CHINESE CAPITALISM IN SOUTHEAST ASIA

CULTURES AND PRACTICES

Edited by Yos Santasombat

Chinese Capitalism in Southeast Asia

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Editor
Yos Santasombat
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CHAPTER 1

Introduction

Yos Santasombat and Lee Kian Cheng

For many centuries, millions of overseas Chinese migrants in Southeast Asia have developed a distinctive form of economic organization through which several groups of ethnic Chinese entrepreneurs, traders, investors, financiers and their family firms, and close-knitted business networks have gradually expanded their spheres of economic practices and come to dominate the economy of their host countries. While deeply grounded in the cultures and values of traditional Chinese society, this form of economic organization has evolved, transformed and adapted to the different historical and socio-political contexts of Southeast Asian countries, the overseas Chinese later called home. In this book, we use the term "Chinese Capitalism" to refer to the historically and geographically specific form of economic organization of the overseas Chinese in Southeast Asia with special reference to Singapore, Malaysia, Indonesia, the Philippines, Vietnam, Myanmar, Laos, Cambodia and Thailand where our team members have conducted field research.

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Y. Santasombat (✉)
Sociology and Anthropology Department Faculty of Social Sciences, Chiang Mai University, Chiang Mai, Thailand

K.C. Lee
School of International Affairs, Faculty of Political Science and Public Administration, Chiang Mai University, Chiang Mai, Thailand

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Over the past decades, Chinese Capitalism has been explained in relations to cultural norms and practices with special focus on the traditional Chinese concepts of "*guanxi*" (关系) (connection, relationship and network) and "*gongsi*" (公司) (company, family firm). Within the context of the growing dynamic integration of Chinese Capitalism with the global economy, it is timely that questions concerning Chinese Capitalism in Southeast Asia should move beyond cultural explanations. Among the complex interrelations between Chinese entrepreneurs, and their rapidly changing socio-economic and political environment, the process of evolution and dynamism of situated practices shift and transform with changing circumstances. In this global era, Chinese Capitalism is rapidly becoming a form of "hybrid capitalism". This term refers to the blending of the traditional and the modern with dynamic transformation of norms, structures and institutions. Chinese Capitalism embodies the interdependence of culturally and institutionally specific dynamics at the local and regional scale, and the growing influence of flows of capital, culture, people, goods and technology on a global scale.[1] In this sense, Chinese Capitalism has evolved and adapted to dramatically different institutional contexts and politico-economic conditions in the host Southeast Asian economies. To fully understand the development of Chinese Capitalism, we need to explore the social organization and political economy of the overseas Chinese, by examining the changing dynamism of Chinese Capitalism in relation to the forces of globalization.

This book argues that an integrative and historically-grounded approach is required to contribute to a more holistic understanding of contemporary Chinese Capitalism. This approach requires a focus on key actors, primarily the local and transnational Chinese entrepreneurs in their business practices. Such a focus will broaden our understanding without fixating or homogenizing Chinese Capitalism. The integrated perspective focuses on situated practices as well as cultural, political, social and economic factors. The historical perspective will also enrich the understanding of the contexts and circumstances that give rise to the emergence and transformation of Chinese Capitalism in Southeast Asia.

This introduction provides a synthesis of our research papers within the context of growing literature on Chinese business in Southeast Asia. It is subdivided into three main themes: (1) Cultures and Practices, which discusses the evolving cultural explanations of Chinese Capitalism, the Chinese business systems, the political economy of Chinese Capitalism and the *guanxi* network; (2) Crisis, Endurance and Resiliency, which focuses on how Chinese communities, marginalized and traumatized through the violence of civil wars, rebuild their lives, their businesses and communities; and (3) the impact of China's rise as a global economic power and the challenges of Chinese business in Southeast Asia.

Contemporary Chinese Capitalism: Cultures and Practices

The significant presence of ethnic Chinese in East and Southeast Asia has attracted scholarly interest for academic research. The economic growth of countries with predominant Chinese populations has further generated an increasing number of scholars in an attempt to offer an understanding of Chinese Capitalism. Many scholars have attempted to examine the cultural and institutional modes of economic organization that have operated in Southeast Asia for generations. The main themes underlying the ongoing debates concerning emerging Chinese entrepreneurship are divided into four groups: (1) cultural explanations; (2) the Chinese business systems; (3) the political economy of Chinese Capitalism; and (4) *guanxi* networks.

Cultural Explanation of Chinese Capitalism

Since the 1950s, many attempts have been made to link the rational economic behavior of overseas Chinese with traditional Chinese culture. G. William Skinner, a renowned American anthropologist (1957, 1958), attributes economic achievement among the Chinese Thais to an ethos that is distinctive of a Chinese cultural heritage. Skinner postulates that a certain habitus shaped by a unique form of socialization and internalization of values concerning the family responsibility are the driving factors, which explain why the Chinese are more economically successful than the Thais. In essence, Skinner proposes that a particular culture cherishes certain values more or less than another; values which are distinct from one society to another.[2] Similarly, Freedman who conducted research on Chinese Malaysians contends that the prosperity of the Chinese in Southeast Asia is due to:

> the equipment which ordinary Chinese took with them when they went overseas in search of a livelihood. Their financial skill rested above all on three characteristics of the society in which they were raised: the

> respectability of the pursuit of riches, the relative immunity of surplus wealth from confiscation by political superiors, and the legitimacy of careful and interested financial dealings between neighbours and even close kinsmen.[3]

Redding (1990) links Chinese economic behaviour with Confucius moral codes. He argues that the characteristics of Confucian values leading to the development of an entrepreneurial mentality have actually brought ethnic Chinese economic prosperity. Dominant traditional values such as filial piety, ancestor reverence, patriarchal authority, respect for the elderly and fear of collective dishonour have intrinsically nurtured Chinese entrepreneurialism.[4] Redding (1990) further points out that in Chinese Capitalism, power is largely legitimized by the acceptance of paternalism and interdependence of family members. Redding argues that the spirit of Chinese capitalism is based on a "set of beliefs and values which lies behind the behaviour of Chinese businessmen".[5] In a similar fashion, scholars such as Haley et al. (1998), Mackie, (1998), Clarke et al. (1999), Crawford (2000, 2001) are congruent in their argument that overseas Chinese Capitalism is essentially an economic culture characterized by a unique capacity and inclination to cooperate.[6, 7] Cultural explanations are also prominent in Zhang Weiwei's best-selling book *The China Wave*.[8] In his book, Zhang conceptualizes China as a "civilizational state" and explains China's rise from the independent and endogenous nature of Chinese civilization (Zhang 2012: 56). Emphasizing the cultural significance in the Asian economic model, Zhang states:

> Most East Asian countries were all once under the influence of the Chinese civilization, especially its Confucius traditions and practices, and much of this region is often called the 'Confucian cultural sphere'… as shown in the case of the four Little Dragons (Singapore, Hong Kong, South Korea and Taiwan) which all share similar cultural backgrounds.[9]

This cultural perspective of Chinese Capitalism is reconstructed and emphasized and has become part of the best-selling literature in China.

In recent years, however, the cultural explanation of Chinese Capitalism has invited much debate and scholarly critique. The romanticized essentialist notion of culture has been questioned. For example, Henry Yeung argues, "Chinese Capitalism and its key actors cannot be *essentialized* as some static forms of cultural artefacts that resist change and transformations irrespective of their discursive and material practices."[10] Furthermore, Yeung states that culture should not be fixed as a static artefact, rather it should be seen as a "set of practices that change with circumstances and contexts".[11] Dirlik is one of Yeung's most prominent critics, he challenges the widely-accepted argument that the spirit driving Chinese entrepreneurial behaviour is strongly associated with Confucian ethics and points to the vagueness of the notion of "*Chineseness*".[12] Whereas to Hodder, the notion of being "Chinese" is a constructed and legitimized distinct entity which can be explained by the implicit application of laws and forces presumed to exist.[13] Tu (1996) calls this construction the "Weberizing" of Confucianism.[14] In a similar fashion, Hsing criticizes the essentialist notion by pointing out the paradoxical twist of Max Weber's hypothesis. She argues that the "characteristics of the Chinese Confucianism, loyalty and hierarchy, in Max Weber's work, for example, are seen as the reason for the lack of capitalism in China at the beginning of the twentieth century. But the same characteristics are seen as the reason for the economic miracle… in East Asia."[15] In their critique of the trait approach in understanding Chinese entrepreneurship, Peverelli and Song (2012) argue that the human mind has the propensity to seek and create structure through drawing categorizations. The human mind therefore has a tendency to see the classification of things as objective reality even when a certain object does not readily fit a particular category.[16] The cultural perspective as a static essentialist notion is contested as it fails to explain diverse and multiple variations.

There are scholars who cast doubt on the cultural essentialism argument and perceive cultural explanation as a constructed discourse. Nathan (1993), Greenhalgh (1994), Ong (1997), Yao (1987, 1997, 2002) and Ma (2003) suggested that the cultural explanation of Chinese Capitalism is an alternative paradigm of development which is an invention of a new post-socialist and post-revolution discourse on global capitalism[17] (as cited in Yeung 2004: 24). Furthermore, it is explained as relational in that "being Chinese is an inscribed relation of persons and groups to forces and processes associated with global capitalism and its *modernities*".[18] In his critical examination of the proliferation of discourse in newspaper and journal articles, books, workshops and conferences, Dirlik concludes that Chinese Capitalism is an ideological and instrumental invention. Such discourse is born out of global conditions comprising of "the retreat from socialism in mainland China and the apparent regression in Anglo-American capitalism against evidence of unprecedented growth in East and Southeast Asian societies".[19]

Another reason that the cultural explanation of Chinese Capitalism is problematic lies in the inevitable consequence when ethnic Chinese is represented in universal terms. In fact, it is a popular stereotype to consider ethnic Chinese communities in Southeast Asia as homogeneous entities.[20] Wang argues that the Chinese communities are in fact very heterogeneous, which complicates classifications.[21] In particular, these refer to the many different cultural, linguistic and religious practices, class habitus, lifestyles and worldviews, and are exposed to different issues.[22] The homogenous perspective fails to systematically address the "eclectic culture of Chinese merchants, the heterogeneity of the Chinese societies and sub-cultures in Asia, folk religious influences and other alternative sources of ethics such as Mahayana Buddhism or Christianity, discrepancies between religio-cultural values and norms on the one side and actual behaviour on the other".[23] In appreciating heterogeneity, scholars have considered cleavages that impair the collective unity of a Chinese identity. The limitation of homogenous cultural justification ignores identity and class, inter-generational differences and sub-ethnic groups, and affects how Chinese develop their business interests.[24] This leads to universalizing tendencies which fail to capture realities in heterogeneous Chinese business behaviour. This sentiment has been shared by Brubaker (2004) who brings together historical, ethnographic, institutional, interactional, political and experiential perspectives, and argues that the study of ethnicity should go beyond "groupism", which is a tendency to reify "ethnic groups" as "internally homogeneous, externally bounded groups, even unitary collective actors with common purposes".[25]

Chapter 1 in this volume is a comparison of Chinese Thais in Bangkok and Udonthani. Wasana Wongsurawat presents the internally heterogeneous and dynamic nature of Chinese communities in Thailand. Wasana is rigorous in criticizing G. William Skinner's "assimilation" concept as essentialist and anachronistic. She argues that Skinner's generalized assumption that the Chinese in Thailand assimilate and have become indistinguishable from non-Chinese Thai over four generations is a problematic thesis because it ignores the ethnic and cultural diversity within the "Thai" people. Assimilation seems to be more about losing one's Chinese characteristics rather than acquiring Thai ones. Wasana compares the production and reproduction of overseas Chinese history in Chinese communities and argues that in recent years there is a remarkable difference between how the Chinese Thais construct and reconstruct their own history. She argues that, in the past, the prominent Chinese community in Thailand was intricately related with and fundamentally codependent upon the centralized state power in Bangkok. After the conclusion of the Cold War, we begin to see a drastic shift in both domestic and global contexts leading to changes in how Thai-Chinese communities situate and interpret themselves in relations to central power. In terms of domestic changes, the promulgation of the 1997 constitution paved the way towards greater degrees of decentralization and local self-determination. Regionally, China's rise as a new global economic power, and role in the Asian Financial Crisis, together with the United States' obsession with the War on Terror, have all contributed to closer relations between China and its southern neighbours. Fear of Communism began to subside as border trade between Thailand and Indochina steadily increased. These changes allowed for a more dynamic and lucrative cross-border trade and other economic transactions in the north and northeast of Thailand without having to be mediated through the central government in Bangkok. Consequently, Wasana argues, the emergent Chinese communities are significant and influential enough to deserve their own place in history beyond the patronage of the central power. Striving to assimilate and establish enduring and efficacious relations with the ruling elite in Bangkok within four generations no longer seems to be a concern for the successful provincial, ethnic Chinese, transnational entrepreneurs.

Even though the concepts of assimilation, Chinese values and other cultural explanations of Chinese Capitalism have provided a convenient avenue for scholars to explain the phenomenal growth of economies dominated by Chinese communities in Southeast Asia an increasing numbers of scholars are criticizing the underlying homogenization and essentialist notions in cultural explanations. Within the context of increasing globalization and transnationalization of Chinese Capitalism, this book proposes that the concept of "social embeddedness" has more power of explanation than the traditional concept of assimilation. This term was first employed by the renowned economic historian, Karl Polanyi (1944), who argued that the functioning of an economy could not be divorced from the social world in which it was embedded.[26] Mark Granovetter (1985) further elaborated the concept of embeddedness as a way of capturing the quality of being deeply integrated in place, implying the idea that the actions individuals or groups choose are importantly refracted by the social relations within which they function. Analyses using the concept of embeddedness focus on the different conditions within which various modes of social action take place and upon which they depend.[27]

Turning to Singapore, Liu Hong and Ren Wa, argue in Chap. 2 in this volume that the new wave of Chinese transnational entrepreneurs have been simultaneously embedded into two or more nation-states and geopolitical spheres. Integration into Singapore and transnational ties with China are not necessarily mutually exclusive. Transnational entrepreneurs do not necessarily assimilate to any particular host countries but may develop a multiple social embeddedness at the same time in their business world of diaspora. Field research among transnational Chinese entrepreneurs who migrated to Singapore in recent decades reveals that there is a strong and evolving social underpinning of new Chinese Capitalism that is characterized by deepening integration with the host country and continuing intensive transnational connections with the homeland. Within the context of globalization, rapid development of transportation and communication technology along with regional integration with global economies, Southeast Asian countries are more open to the idea of connectivity and cooperation. Dual or multiple social embeddedness in both the homeland and the host land becomes an integral part of new livelihood strategies and lifestyle choices made by transnational Chinese entrepreneurs in the pursuit of their business careers. The government policies from both countries play a crucial role in the process of social embeddedness. Liu and Ren contend that in the case of Singapore, the Chinese transnational entrepreneurs simultaneously balance between transnationalism and integration by negotiating their pragmatic socio-economic activities across borders.

Chinese Business Systems

In addition to the extensive and widely applied cultural perspective of Chinese Capitalism, another important issue relates to Chinese business systems. By business systems, we are referring to the institutional structures of particular business networks that are socially constructed over time and space. With regards to Chinese business systems, it is the role and extensive penetration of business networks that is called into question. The organization of Chinese firms has been argued as being largely shaped by institutional structures. In addition, the entrepreneurial tendency of ethnic Chinese as an important feature of Chinese business systems is debated.

A number of scholars have shown that an important attribute of Chinese business can be found in the role and extensive penetration of business networks or "bamboo networks". Ethnic Chinese in Southeast Asia and beyond have been characterized as those who are excellent at networking. In fact, personal relationships or *guanxi* have been deemed as a crucial mechanism in the implementation of cooperative strategies in Chinese business networks.[28, 29] Based on kinship and trust, reputation and honour, Chinese business networks are conceived to reduce transaction costs, increase coordination and minimize risks in business ventures.[30, 31] However, studies have shown that the reliance on personal relationships and business networks is not restricted exclusively to the business practices of the ethnic Chinese. The Indians, Arabs, Parsees, Armenians and Jews have also employed personal networks in their business ventures. These ethnic groups also played significant roles in the economic history of Southeast Asia.

Despite criticism, the literature discussing the significance of personal networks continues to focus on how the Chinese organize themselves in ethnic-oriented business systems. Kotkin (1992) and Chang (1995) attempt to show how ethnic Chinese have formed exclusive regional networks. The network of companies, clans and villages are linked by ties of blood and native place as part of the large global network of overseas Chinese.[32] However, it has been shown that inter-ethnic business cooperation between entrepreneurs and indigenous capitalists and politicians is more significant.[33] This supports the argument that Chinese business networks do not necessarily operate in an ethnic-based and fixed cultural logic.

The organization of family firms is another issue of debate concerning the Chinese business system. The family firm model concentrates on the role of family, kinship and lineage in Chinese companies.[34] Fukayama (1995) argues that the Chinese have very little trust in those who are outside the immediate family. From the cultural perspective, Chinese family firms are rooted in Confucian values which emphasize the importance of the family and the equal distribution of family wealth among the sons. Redding and Wong (1986), Wong (1988), Redding (1990, 1995), and Whitley (1992) mention several key characteristics of Chinese family firms including the centralization of power, relatively small and simple structuring, focus on one product, lack of vertical integration, less standardization of activities, strong overlap between ownership and control, personalized networks, sensitivity to cost, strong and informal linkage, weakness in creating large-scale market recognition, limitations of growth and organizational complexities, and a high degree of adaptability.

Kao (1993), Chen (1995), Fukuyama (1995) and Carney (1998), among others, have argued that, given the above characteristics, Chinese family firms have difficulty in the transformation from traditional business model into the modern professionally managed corporation. Wong's (1985) model has predicted and stipulated the four developmental phases involving emergence, centralization, segmentation and disintegration. In other words, this is seen as an inevitable consequence for the demise of Chinese family firms despite their initial vitality. In reality, however, the internationalization and globalization of Chinese family firms is a complex process. There is "a messy mixture of the continual domination of Chinese family firms and the rapid transformations and broadening of these family business networks to incorporate increasingly non-Chinese and non-family actors".[35] Tracing the transformation of Eu Yan Sang from Singapore, Wong's prediction of the rise and fall of Chinese family firms over the typical three generations in domestic settings has been refuted. Instead of following the conventional fate of disintegration in phase four, Yeung has demonstrated that Eu Yan Sang Holdings Ltd has extended to the fourth generation.[36] It involves the fifth phase of corporatization where there is an overlap of professionalization and family ownership. In order to maintain competitiveness in the global market, Chinese family firms embark on the professionalization of management and governance, the consolidation of core competencies and better access to global capital markets.[37]

Danny Wong Tze Ken and Tan Miau Ing's Chap. 3 in this volume on Malaysia traces the development of Chinese Capitalism in examining how two Chinese business tycoons, and their family firms, have adapted to changes through time with different outcomes. Despite the fact that the Chinese are a minority faced with discriminating policies, Malaysian Chinese represent 20 of the top 30 business tycoons in the country. Wong argues that the success of Chinese business in overcoming the discriminating policies is due to the manner they accumulate and manage their capital. This chapter distinguishes the development of Chinese Capitalism in Malaysia in three phases: the colonial period, the transitional post-independence period and the post-1971 period.

The family firms of H.S. Lee and Robert Kuok are presented as case studies of key actors in their business world with special focus on situated practices as well as cultural, political, social and economic factors under globalization. Wong's study of Lee and Kuok demonstrates that despite origins in similar circumstances, the Lee family was unable to sustain its operation beyond the third generation while the Kuok family built an international business empire. The distinguishing factor is leveraging ties in China. H.S. Lee and his family failed to explore and exploit these ties. Whereas, the Kuok family adapted to change and developed an ability to use the Malaysian business experiences of working with the local elite, which enabled them to develop close working relations with China's elite when hindered by discriminatory economic initiatives in Malaysia.

Ellen Palanca's Chap. 4 in this volume on the Philippines experience of the Chinese entrepreneurs reveals how Philippine Chinese entrepreneurs have overtaken the traditional elite in almost all sectors over the past 3 decades. She identifies the multi-faceted factors that enabled the rapid rise of Chinese tycoons. The spectacular growth of Philippine Chinese business in recent decades suggests that Chinese Capitalism has been uniquely shaped by the Philippine economic and business environment. Palanca contends that the top Philippine Chinese corporations have remained family corporations, having adopted Western models of corporate governance and maintaining family board governance. Second-generation Chinese descendants who are educated and motivated to expand their family corporations, including joint ventures with the increasing numbers of transnational Chinese from the mainland, now run these successful businesses.

Bien Chiang and Jean Chih-yin Cheng's Chap. 5 in this volume on the ethnic Chinese enterprises in West Kalimantan, Indonesia, focuses on business operations on three different scales. From his field research, Chiang finds that the older generation of Chinese entrepreneurs were educated in Chinese language schools before the independence of Indonesia. These multi-lingual business families were involved in local Chinese associations. The younger generation of Chinese entrepreneurs, in contrast, was born and raised under prejudicial policies during the Suharto era when Chinese schools were prohibited, depriving it of a chance of formal Chinese language education. This generation is "Indonesianized" and does not take part in the affairs of local Chinese associations. Family background and affiliation, however, nourish in the younger generation of Chinese entrepreneurs both an aptitude and a familiarity with "Chinese commodities" such as bird nest and dragon fish. From Chiang's analysis, it is interesting to note that the Chinese small and medium enterprises have been socially embedded into the Indonesian geopolitical sphere. From their point of view, the increasing Chinese investment and development projects are welcome in the sense that they could provide opportunities for employment and joint ventures.

Comparing Danny Wong's analysis of Malaysian Chinese, Ellen Palanca's Filipino Chinese and Bien Chiang's West Kalimantan Chinese, the Chinese business system is a complex process resulting from the interplay between personal, familial and institutional factors. Institutional perspectives warrant an emergent entrepreneurial nature due to prejudicial policies impeding ethnic Chinese economic behaviour. Discriminatory policies restricting land and business ownership by overseas Chinese led to entrepreneurs adapting through assimilation. Whereas Chinese entrepreneurship is affected by national discriminatory policies throughout Southeast Asia, individuals, such as Robert Kuok, go beyond domestic markets and turn to China to build regional and international corporations. At the same time, family membership on boards, as shareholders and association leaders allows for hybrid practices to compete in global markets.

Transnational entrepreneurship is a crucial topic for discussion and examination in order to fully grasp the transformation of Chinese Capitalism. The concept of transnational entrepreneurship provides a departure from the fixation of state-centric and society-centric adaptation. With the internationalization of Chinese business, people are moving away from their home countries for business opportunities. Transnational Chinese entrepreneurs are actively developing new forms of business systems whereby multiple social embeddedness becomes a new business practice.

Political Economy of Chinese Capitalism

The diversity of historical and political contexts is particularly significant in the consideration of various forms of evolution and adaptation of Chinese Capitalism in Southeast Asia. In many host countries, ethnic Chinese are faced with hostility and discrimination. These overseas Chinese adopt various politico-economic strategies to cope with their situation. A number of new studies have contested the cultural explanation by examining the institutional dimension of the political, social and economic pressures on overseas Chinese.

Gomez and Hsiao (2004) argue that the state, society and capital are operational concepts necessary for analysis to acquire a more complete and holistic understanding. Looking through the institutional lens of the state, they contend that state policies have directly impacted ethnic communities in socio-economic sectors. In Southeast Asia, state-business linkages are common. In Malaysia, the cases of H.S. Lee and Robert Kuok demonstrate that Chinese companies with established links with government-owned enterprises have found it easier to gain access to state funds. Furthermore, through the concept of capital, family business and generational change are dealt with institutionally.[38] Palanca's chapter illustrates the change in Chinese family characteristics. Ethnic Chinese recognize that they need to professionalize management as family businesses expand both nationally and internationally. There is greater involvement of women in management and changing patterns of inheritance.[39] The concept of society contests against the essentialist arguments that culture, shared identities and value systems determine ethnic business activity. In contrast, Taiwan business in Southeast Asia reveals that while the Taiwanese and Malaysian Chinese communities share a common ethnic identity, their "Chineseness" does not guarantee smooth business cooperation.[40] The Taiwanese have demonstrated a mistrust of Malaysian Chinese.

Globalization challenges the concept that Chinese Capitalism is stagnant. Yeung (2004) asserts that globalization is "a set of dialectical processes that simultaneously create a functionally interdependent world economy and accentuate the importance of all kinds of differences in societies and space".[41] Key social actors are agents of change involved in these processes. Globalization tendencies can be seen as undermining the social and institutional foundations of Chinese Capitalism and accentuating the need for transformation in traditional dimensions. Yeung has embarked on an approach beyond merely looking at cultural preconditions and institutional conditions while considering the impact of resistance and transformations from globalizing tendencies.[42] This establishes a move away from assumptions of dichotomy between cultural and institutional perspectives.

In summary, historical, political and socio-economic dimensions are crucial to fill the gap in essentialist cultural explanations. It is helpful to understand how institutional factors play a part in the dynamics of Chinese Capitalism. While it escapes essentialism, Chinese Capitalism narrowly situates itself in domestic conditions. With globalization tendencies impacting on institutions and traditional elements, it is crucial to consider the contingent forces generated and impacting on transnational key actors in Chinese Capitalism.

Guanxi Networks and Chinese Capitalism

Over the past decades, *guanxi* (the Chinese concept of social networking), has been examined by many scholars. Our research conceptualizes *guanxi* not as an object of inquiry but as an "analytical tool" in the understanding of transnational Chinese capitalism under globalizing conditions. This section provides a brief review of different theoretical frameworks in the study of social networks, using examples of *guanxi* networking in Southeast Asia. Particular attention is paid to different orientations from a cultural essentialist approach suggesting a multidimensional approach in unravelling the "mystical" phenomenon of *guanxi* networking.

Many scholars of China recognize *guanxi* as special or crucial within Chinese society and culture. The cultural essentialist view thus constitutes a major strand of literature with regard to the understanding of *guanxi*. In this perspective, *guanxi* has been conceived and perceived as an essential element of Chinese culture and a phenomenon deeply rooted in the Chinese psyche.[43] King (1985) argues that for Chinese, "there can be no fulfillment for the individual in isolation from his fellow men".[44] A renowned Chinese sociologist Fei Xiaotong (1992) argues that Chinese society was composed not of discrete organizations as in the modern West, but of overlapping networks of people linked together through differentially categorized social relationships.[45] Hwang (1987) similarly proposes that *guanxi* in Chinese society at any time or place is an essential part of "China's national character".[46] According to Pye (1968), the "Chinese tend to see the manipulation of human relationships as the natural and normal approach for accomplishing most things in life… society as a web of human relationships and associations."[47] Redding (1990) stresses the need of the Chinese to be part of a collectivity and to the greatest possible extent, to deal only with familiar people one can trust.[48]

From the business network point of view, *guanxi* has taken root as a cultural essentialist element. Hamilton (1989) coins "*guanxi* capitalism" to describe the distinct business practice which was derived from the Chinese kinship system.[49] In relation to the rise of Taiwan's business class, several scholars such as Kao (1991), Fields (1995), Luo (1997) and Numazaki (1992) have attributed success to the prominent role of *guanxi*. As for the predominant Overseas Chinese economies of Southeast Asia, scholars such as Kao (1993), Simons and Zielenziger (1994), Tanzer (1994) and Weidenbaum (1996) have sought to emphasize the fundamental principle of *guanxi* in business activity.[50] Several scholars, such as Gomez and Tomas (1998), Luo and Chen (1997), Tung and Worm (1997) and Ambler and Witzel (2000) have advocated *guanxi* as a skill to be mastered and applied in engaging business.

Within this cultural perspective, scholars often trace *guanxi* historically to traditional roots. For instance, Ji (1999) states that an "ancient *guanxi* network" has emerged from Chinese patriarchal bureaucracy to minimize uncertainties from the dangers in political careers.[51] Scholars such as Yan (1996), Hamilton (1998), He (2000), Ma (2001) and Cao (2002) associate village life with the noble origins of *guanxi* and the platforms of its conceptualization. Perhaps, the most commonly argued linkage between *guanxi* and traditional roots is found in Confucianism. For example, Mei (1967) defines the key concept of Confucianism as "*jen* [*ren*], or human heartedness" which influences the way people are treated through self-cultivation and education.[52] Yeung and Tung (1996), Arias (1998), Bell (2000) and Hackley and Dong (2001) have identified *guanxi* as a product of Confucianism, such as "*ren*-based *guanxi*".[53] Early works by Liang (1989) and Fei (1992) apply the cultural perspective in explaining people's relatedness in terms of the ethical framework of Confucianism.[54] Mayfair Yang traces China's contemporary gift economy to its Confucian origins "when a conflict between two discourses, *Rujia* (later called Confucian) and *Fajia* (or Lagalist), first took place".[55] She argues that "the implication of the *Rujia* discourse on government based on ritual is a society of social relations".[56] The Chinese modernity Yang attempts to define is one which has an added feature as "the dramatic eclipse of a long and deeply rooted kinship mode of power and discourse by the rapid expansion of state and its discourse of nationalism".[57] It is notable that Yang articulates that the art of *guanxi* arose as a way to defuse and subvert the elaborate regulations and restrictions that the state redistributive economy has imposed on everyday life.

Another major corpus of scholarship known as institutional analysis deals with a different ontological orientation in contrast with the cultural essentialist approach. It argues that *guanxi* has emerged from a particular set of social institutions and there is fundamentally nothing Chinese about this phenomenon.[58] Andrew Walder (1986) argues that *guanxi* is a response to situations similar to other socialist economies where scarce resources are controlled by powerful officials.[59] Jean Oi (1989) argues that the behaviour of personal ties is neither inherently Chinese nor traditional through her analysis of rural politics.[60] In a similar fashion, Guthrie (1998) argues that the institutional roots for the importance of *guanxi* in Chinese society will diminish with the emergence of rational law and market economy.[61] Lucian Pye (1995) situates *guanxi* firmly in specific structural causes including the lack of formal regulations and the danger-filled political environment in China.[62] Wang (1989) and Zheng (1986) similarly argue that *guanxi* should be viewed as a coping mechanism in the absence of a formal system of laws and regulations in economy. In deconstructing the traditional conceptualization, Kipnis (1997) advocates the study of *guanxi* in the context of more than 40 years of Chinese Communist Party policy instead of a "manifestation of ancient textual tradition".[63] Riley (1994) articulates that it is "certain elements of modern Chinese society that have actually increased the necessity for maintaining kin ties".[64] A number of Chinese scholars such as Chen (1997), Peng (1996) and Zhai (1996) purport that people concentrate their energies on accumulating *guanxi* and mastering *guanxixue* as a basic strategy for survival and mobility in light of the disarray amongst institutions and values after the Cultural Revolution.[65]

Over the past decade, debates between cultural and institutional frameworks have produced many interesting insights on Chinese Capitalism and entrepreneurialism. In "Practices of *Guanxi* Production and Practices of *Ganqing* Avoidance", Kipnis (1997) argues that the definition and practices of *guanxi* are intricately intertwined. From a theoretical standpoint, Kipnis (1997) believes that a focus on practices would enable him to avoid the dualism trap where practices are a series of endless variations instead of clearly delineated objects. Besides, such an approach helps him to conceive of linguistic and extra-linguistic worlds together and to bridge the conceptual divide between "native" categories and anthropological ones.[66] The emphasis on *guanxi* as practice in current settings becomes a new approach.

Lin (2004) approaches another methodological issue, which involves the undertheorized and understudied part of *guanxi* exchanges in "third-party effects". In operationalization, he argues that a third party in the form of a mutual friend, an intermediary or even a competitor can bear crucial implications for how *guanxi* functions beyond dyadic social exchange. This methodological consideration proves significant insofar as it narrows the gap between social exchange theory and social network theory.[67] This is because the former focuses on dyadic interaction whereas the latter emphasizes multilateral interconnectedness among individuals and groups. It is crucial to identify and study the relational patterns faced by different actors as defined by institutions and organizations in the understanding of social mechanisms.

Chang's (2004) "*Guanxi* and Regulation in Networks" seems to resonate with Lin's work and seeks to advance methodological consideration in network analysis. Chang argues that studies on Chinese social connections are generally limited to personal interactions: "*guanxi* are essentially interpreted as relationships between persons without attention to their contacts with institutions or to relationships between the institutions themselves".[68] Chang further comments that there is a lack of analysis of transnational networks consisting of different nodes or interlocking with other institutions in response to different policies applied under various political economies. In the case of Yunnanese Chinese, Chang shows that they have gone beyond regional binding and have also depended upon institutional organizations to expand their nexus to unfamiliar Yunnanese and even to non-Yunnanese.

The issue of interconnectedness is also emphasized by Wellman, Chen and Dong (2004) in "Networking *Guanxi*". The authors point out the nature of whole networks where there are patterns of connectivity and cleavages, structurally equivalent role relationships, indirect ties between persons and organizations and personal networks.[69] Similar to Chang's argument for the need to observe *guanxi* at the interlocking institutional level, Wellman, Chen and Dong argue how ties link people, how ties link organizations and also how ties link people to organizations. People are indirectly linked to one another through their joint membership with the same organizations.[70] These authors emphasize multi-level analysis as seeking to integrate "nested data" and going beyond a single focus so as to engage on emergent properties. Similarly, Lisa Keister's (2004) "*Guanxi* in Business Groups" examines the ways that *guanxi* ties influence the economic decisions of state managers in reform-era China.[71] She discovers that "managers did not manufacture social relations for the purpose of economic gain nor did they use their social ties to avoid complying with laws and regulations", while *guanxi* was important during China's economic transition, *guanxi* practice was becoming less important. David Wank (2004) places power at the centre of his analysis and argues for the necessity of cultivating relationships with powerful state actors which were central for entrepreneurs in China's emerging private economy.[72] Based on study of 100 jobseekers, Yanjie Bian (2004) argues that there were still many "institutional holes" in the Chinese labour market where individuals still relied on their social networks to gain advantages in the employment process.[73] On the other hand, Guthrie (2004) problematizes the study on *guanxi* with regards to information asymmetries in perceptions of *guanxi* exchange. Guthrie uses the example that the employee or jobseeker had no way of distinguishing between circumstances and was not privy to decision-making. Thus, it would be inaccurate to assume *guanxi* was fundamental in the procurement of jobs. Such information asymmetry is suspect to research tact.[74] Guthrie concludes by arguing that the perception of the importance of guanxi was "highly contingent on the structural position of the respondent providing information".[75] Amy Hansen (2004) explores the salience of *guanxi* among urban youth in China in the 1990s and argues that individuals did not rely on *guanxi* to secure jobs.[76] Similar to Guthrie, Hansen argues that while they talked about *guanxi*, they were referring to social ties for simple advice or information exchange but they neither embraced reciprocal obligation nor instrumental use of it in a gift economy.

Breaking new substantive grounds, Pittman Potter (2004) argues that as formal law emerges in China, there is a growing complementarity between formal rules of legal systems and the informal rules and norms of *guanxi* relations.[77] Scott Wilson (2004) takes us to the suburbs of Shanghai and studies the economy of gift exchanges. Wilson argues that *guanxi* is a fluid concept where instrumental and sentimental ties are not too firmly defined in the gift economy.[78] James Farrer (2004) examines another way that *guanxi* related to the norms that hold the social worlds of Chinese society together. Farrer shows through the study on gossip in an urban neighborhood that gossip is a central form by which normative behavioural codes are maintained and become a currency through which a gift economy operates in reformed China.[79]

The multi-level analysis can also be found in Langenberg's (2007) "*Guanxi* and Business Strategy" where he employs methodological individualism assuming that the characteristics, interests, preferences, beliefs and eventually actions of sub-system elements are the foundation of systemic phenomena in social structures. Through the study of actors, resources, interests and control in the analysis of *guanxi*, the author operationalizes through three-tiered strategic *guanxi*. Strategic vertical *guanxi* refers to the strategic potential for creating value in the primary functions of inbound logistics, marketing and sales, outbound logistics and (after-sales) services, and in the secondary activity of procurement. Next, strategic horizontal *guanxi* creates value in procurement and logistics, marketing and sales as well as in the secondary processes of human resources and technology and development. This refers to implicit collusion through price-fixing meetings among rivals in harmony to prevent adverse price level situations. Finally, strategic lateral *guanxi* refers to cultivating relationships with personnel in the state administration and party executives. In fact, *guanxi* with government-related institutions is needed to secure the many mandatory licences, permits and even quality certificates.[80]

Over the years, scholars of Chinese business systems have used different terms to express the complexity of *guanxi* such as "disentangling *guanxi*"[81] or the "ubiquitous phenomenon of *guanxi*".[82] Wellman, Chen and Dong (2004) argue how "China's experience in the transition era is far from unique among developing societies, research in this area should be part of research on general social processes rather than on Chinese society per se."[83] In concurrence with Chung and Hamilton (2002), Langenberg believes that *guanxi* is not so much a cultural logic but a structural system of repeated interactions based on ongoing exchanges.[84] In the end, Langenberg concludes that many features of *guanxi* phenomenon are not uniquely Chinese but actually exist in cultures all over the world. Therefore, it will not be surprising to see how *guanxi* takes on different forms in different politico-socio-economic settings.

Several chapters in this volume employ the *guanxi* concept to elucidate the cognitive mechanism of business networking and dynamism of cultural construction. In particular, Lee Kian Cheng's Chap. 6 in this volume on the Thai Yunnanese transnational entrepreneurs in Chiang Mai argues that the Thai Yunnanese transnational entrepreneurs engage *guanxi* as political economy in their quest to accumulate different forms of "capital" (Bourdieu 1986) for upward mobility. Many Thai Yunnanese transnational entrepreneurs have struggled to mitigate political marginality since Yunnanese in northern Thailand were derogatorily stigmatized as drug traffickers. Many of them, however, are not passive receptors of this condescending attitude but seek to reinvent new and positive images through transnational entrepreneurship. Lee's chapter focuses on how key actors employ a multiplicity of strategies through *guanxi* and exhibit different repertoires of entrepreneurial practices in their accumulation and conversion of capital into symbolic power for class mobility and elevation. In this light, *guanxi* is no longer a static form of cultural patterns but an "analytical tool" which renders better clarity in the elucidation of class mobility among the Thai Yunnanese transnational entrepreneurs in Chiang Mai, Thailand.

From our literature review and empirical research, it can be argued that the concept of *guanxi* is still useful and any attempt to understand the dynamism of Chinese capitalism in Southeast Asia should employ a *guanxi* networking framework with the principles of situated cultural logic in transnational context as an analytical approach. "Cultural logics" can be defined as "dynamic, shared predispositions that inform behavior and thought".[85] This concept is built on constructivist theories seeking to elucidate cognitive mechanisms of improvization and proactive cultural construction. It is the "conscious and unconscious dialectical reconciliation of received cultural logics and changing real world circumstances that both reproduces and alters cultural patterns".[86] In the era of transnational capitalism, there is a need to situate cultural logic according to different localities where business activities are carried out. As Ong (1999) states, "transnational processes are situated cultural processes" and we should focus on how culture as a process evolves and morphs itself in situated contexts. Ong and Nonini (1997) argue that there are new developments of "family" and *guanxi* particularist relations from the accumulation strategies of transnational Chinese who employ flexible tactics of accumulation as they put their family and *guanxi* networks in subcontracting positions throughout Asia Pacific and beyond.[87] Such flexibility also gives rise to different cultural dispositions. In "Factory Regimes of Chinese Capitalism: Different Cultural Logics in Labor Control" Lee (1997) demonstrates the importance of cultural logics underlying specific forms of domination over labour. By studying the cultural processes of two factory regimes under the same ownership, the author shows how the management invoked, incorporated and recreated workers' identities and pre-existing networks in controlling labour. The author argues how transnational Chinese capitalists deployed different kinds of social networks—networks that existed among workers and those between themselves and state officials.[88] This case illustrates clearly how the situational analysis of cultural logics are alive and applicable despite globalizing conditions.

Chinese Capitalism: Crisis, Endurance and Resiliency

In Cambodia, Laos, Myanmar and Vietnam, collectively referred to as CLMV countries within Southeast Asia, the Chinese communities have invariably gone through social upheavals, crisis and discriminating policies. This section attempts to explain the endurance and resiliency of Chinese communities in these countries, which at times, have been marginalized and/or faced the trauma of civil wars, but somehow manage to rebuild their lives, businesses and communities with the strength of their entrepreneurial practices.

For centuries, Chinese migrants and their descendants have been an important part of the Khmer economy. Wilmoot (1967) contends that the Chinese communities play a crucial role in trade, tax collection, rubber plantations and mining before and during the French administration.[89] Chinese communities, schools and clan associations thrived in Phnom Penh and various provinces until Lon Nol staged a coup in 1970 and issued a number of prejudicial policies against the Chinese. With increasing pressure from the authoritarian regime, many Khmer-Chinese students fled urban areas and took up arms with the Khmer Rouge resistance guerillas in the forest. However, when the Khmer Rouge took over the country in 1975 the Chinese were once again victims of discrimination and labelled as corrupt "capitalists". During the brief Khmer Rouge regime, 2 million Cambodians died from forced displacement, execution, starvation and diseases. The ethnic Chinese population was reduced in half from 400,000 in 1975 to 200,000 in 1979. The discrimination against the Khmer Chinese continued until the early 1990s when it began to subside with the establishment of the Kingdom of Cambodia and the gradual improvement in diplomatic and economic ties with China.

Siphat Touch's Chap. 7 in this volume describes how the Khmer Chinese picked up the pieces after several decades of violence and civil war. During the Khmer Rouge regime, many Chinese fled to the Thai-Cambodia border and started a lucrative border trade in food items, utensils, clothes, electronic appliances and other consumer goods. After the Vietnamese liberation of Phnom Penh, Khmer Chinese returned to urban areas and re-established their entrepreneurial practices as