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AT THE SECOND WORLD ENTREPRENEURS CONVENTION

ON 22 NOVEMBER 1993 IN HONG KONG

Introduction

Two years ago in 1991, the first World Chinese Entrepreneurs Convention was held in Singapore. Today, we are gathered in Hong Kong for the Second Convention in bigger numbers. Through such meetings we are establishing useful contacts in different parts of the world.

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At the present rate of migration from Hong Kong, Taiwan and mainland China into America, Canada, Australasia and Europe, in 10 years, there will be thriving pockets of Chinese entrepreneurs and professionals in the cities - Los Angeles, San Francisco, Seattle, Vancouver, Sydney, Melbourne, Auckland, in the Pacific and also New York, Boston, Toronto, London, Paris and Amsterdam. The potential for economic networking is considerable. People feel a natural

empathy for those who share their physical attributes. This sense of closeness is reinforced when they also share basic culture and language. It makes for easy rapport and trust which is the foundation for all business relations.

Networking to some purpose

Minority ethnic groups scattered around the world have built up networks for trade and investments and brought in technology and expertise. Joel Kotkin in his book entitled "Tribes" describes how race, religion and identity have been powerful factors for success in the new global economy.

Ethnic minorities have turned a handicap into an advantage in this global economy. He focuses on groups in exile, not in power: the Jews, British, Japanese, Chinese and Indians. He highlights how clearly identifiable values - such as a strong ethnic identity, a belief in self-help, hard work, thrift, education and the family - have made for success in all these different groups.

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Kotkin adds:

"As the 20th century approaches its denouement, the Anglo-American hegemony faces a new challenge through the emergence of Asian ethnic groups, a development that is possibly the most profound regional shift since the founding of the New World. The contemporary rise of globalised Asian Tribes has had two outstanding preconditions: The emergence of a comprehensively transnational economy and huge leaps in communications and transportation technology."

"New telecommunications and transportation technologies (again forged largely by the Anglo-Americans) allowed dispersed members of these Asian groups to stay in touch, many of whose operations depend heavily on traditional, highly consensual Asian business forms, from the Japanese keiretsu to the Indian joint-family companies and the Chinese family networks. These Asian firms mark a new epoch in the history of capitalism. Through the use of fax machines, telephones and direct computer linkups, the 'little Tokyos', 'little Punjabs' or Chinatowns which have sprung up in cities from London to Singapore have become more than merely quaint reproductions of ethnic villages: they serve as parts of transnational economic networks."

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Networking had always existed, long before IDD, fax, air travel. In Nanyang (Southeast Asia), trade and investments were conducted between Chinese of the same clans, for example the rice trade which used to be controlled by the Teochews of Thailand, Singapore and Malaysia. Now networking is more efficient because of IDD, fax and aircraft. But the most spectacular example of networking today is in China.

After Tiananmen on June 4, 1989, Japan and the West stopped their investors and their tourists from going into China. During this critical period, ethnic Chinese from Hong Kong, Macau and Taiwan seized the opportunity and increased the trade and investments, profiting from China's increasingly free market economy. After they succeeded, ethnic Chinese from Southeast Asia joined in. Three years later, in 1992, the results startled the world. China's growth went up to 12 per cent per annum. This has revived American, European and Japanese interest in China.

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Hitherto, they had been doubtful about the wisdom of investing in China. Their recurring complaint was the absence of the rule of law, a lack of transparency in rules and regulations, and dual pricing of raw materials and energy to discriminate between foreign and local buyers. To understand why the West views the Chinese legal system as weak, let me quote from two books.

In “China’s Civil and Commercial Law” Henry R Zhang a People’s Republic of China (PRC) trained lawyer who did postgraduate work in US where the book is published, wrote on page one that at the founding of the PRC in 1949 they abolished “all laws and regulations and the whole judicial system of the Guomindang (Nationalist Party) reactionary government which oppress the people,”... “The PRC government set itself the difficult task of establishing from scratch a whole new legal system which had to be both socialist and Chinese.” They did not have time to undertake this task, until Deng Xiaoping’s open door policy in 1978 required commercial laws to be passed.

In “China Business Strategies”, Nigel Campbell and Peter Adlington, China Research Unit, Manchester Business School wrote:

(i) “During periods of strong rule, imperial power reached into the furthest corner of the Chinese Empire. The exercise of this power was arbitrary and brutal: the Mandarin was both prosecutor and judge. A separate judiciary was never established, and hence the ordinary person never looked to the law to settle his grievances. Traditionally he would take the law into his hands. The modern equivalent of this situation is that the

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bureaucrat interprets central regulations to suit the conditions of his own province or city." (page 9)

(ii) "Family ties and a close-knit peasant society have lent value to personal relationships. Where there is not enough food to eat, not enough room on the bus or not enough steel for the factory, personal relationships are vital. They provide the lubricant which smooths a way anarchy. 'Guanxi" is the asset value of personal relationships built up from family, village schoolmates and so on." (Page 9)

(iii) "In short, Chinese law is flexible and open to interpretation by officials, whilst Western law is rigid and can be interpreted by the courts." (page 24)

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What ethnic Chinese from Hong Kong, Macau and Taiwan did was to demonstrate to a sceptical world that 'guanxi'' through the same language and culture can make up for a lack in the rule of law, and transparency in rules and regulations. This 'guanxi' capability will be of value for the next 20 years at least, until China develops a system based on the rule of law, with sufficient transparency and certainty to satisfy foreign investors.

For the next 10 to 20 or more years, East Asia will grow faster than any other region of the world and China is where the main action is. Despite the political uncertainties and administrative and legal drawbacks, it is the biggest draw because of its low labour costs, well-educated urban workforce, vast economic market and pro-investment bureaucracy.

Even at half its present rate of growth, China will become a considerable economic weight in 20 years. As China's economy grows, major investors from America, Europe and Japan are renewing their China interests. The value of the investments from these industrial countries will dwarf that of the overseas Chinese. But China will not forget that it was Hong Kong and Taiwan Chinese who demonstrated between 1989 and 1992 that investments in China can be successful, when there is good 'guanxi'.

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Southeast Asia's Sensitivities

The reaction of some indigenous media in Southeast Asia is one of concern. The indigenous Indonesian newspaper, "Merdeka", wrote on 1 July 1993 that "it is not impossible that the capital flight will increase to a level which undermines the development of our internal economy." Others have expressed concern about the loyalty of their ethnic Chinese, investing their capital in their

home villages and counties in China when their own countries from which they had derived their wealth needed this capital in a world hungry for investments.

Robert A Scalapino of the Berkeley Institute of East Asian Studies, an American who knows East Asia well, said in a speech on the impact of China's modernisation made on 10 August 1993 in Bali, Indonesia:

> "There is another issue. The term 'Greater China" has come into vogue, connoting the growing economic interaction among the PRC, Hong Kong and Taiwan, in some instances together with the overseas Chinese community in Southeast Asia and elsewhere. While it is a mistake to suggest that greater economic interaction among these elements implies political unity, there can be no doubt that the economic advances of the Chinese community - singly or in some combination - could exacerbate ethnic relations in key Southeast Asian societies. At present, these relations are generally benign as a result of state policies and general economic advances - but the situation will always be delicate. Ethnicity is the one permanent factor in politics; it can be rendered quiescent by skilful policies, but it never disappears. The spectre of Chinese economic dominance would be certain to cause it to loom up as a factor of heightened importance."

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This danger should not be underrated. If relations turn sour between any Association of South East Asian Nations (ASEAN) country and China, those ethnic Chinese who have invested in China will be criticised for disloyalty. Some had revived their benevolence like building a school, hospital or university. Such acts establish good 'guanxi' which means favourable terms for investments. But when people's anti-China feelings are re-directed at ethnic Chinese in their midst, they will ignore the simple fact that capital has flowed towards those places offering the highest returns.

Ethnic Chinese who come from such "sensitive" countries, should take care that their investments in their own countries do not diminish as the result of their China investments. And they would do well to use the same 'guanxi' to increase China's trade with and investments in their home countries. This is possible and indeed probable within 10 years.

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China can maximise returns on their technology and capital by using its links with ethnic Chinese in Southeast Asia to invest in Indonesia, Malaysia, and Thailand where energy resources (gas and oil) are abundant and labour costs are low. ASEAN countries can profitably use middle technology in industries like steel and industrial chemicals where state of the art technology is not crucial.

The competitive advantage for such joint ventures is first, the low cost of Chinese technology, and second., the supply of cheap natural gas for energy intensive industries.

An example of this took place in June this year when the governor of Shandong Province visited Malaysia to set up jointly with the Malaysians a RM200 million steel rolling plant at the Gebeng industrial estate near Kuantan. Initially the plant will produce steel plates for export. Later, other steel parts will be manufactured. More such joint ventures in ASEAN will offset the impression that the flow of investments is one way. That investments can be two-way is best illustrated by China's many investments in Hong Kong. Of course there are special reasons for this, like geographical closeness.

More Efficient Networking

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For the networking to be efficient we must be more systematic. We can compile directories listing names, biodata, business background so that anyone needing suitable contacts or partners can get information readily.

The directories should provide character and credit references, including a person's banker. If the data are made available in computer data banks accessed through Internet or Bitnet, it will be better still.

Ethnic Chinese in America are well represented in computer software business and can easily work this out. Opportunities for investments abound in China. The best links are through people in Hong Kong, Taiwan, Malaysia and Singapore. After a short interval, China's own businessmen will want to diversify and spread their risks beyond Hong Kong into the US, Canada, Australasia, Europe and Southeast Asia.

Networking is the natural thing to do. There is no need to be apologetic about wanting to maximise benefits through each other's contacts and access to opportunities. The Anglo-Saxons do it, the Jews do it, so do the Hindus and the Muslims.

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Networking adds value in integrated world

Science and technology will keep integrating the world ever closer into one global market. Such a role will enhance the role of these tribal networks of Anglo-Saxons, Jews, Indians, Muslims, Lebanese, Japanese, Koreans or Chinese as catalysts in the spread of capital, technology and know-how. As ethnic Chinese communities outside China rise in education and economic status, they will increase the resources they can command. The synergy of their knowledge, connections, and financial resources, combined with economic potential of China's population and natural resources will result in an enormous increase in economic growth.

A Chinese American professor in the Harvard Business School, John Kao has described it to my cabinet colleague George Yeo as "knowledge arbitrage" the ethnic Chinese communities make use of their specialised local knowledge.

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Despite computers and fax machines not all knowledge is codifiable. Much of knowledge is culture bound, like 'guanxi' in Chinese, Japanese and Indonesian societies. Those who are able to arbitrage differences in knowledge levels between various societies will profit. Thus, ethnic Chinese entrepreneurs, like Liem Sioe Liong of Indonesia, Robert Kuok of Malaysia, Li Ka Shing of Hong Kong, are outstanding for their ability to bridge these cultures. For example, they

bring Japanese technology to Indonesia or American technology to China, whilst they leave original research to Americans, Europeans and Japanese. American business schools are puzzled why overseas ethnic enterprises have not focused on product or technology development but instead have become traders in licences and knowledge. The reason is that they have a more profitable and valuable role in integrating these developing economies with the industralised West because of their advantage through multiculturism.

Changes with time bring about new situations. For example, most Chinese in America, Europe and Australasia no longer speak Chinese although they remain culturally Chinese. Even in Southeast Asia, with the exception of Singapore and Malaysia, ethnic Chinese do not learn their own mother tongue in their national educational system. But a new generation is growing up which can network effectively in English helped by some dialects.

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Ethnic Chinese communities in Southeast Asia have been distinguished by their ability to adapt to the cultures and languages of their adopted countries. They develop a facility to speak several languages, the language of their new home, their dialects or Mandarin, and often also English. A golden thread which binds the younger generation of Chinese entrepreneurs and professionals outside China is their Western education, for most of them in the English language. The

biggest contribution they can make to mainland Chinese culture is to be examples of the economic value of multiculturalism, derived from coexisting with and absorbing the good points of other cultures.

At the same time overseas ethnic Chinese have to guard against Chinese chauvinism as they become successful. This is even more important as China becomes more prosperous and strong. For China's success can generate fears that it will dominate the region, especially if it is seen to be a competitor for investments rather than a partner in regional prosperity.

Fundamental loyalties to home countries

We are ethnic Chinese. We share certain characteristics through a common ancestry and culture. We can build up trust and rapport easily between ourselves. But we must be honest and recognise the fact that at the end of the day, our fundamental loyalties are to our home, not ancestral, countries.

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To think otherwise and believe that we have more in common with one another and with the country of our ancestors than we do with our fellow citizens in our respective new homes is unrealistic. It will lead to grief when our interests fail to coincide, and sentimental ties prove insufficient to overcome the difference in positions. It will also cause misunderstanding and friction with our fellow citizens who are not ethnic Chinese, even in countries where ethnic Chinese form the majority community as in Singapore.

After two or three generations away from China, we have become rooted in the country of our birth. Our stakes are in our home countries, not China where our ancestors came from. The Chinese-Thai is a Thai and in the end he wants Thailand to prosper so that his assets in Thailand can grow and his children's future in Thailand can be secure. So too Chinese-Singaporeans, Chinese-Indonesians, Chinese-Malaysians and Chinese-Filipinos. They may invest and visit China frequently, but few want to make China their homes.

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In the last two years, I have tried to read the tea leaves in the post Cold War world to find out what they foretell for a country like Singapore. I concluded that it would be a mistake for Singaporean entrepreneurs not to participate in one of the greatest transformations of our age, the industralisation and modernisation of the countries of East Asia, and not least of China. And we

would be foolish not to use the ethnic Chinese network to increase our reach and our grasp of these opportunities. This is what our countries in Southeast Asia are doing, for example Thailand and Malaysia.

My prime minister, Mr Goh Chok Tong also sees similar opportunities of networking through Singapore's Indian businessmen as India deregulates, and moves towards a free market. The Indian network also offers business opportunities in South Africa when that country resolves its political problems. This is an updated version of the old networking when the Sindhi merchants in Singapore reached out to other Sindhi merchants all over the world, from the South Pacific to India, to Pakistan, to East Africa, and to Britain, not only to do business but also to find brides and bridegrooms for their children.

World economic growth in the next 10-20 years will be highest in the industrialising countries of Asia. As Singapore looks into the future, we have decided to change our immigration policy to build up in Singapore groups of different communities who are based in Singapore but can use their worldwide network to extend our reach and our grasp. Hence we have already increased the inflow of Chinese, especially from Hong Kong who will network with Hong Kong Chinese all over the world. We are also actively seeking out and admitting Indian professionals and businessmen, over a thousand of whom have set up

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home in Singapore in the last two years. Malaysian and Indonesian professionals and businessmen from the regional are equally welcome, although their numbers have become smaller. So we are attracting Pakistani and Arab professionals and businessmen to take up residence in Singapore and become Singapore's links to the Arab and Muslim regions. Arab businessmen assimilate easily with our Muslim population.

We meet because it is useful to compare notes of our experiences in different parts of the world. But some of us will meet again because we can be useful to each other. This makes for effective networking.

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