higher risk?

FDI #1:

FDI #2:

FDI #3:

19. How do you (and your firm) take into account risk when assessing an FDI project? (e.g. evaluation of cash flows, inflation, political risk).

FDI #1:

FDI #2:

FDI #3:

20. How does your firm handle new ventures? Are they developed by family members or by technical expertise brought into the firm from outside, or by professional managers from within the firm?

21. Does your firm analyze potential FDI projects on an individual basis or as a portfolio of activities?

22. What potential sources of financing does your firm use/consider when proceeding with an FDI project?

1= Banks

2= Capital Market

3= Private financing (family or friends, get specific relationship)

4= Public offerings

5= Equity offerings

6= Other (explain)

23. What sort of financing was utilized for each of the three previous FDI projects we've been discussing?

FDI #1:

FDI #2:

FDI #3:

24. How important is the owners' family name, (i.e. reputation), to their overall business success?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors

4 = Somewhat unimportant

5 = Not important

25. When seeking financing from overseas Chinese controlled banks, does the bank make loans based on the reputation of the family name?

1 = Always

2 = Frequently

3 = Occasionally

4 = Rarely

5 = Never

26. When seeking financing from overseas Chinese controlled banks or other sources of funding, how important is it for the owners of the organization to be old friends with the bank's (or other source of funds) management?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors being considered

4 = Somewhat unimportant

5 = Not important at all

27. When determining the feasibility of a potential FDI project, does your firm solicit information from other Overseas Chinese investors or business owners who are already in the target region?

28. If yes to #26, how important is the input of other Overseas Chinese investors or businesspeople already in the region to your final FDI decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors being considered

4 = Somewhat unimportant

5 = Not important

29. Which of the following (if any) strategies does your firm utilize to take into account/reduce risk?

1 = Expected Net Present Value

2 = Horizontal diversification as a risk reduction strategy

3 = Hedging using derivatives (e.g. puts, calls, forwards; buying copper for electronic components manufacturing).

4 = Other diversification strategies (explain)

5 = Other means (explain)



30. Does your firm use statistical measures in analyzing potential FDI risks, or is this assessment made in an intuitive manner?

31. How important were labor costs in determining your FDI locations:

1= The most important factor

2 = Very important

3= Of average importance amongst all factors considered

4= Somewhat unimportant

5= Not important

FDI #1:

FDI #2:

FDI #3:

32. How important was the availability of labor in determining your FDI locations?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

33. How important was the exchange rate differential between the host country and the primary currency in which your firm does business in your FDI location decisions?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

34. How important was the level of unionization of the host country labor market to your FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

35. How important were transportation costs to and from the host country to your FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

36. How important were the availability and length of tax holidays in the host country to your FDI location decisions?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

37. How important was the existence of free trade zones in the host country to your FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

38. How important was political stability in the host country to your FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

39. How important was the size of the host country market to your FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

40. How important was (long-term) exchange rate stability between the host country currency and your firms primary currency in your FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

41. How important was the concentration of other firms in the same industry in the host country (and in the same general area of the country) to your FDI location decisions?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

42. How important was the number of firms already in the free trade zones to your FDI location decision (if applicable)

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

43. How important was the availability of land to your FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

44. How important was the availability of land specifically in a free trade zone to your FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

45. How important was the price of land or office space (whichever is applicable) to your

FDI location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:

46. How important was the level of physical infrastructure development to your FDI

location decision?

1 = The most important factor

2 = Very important

3 = Of average importance amongst all factors considered

4 = Somewhat unimportant

5 = Not important

FDI #1:

FDI #2:

FDI #3:



47. What aspect of physical infrastructure development was most important to your FDI location decision?

1 = international airports

2 = highways linking major cities within the country

3 = deep water container seaports

4 = telecommunications infrastructure

5 = availability of suitable housing for expatriate employees

6 = availability of suitable schools for children of expatriate employees

7 = other (please explain)

8 = none

FDI #1:

FDI #2:

FDI #3:

48. What aspect of economic infrastructure development was most important to your FDI location decision?

1= Host country interest rates

2 = Availability of qualified host country workers

3= GNP per capita of host country population

4 = Inflation rate in host country

5 = Access to local capital markets

6 = Availability of local financing

- 7 = Unionization rate of host country workforce
- 8 = Level of existing Overseas Chinese business activity in the host country
- 9 = Level of existing business activity in the same industry in the host country
- 10 = Host country attitude towards FDI
- 11 = Extent to which repatriation of profits is allowed
- 12 = Existence of tax treaties between the home and host countries
- 13 = Corporate income tax levels in the host country
- 14 = Import duties within the host country
- 15 = Export duties within the host country
- 16 = Transshipment duties within the host country
- 17 = Home/host country government relations
- 18 = Transportation costs to and from host country to major markets
- 19 = Other (please specify)
- 20 = None

FDI #1:

FDI #2:

FDI #3:

## VITA

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