

Penang As An Integrated Logistics and Transportation Hub Under Northern Corridor Economic Region

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Introduction

The much awaited Northern Corridor Economic Region (NCER) is on the move. The Prime Minister of Malaysia has launched the NCER initiative in a grand scale at Kedah and Perlis on 30 July and in Penang and Perak on 31 July 2007. The NCER, covers the four northern states of Peninsula Malaysia, is one of the four economic regions identified under the Ninth Malaysia Plan (9MP) for the promotion of a balanced and equitable national economic development. The other three economic regions include Iskandar Development Region (South-Johor Economic Region), Eastern Corridor (Terengganu-Kelantan-Pahang), and Sabah-Sarawak Corridor.

Figure 1: Northern Corridor Economic Region



Is NCER just merely to create a bundle of feel good factors for the soon-to-take place general election, or is it really a bold move of the government? The NCER, to a large extent, has fueled excitement in the market and among the people of the northern States. This article attempts to present an overview of the NCER, examines briefly what are being installed in the NCER plan for Penang, particularly the initiative to make Penang the regional integrated logistics hub, discuss the areas of opportunities and challenges, and the potential implications to Penang.

The Vision

The NCER has one vision, which is clearly stated by the Prime Minister of Malaysia during the launch: “To be a world-class economic region by 2025 for people to invest, live, work, learn, visit and bring up families in a safe, clean and sustainable environment.”

The Prime Minister also emphasized that “The North of Malaysia is a region rich in resources and potential. If the region is given opportunity to flourish, the country’s overall competitiveness will be strengthened and prosperity will be better distributed. This is the main rationale for the formation of the Northern Corridor Economic Region. The development of the Northern Corridor will also focus attention on social issues such as rural development, agriculture modernization and poverty. These are areas that must be addressed with improved, market-led approaches. To this end, the Northern Corridor Blueprint was spearheaded by private sector input to ensure the development of commercially sustainable measures and programmes.”

Background

The local conglomerate, Sime Darby Berhad, was the master planner of the NCER blueprint. This development plan, with three main economic thrusts, namely agriculture, manufacturing and services, is set to transform the region in the North into a dynamic region, over a period of 18 years, from 2007 to 2025.

The implementation of the blueprint, which will straddles over four Malaysia Plans, is divided into three phases (Figure 2). The first phase aims to lay the foundation through securing anchor investors and construct priority infrastructure. The next eight years will further strengthen the efforts in broadening and deepening the private sector involvement as well as businesses network and linkages. The third phase of NCER is to establish technology and achieve regional market leadership through sustainable market-led growth.

Figure 2: Implementation Phases of NCER

2007	2012	2020	2025
Phase 1	Phase 2	Phase 3	
Quick wins and solidifying foundation	Broadening and deepening private sector involvement	Achieving regional leadership through sustainable, market-led growth	
<ul style="list-style-type: none"> NCER Public Launch (30 & 31 July 2007) 			
1 – 3 years: Secure anchor investors			
3 – 5 years: Build priority infrastructure	Create network of businesses, foreign and domestic linkages	Establish technology and market leadership	
FOCUS			
<ul style="list-style-type: none"> Establish implementation organisation 	<ul style="list-style-type: none"> Expand local companies’ footprints in global markets 	<ul style="list-style-type: none"> Strengthen conducive environment to attract world class companies and talent 	
<ul style="list-style-type: none"> Launch one-stop investor support centre 	<ul style="list-style-type: none"> Expand foreign companies’ domestic expenditure and investment 	<ul style="list-style-type: none"> Help build global champions amongst NCER companies 	
<ul style="list-style-type: none"> Focus development in selected zones 	<ul style="list-style-type: none"> Build global brands 		
<ul style="list-style-type: none"> Implement 2 – 3 high impact projects in each economic or social focus area 			
<ul style="list-style-type: none"> Develop priority physical infrastructure in selected zones 			
<ul style="list-style-type: none"> Build human capital 			

Source: Northern Corridor Economic Region Socio-economic Blueprint

The key responsibility of Sime Darby was to formulate the NCER blueprint. The execution of the detailed plan will be assigned to a proposed implementation government body, namely the Northern Corridor Implementation Agency (NCIA). However, the NCIA is still in the drawing board at this juncture. The NCIA, to be headed by a Chief Executive Officer, is proposed to be placed under a council chaired by the Prime Minister of Malaysia, and assisted by the Deputy Prime Minister, some Cabinet Ministers, as well as the Chief Minister of Penang and the Menteri Besar of Perlis, Kedah and Perak.

A total of RM177 billion is needed to implement a slew of NCER key initiatives over a period of 18 years, with two-thirds of the investments are expected to come from the private sector, including private finance initiatives (PFIs).

Population Growth

The Northeast District, currently accommodates nearly one-third of the total population in Penang (Table 1). Over the mainland, Seberang Perai Tengah accounted for nearly a quarter of Penang's population. By 2025, the population of the State is estimated to reach 2 million (Table 2).



Table 1: Penang – Estimated Population by Districts, 2007 – 2020

	Estimated Population ('000)					Total
	DTL	DBD	SPU	SPT	SPS	
2007	494.0	205.9	297.2	369.4	152.0	1,518.5
%	32.5	13.6	19.6	24.3	10.0	100.0
2010	520.9	220.4	312.9	393.4	162.2	1,609.8
%	32.4	13.7	19.4	24.4	10.1	100.0
2015	557.5	246.9	337.8	430.8	177.9	1,750.9
%	31.8	14.1	19.3	24.6	10.2	100.0
2020	592.2	274.2	362.3	467.0	193.2	1,888.9
%	31.4	14.5	19.2	24.7	10.2	100.0

Source: Derived from the data provided by Department of Statistics, Penang Branch

In terms of age group, as depicted in Table 2, nearly 47 per cent of Penang's population in 2007 is in the age category of 20 – 49, consist of active working age population with strong spending power. It is forecasted that the senior citizen (60 and above) would increase and account for about 12.5 percent in 2025.

Table 2: Penang – Estimated Population by Age Group, 2007 – 2025

	Estimated Population ('000)						Total
	Age Group						
	0 - 19	20 - 29	30 - 39	40 - 49	50 - 59	60 & above	
2007	540.7	260.7	252.5	196.8	140.3	127.6	1,518.6
%	35.6	17.2	16.6	13.0	9.2	8.4	100.0
2010	568.8	263.6	265.4	211.9	156.5	143.7	1,609.9
%	35.3	16.4	16.5	13.2	9.7	8.9	100.0
2015	613.1	271.9	267.3	243.5	179.0	176.0	1,750.8
%	35.0	15.5	15.3	13.9	10.2	10.1	100.0
2020	637.7	298.4	270.3	266.9	202.4	213.7	1,889.4
%	33.8	15.8	14.3	14.1	10.7	11.3	100.0
2025	667.3	325.7	278.6	268.9	233.0	252.9	2,026.4
%	32.9	16.1	13.7	13.3	11.5	12.5	100.0

Source: Derived from the data provided by Department of Statistics, Penang Branch

What to expect from NCER for Penang?

What is the excitement brought by the NCER to the State? Will Penangites enjoy the benefit of the NCER?

The proposed NCER projects for Penang seem more tangible and visually impressive. The State has been earmarked by the NCER to be transformed into an integrated logistics hub and is poised to serve as the import and export gateway for the northern corridor. Apart from logistics / transportation projects, several ambitious tourism, urban development and manufacturing related initiatives have also been proposed. The NCER projects for Penang, at a glance, are depicted in Table 3.

Table 3: Projects for Penang under NCER Initiatives

Projects / Plans for Penang	Total Cost / Investment (RM)	Expected to be completed by	Participants
Second Penang Bridge	RM 2.7 bil	2011	UEM-CHEC
Widening of the existing Penang Bridge	RM 585.3 mil	End of 2008	PLUS Expressways Sdn Bhd
Penang Outer Ring Road	RM1.1 bil	-	Peninsular Metro Works Sdn Bhd
Penang Sentral integrated transport hub	RM 2 bil	-	MRCB, and Pelaburan Hartanah Bumiputra Bhd
Penang Monorail	RM 1.2 bil	-	-
Integrated Bus Service	-	-	Rapid Penang
Penang Port expansion	-	-	Penang Port Sdn Bhd
Swettenham Pier redevelopment	-	Work commenced in mid 2006 and expected 18 months to complete	Penang Port Sdn Bhd
Penang-Butterworth fast ferry	-	-	Penang Port Sdn Bhd
Penang International Airport expansion	-	-	Malaysia Airports Sdn Bhd
Double tracking (Intrastate) from Ipoh - Padang Besar	-	-	-
Ipoh - Sungai Petani Commuter Train (Intrastate)	-	-	-
Penang Global City Centre (PGCC)	RM 8 bil	15 years to complete	Abad Naluri Sdn Bhd, a subsidiary of Equine Capital Bhd
Hospitality college	-	-	-
Medical Tourism proposal for Pulau Jerejak	-	-	-
Micro-Electronics Centre of Excellence	-	-	Universiti Sains Malaysia

Source: NCER Socio-Economic Blueprint, Penang State Economic Planning Unit and various sources.

As stipulated in the Blueprint, comprehensive connectivity systems, comprise of air, sea, rail and road, are part of the key enablers to economic development for NCER. This article attempts to narrow down the discussion on the possible impact of regional logistics hub initiative to Penang.

From An Economic Standpoint

It has been over a month now since the launch, and the authority is still trying hard to form the implementation agency. In addition, a number of the projects mentioned in the blueprint are still in the planning stage. It is not easy to assess any potential implication at this juncture.

The NCER is intended to capitalize or leverage on the existing strength of the region, instead of creating afresh economic activities. This approach is believed to have more likely chances to achieve desired outcome and less lead time is required. For instance, Penang is the choice of numerous global leading manufacturers with more than three decades of remarkable industrialization experience. It makes sense to promote Penang as the regional logistics hub since the entire fundamental logistic solution of facilities and services for land, sea and air, though imperfect yet, are already in place in the State.

Before realizing the full potential of Penang as the regional logistics hub, a number of infrastructures have to be installed and further upgraded. Apparently, the construction and related services sectors are expected to be in the forefront to kick start the NCER. A brief highlights for some of the logistics and transport-related initiatives are as follows:



Second Penang Bridge

One of the iconic projects that steal the limelight for Penang under the NCER initiatives is the RM2.7 billion Second Penang Bridge. The proposed 24 km four-lane dual carriage-way bridge (with 17 km over the sea), is set to be the longest in Southeast Asia, will link Batu Maung on the south-eastern corner of the island with Batu Kawan on the mainland. The project has commenced this year and is expected to be completed by 2011. The bridge will be built by CHEC-UEMC, a joint-venture between UEM Builders Bhd and China Harbour Engineering Co Ltd (CHEC).

This 100 years lifespan new second Penang Bridge will be constructed to endure natural disasters such as tsunami or earthquake with an intensity of up to seven Richter scale. Pre-fabricated box beams technology will be adopted to build the new bridge. The positive economic spin-offs from this include production lines that will fabricate the beams in Penang, and the bulk of its raw materials, such as high-strength concrete piles, steel, timber, cement and aggregate (composite), are likely to be sourced locally. The local sourcing approach is expected to benefit the domestic raw material suppliers as well as related service providers.

In addition, the construction of the second bridge would potentially generate 2,000 job opportunities for management staff, technical expertise, professionals, and other construction workers from local and foreign. This second bridge differs from the approach in the past - the first Penang Bridge project. CHEC, the main contractor of the second bridge, will practice project coordination with local companies, where local engineers and professionals will be employed, and they will work closely with their foreign counterparts.

Expansion of the First Penang Bridge

The expansion or widening works of the existing Penang Bridge are on-going at present. This RM585 million project is slated for completion by end of next year. The bridge, once expanded, will have a new lane on each side, comprising a 2 metre-wide lane for motor-cycles and a 3.5 metre-wide lane for other vehicles. The expansion, once completed, is anticipated to, at least in temporary, reduce the traffic gridlock faced by the commuter and transporters.

Penang Sentral integrated transport hub

Penang Sentral, another highlight of the NCER projects, is an integrated transport and logistics hub, which will integrate rail, ferry, monorail and land transport. This integrated transport hub will be built on the site of the Butterworth ferry terminal, railway station and former bus terminal, covering an area of 557,418 square metres. The proposed RM2 billion modern and comprehensive transport hub would be developed by a joint-venture between Malaysian Resources Corporation Bhd (MRCB) and Pelaburan Hartanah Bumi-putra Bhd.

The proposed hub would consist of two ferry platforms, two monorail platforms, four train platforms, 50 bus platforms and 4,000 parking bays, as well as commercial and residential properties, has capacity to accommodate some 200,000 passengers / users daily. The first phase of the project - the construction of the RM100 million integrated transportation terminal, is scheduled to take off in early 2008 and be completed in 2010. The entire project is expected to be completed in 10 years.

Penang Monorail

The long awaited Light Monorail Transit (LMT) is expected to take off early next year. The State Government is currently working out details with Syarikat Prasarana Negara berhad (SPNB), to determine the alignment and assess the proposals, as well as other detail needs. This public monorail network, will cost approximately RM1.2 billion. It is aimed to ease the traffic congestion on the Island and Seberang Prai.

Penang International Airport expansion

Penang International Airport (PIA), handled 3.1 million (or 7.3 per cent) of passenger movements in Malaysia, was the fourth largest airport after Kuala Lumpur International Airport (KLIA), Kota Kinabalu and Kuching¹. However, PIA was the second largest airport in Malaysia by International passenger movements (1.5 million or 8.4 percent) in 2006. In terms of cargo movements, PIA was the second largest airport after KLIA in Malaysia last year, handling a total of 225.9 metric tones (or 21.5 per cent) of cargo in Malaysia as compared to the 672.9 metric tones (64 per cent) handled by KLIA.

Penang International Airport is currently undergoing expansion works. The phase I plan that took off in 2006 involved the expansion and upgrading of the passenger check-in facilities (to expand from the existing 32 to 58 check-in counters) and parking bays for aircrafts. These expansion works are expected to be completed by end of 2007. The phase II development will include land acquisition and re-aligning of boundary for airport expansion, re-aligning and extension of runway (the existing 3.3 km runway will be extended 500 metres to 3.8 km to cater for the larger aircrafts), expansion of terminal building, and to upgrade and establish an area for special cargo handling.

Penang Port expansion

Penang Port Sdn Bhd is currently undertaking the third phase expansion of port facilities at the North Butterworth Container Terminal (NBCT) costing RM 400 million. Among the expansion includes extension of the existing berths from 900m to 1,500m; decking of an area behind the existing berths to provide an export deck of 1500m for storing containers and cargo; deepening of the North Channel to the port from 11.5m to 14.0m through a grant of RM 150mil from the Federal Government.; acquisition of seven post- panamax cranes with twin-lift capacity and capability of handling 30 boxes an hour at RM 200mil; acquisition of two mobile harbour cranes at RM 20mil to handle smaller barge vessels; and container handling capacity will be increased from 1.0 million TEUs to 1.8 million TEUs upon completion of the above facilities within 2 years.

¹ Malaysia Airports Annual Report 2006

Penang Port Sdn Bhd recently announced the fourth phase of its expansion plan of the NBCT costing RM 3.2 billion to ensure that Penang Port will play an effective role as the transport and logistics hub in the NCER. The expansion to be undertaken over a 10-year period will comprise reclamation of 405 ha of seabed; development of three commercial zones, namely cold storage facility to store halal food, manufacturing & processing hub, and distribution and warehousing; extension of the berthing facilities by another 1,500m increasing the total length to 3,000m; and development of an area of 40.5ha for a centralized hazardous liquid bulk cargo facility.

PPSB plans to attract foreign auto manufacturers to assemble their vehicles in the manufacturing and processing hub for export. There are already auto assembly plants in Gurun & Bertam which import their parts & spares through Penang Port. The latest proposed expansion of the Naza plant in Bertam and the relocation of part of Sime Darby's motor plant in Shah Alam to its Kulim facility, can provide Penang Port the additional traffic volume in terms of parts import and vehicle export in the near future.

The availability of the cold storage facility for halal food will complement the agriculture push of the NCER. Emphasis in agricultural exports from potential downstream industries such as fruits, fisheries, aquaculture, animal husbandry & vegetables will provide the traffic volume for the port facilities. The existing halal park at Kubang Menerong and the proposed halal hub in Sungai Petani will provide vast export potential through Penang Port to Middle East countries.



The development of a centralized hazardous liquid bulk facility can cater for the relocation of all dangerous cargo within Butterworth town center to a dedicated terminal away from population centers. The development of Penang Sentral Project in Butterworth into a transportation hub must be carefully planned with all potential hazardous facilities such as the petroleum tankage facilities sited adjacent to the ferry service needs to be relocated. The facilities, when developed, can also cater for the expected steel fabrication works and import of machineries for the proposed Trans- Peninsular Pipeline project and the Yan Petroleum Zone project when they take off.

The Railway Double Tracking Project

In April 2007, the Minister of Transport announced that work on the Ipoh – Padang Besar double tracking project is expected to begin by the end of 2007. The project covering 329km is expected to be completed within 5 years, by 2012.

The emphasis on mega logistics infrastructure development in Penang is expected to boost the growth of the construction sector, including both the upstream and downstream sectors, such as steel, pile, cement, cable, furniture and furnishing sub-sectors. Moreover, the implementation of these proposed projects are expected to stimulate the growth of the property market. Market source indicated that Batu Kawan and Batu Maung, and the surrounding areas, are expected to be the new growth areas for the property market. In fact, land prices at these areas had appreciated significantly ever since the projects were proclaimed. In addition, areas around the proposed sites of the Penang Sentral at Butterworth, Penang Monorail and the Penang Outer Ring Road are also expected to benefit both residential and commercial properties. Therefore, some positive economic performance for the State over the next few years is anticipated.

Furthermore, financing is not deemed as an issue for the NCER infrastructure projects. As we know, the Ninth Malaysia Plan will allocate RM40 billion per annum for development expenditure. For all NCER projects, the government will finance about one third of the RM177 billion, or RM59 billion worth of investment, over a period of 18 years. This amount (on average, RM3.5 billion per annum) accounted for only a small percentage of the Government's total development spending. The remaining two-third of the required investment is expected to be injected by private sector. Thus, it is unlikely to be a financing concern, given the ample liquidity (about RM173 billion as at June 2007) in the banking sector².

² Bank Negara Malaysia, Monthly Statistical Bulletin, Jun 2007 (www.bnm.gov.my)

Things to Ponder

A span of eighteen years is not a short period. Some were apprehensive about the overall sustainability as far as project implementation is concerned. The success of the NCER plan and the vision to make Penang the regional logistics hub, will very much depend on the acceptance of private sector of the blueprint and their commitment to participate in the long run, as well as the coordination between the Federal Government, four northern States and their respective local authorities.

There is little doubt that the desire to make Penang the regional logistics hub has fueled a lot of excitement to Penangites. Nonetheless, some MNCs raised their concerns on whether or not the existing and planned logistics infrastructure would be able to support the growing trade activities and traffic volume generated from the neighboring States. The forecasted boom of trade volume from neighboring States, if really take off, may causes Penang to face infrastructure bottleneck again in the very near future.

Penang is no longer the low cost production centre. China, India, Vietnam and other emerging developing countries have attracted substantial number of MNCs to invest and set up their production facilities. Apart from the challenges faced in attracting new foreign investment, will the existing MNCs and local large manufacturers in Penang and neighboring States continue to be convinced to stay in Penang / Malaysia, in the next five or ten years?

Furthermore, Penang is searching for new sources of growth and gearing towards higher value-added, R&D / D&D, and ICT based services and activities. Will the shift of economic growth direction affect the future trade volume, particularly import and export of electronics and electrical products, via the airport of Penang? Moreover, the air cargo movement of the Penang International Airport has registered a drop of nearly 13 per cent for the first seven months of 2007, as compared to the same period of last year (Table 4).

Table 4: Penang International Airport – Cargo Movement (Kgs), 2006 and 2007

	2006	2007	% Change
Jan	17,269,855	16,222,022	-6.1
Feb	17,929,103	15,542,311	-13.3
Mar	21,198,351	18,016,361	-15.0
Apr	20,474,038	17,131,780	-16.3
May	18,190,387	14,507,298	-20.2
Jun	19,918,946	17,121,807	-14.0
Jul	18,954,320	18,151,008	-4.2
Total	133,935,000	116,692,587	-12.9

Source: Penang International Airports, Monthly Statistics Report, July 2007

Limited land for airport expansion, the holding costs on land acquisitions, insufficient warehouse space particularly in the island, lack of access in terms of direct flights to / from Europe, Australia and New Zealand, are among the bottleneck that could hamper air logistics sector in Penang.

The possible impact of the double track train project was raised. Some are of the opinion that if the revival of the shelved double track train project happened, the cargos from Southern Thailand are very likely to be tracked direct to Port Klang, instead of Penang Port. This internal competition may pose a serious threat to Penang's economy.

On the other hand, as stressed by both manufacturers and logistics service providers, substantial losses incurred due the failure to meet their shipment schedule were frequently caused by the massive traffic jam at Penang Bridge. Therefore, they are hoping

that the expansion of the existing Penang Bridge as well as the construction of second Penang Bridge, if not to be completed earlier than their original schedule, should at least meet their completion date with no delay. Severe traffic gridlock is faced when one of the already congested lanes of the existing bridge be closed for expansion works. In order to ensure all the parties involve in the projects can constantly be reminded to keep to the timeline, some even suggested to set up a public notice board to countdown / display the number of day left for the projects to be completed. Incentive is suggested to be given if the projects could be completed earlier than their schedule, and vice versa, penalty should be imposed if projects delay.

As highlighted in the previous issue of our publication, the increased security concern has caused the rise of operating cost (high insurance premium and expenditure to improve security) for the logistics industry players. In order to promote Penang as the regional logistics hub, measures to address the security concern for the entire logistics value chain, be it local or international transportation system, as well as the public security, need to be accentuated.

In spite of the new and upgraded infrastructure / hardware, the success will always need to be complemented by 'software', for instance, the need to continuously improve the efficiency of the custom clearance, streamline the e-logistics system, as well as to increase the overall cargo clearance system (that involved other government agencies). All these are very much needed to enhance the overall competitiveness of the logistics hub.

Human resource is another vital aspect to steer the State towards becoming the regional logistics hub. An observation was made that there is a lack of qualified manpower in terms of competence and experience as well as an ability to carry out various tasks efficiently according to international standards and practice. Furthermore, according to industry observers, currently the logistics industry is not the choice for the SPM or STPM school leavers in Malaysia. Effort should be taken to promote the logistics industry as one of the career opportunities for school leavers.

The State is expected to benefit from the increased economic activities due to the higher trade volume and transportation frequencies. Nevertheless, the possible adverse environmental impact, such as increase of air and noise pollution, or other negative ecological implication, due to the higher traffic volume and aggressive infrastructure works / activities, should be equally factored in for the overall development planning. If there had been any violation by any parties, these foul play parties should bear the full accountability for their wrongdoing.

Many have ride on the impending economic boom from the NCER logistics hub proposal, where land and properties prices around the proposed areas had started moving up substantially ever since the projects were announced. As a result, directly or indirectly, the building materials cost, transportation charges, cost of doing business, as well as cost of living have fueled. In short, there is inflationary pressure and if without proper control, it will result in adverse impact to the people, especially the poor.

Some Suggestions

There is a need to enhance domestic and international air linkage to make Penang Airport as a regional air hub. Apart from infrastructure readiness, attracting more airlines and budget carriers, expand air connectivity with external trading partners, improve the efficiency in cargo clearance, as well as the possibility of setting up a low cost cargo terminal, are among the suggestions to be considered for future growth.

As for port, while the proposed NCER projects would potentially generate more imports & exports volume, there is a need to attract the Main Line Operators (MLO) to call at Penang Port. In this respect, Penang Port faces tremendous competition from Port Klang and Port Tanjung Pelepas with their more established facilities & proven efficient services. Penang Port will need to enhance their efficiency in operations and management and start wooing the MLO now with comprehensive marketing strategies.



MLOs need a long lead -time to finalize decisions to include a direct port call in their schedules. Without the potential of high volume of base import and export cargoes / containers, MLOs cannot be induced to call at Penang Port. Similarly, foreign investment to the NCER needs to be attracted through the availability of reliable and efficient direct call services. The challenge that Penang Port is facing is to institute a marketing plan whereby the requirements of both investors and major logistics service providers are met. Failure to do so may subject the new port facilities to continue with its past role, which is, to serve as a feeder port.

Furthermore, to overcome the adverse impact of the rail double tracking, it will be necessary for Penang Port to woo the shipping lines with more efficient services and long -term service agreements with incentives.



Years of traffic woe and inefficient public transport system have prompted most of the Penangites to pray that the NCER's integrated public transport initiative be a success. Hence, the Rapid Penang, the monorail system, the second Penang Bridge and Penang Sentral integrated transportation hub are highly anticipated by the community. The public transportation system, both hardware (infrastructure) and software (efficiency in operations) needs to be enhanced in order to be a compelling alternative to personal transportation and to ease the traffic gridlocks.

The elderly, mothers to be, children and disabled persons' needs should be taken into consideration for the regional logistics and transportation planning. Barrier-free public transport is very much needed to cater not only for the needs of the wheelchair users, visually impaired, hearing impaired and intellectually impaired persons, but also for the elderly, mothers to be as well as children. In addition, when considering the needs of the disabled, it is not just the public transport itself that needs modification, but also the supporting infrastructure, for example, access route/pavement to the station/stop, the station itself, affordable fees and more importantly the attitude of the driver of public transport. In short, a holistic approach ought to be adopted to provide barrier-free public transport for all.

Some visionary proposed that the NCER should adopt an integrated transportation hub-township development approach. When the authority plans to construct a monorail / public transport station at one location, the whole planning should be broaden to include the township development with comprehensive facilities around the site and its vicinity. Although Penang is assigned to be the dedicated regional logistics and transportation hub, the adequacy of public transportation system need to be further extended, in a concerted and systematic manner, to other neighboring States to enhance inter-connectivity.

Some far-sighted quarters have even suggested that there is a need for the State to start planning for the third bridge / link, in view of the positive outlook and imminent boom of the NCER as well as other regional economic corridors.

Conclusion

Can NCER and the regional logistics hub vision fuel the economic growth and elevates the income levels of the northern corridor, and Penang in particular, in the near future? The success and challenge of NCER remain to be seen. But one thing for sure, to make NCER a success and scaling the growth to the next level in all aspects, we need a team that not just talks the talk, but also able to walks the talk.

The commitment of the National and States policy makers, the efficient and effective collaboration and co-ordination of various implementing agencies across all the four States, the dynamism and innovativeness of private sector, and the readiness, full co-operation and support from the '*rakyat*' will determine the fate.

Last but not least, we must realize, deep in our heart, the ultimate goal of NCER is to foster a world-class economic region in a safe, clean and sustainable environment. In other words, to enhance the **Quality of Life** for the people, including the senior citizens, disabled persons, and the poor, who choose to invest, live, work, learn, visit and bring up their families here, in this region, and in this country. **§ Lim Wei Seong**

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“Measuring the Impact of Mainland China on Southeast Asian Societies. On Social and Political Constraints on Ethnic Chinese Entrepreneurship”

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Abstract

Taking a point of departure in a fluid and potential volatile political and economic landscape in East and Southeast Asia this paper focuses on ethnic Chinese SME entrepreneurs in Southeast Asia. They are gradually becoming a centre piece in the discussion as to whether the rising Mainland Chinese economy is a benevolent or predatory force in the Asian region. Despite the coherent ethnic and cultural nature generally described to this particular group, the present article argues that in fact it is divided into many smaller factions due to questions of national loyalties combined with a host of different economic, politically and cultural preferences on behalf of the countries in which the ethnic Chinese reside. This differentiation of the ethnic Chinese community in Southeast Asia, it is argued, is a reflection of multi-dimensional impacts such as colonialism, different types of social and political entrenchments in the different Southeast Asian countries of residence. This again makes the ethnic Chinese entrepreneurs vulnerable towards the indirect effects of a rising Mainland Chinese economy and the impacts that has on the individual Southeast Asian national economies thus boomeranging back more or less negatively on their respective ethnic Chinese minorities.

Keywords: China, Southeast Asia, Indonesia, Chinese entrepreneurship, national politics, ethnicity.

Assessing Mainland China's economic performance from a Southeast Asian Perspective

According to observers, is it critical for the Southeast Asian economies to understand China's economic development and to figure out how to counter a potential devastating predatory competition from that country. The main background for such a statement is based on the fact that since the emergence of China as the world's largest recipient of foreign direct investment (FDI), this has beyond doubt diverted some of the FDI flows that might otherwise have gone to Southeast Asia. For example, during the period 1988 to 2000, five Southeast Asian countries, Singapore, Malaysia, Thailand, the Philippines and Indonesia, have experienced declining inward FDI. Furthermore, the relative shares of FDI in GDP in all five Southeast Asian countries between 1988 to 2000 have decreased quite significantly, a reflection of both the rapid GDP growth of some countries (Singapore + 2.2 %) and a dramatic net decline in inward FDI in others (- 0.7 % for Indonesia). China, on the other hand, has experienced an increasing share of FDI from 1 % during the 1988 to 1990 period to 1.3 % during the 1998 to 2000 period (Yeung 2006: 6).

Furthermore, approximately 75 per cent of China's cumulative inbound FDI has come from Asian economies and almost 80 per cent of all FDI into Asia in 2001 went to China. Previously China was first and foremost competing with Malaysia, Thailand, the Philippines and Indonesia since they have been mostly dependent on foreign investment and technology but now global capital flows into China thus restraining the Southeast Asian countries from moving up the value-added ladder. This means that Asian economies with the technical capabilities to stay ahead of China will benefit of China's economic growth whereas those that rely on foreign technology will find their positions threatened by China (Wanandi 2002: 231, Bolt 2000: 111).

Arguably, the economies that will benefit the most from China are those that have the capabilities to penetrate the growing Chinese market, develop complementary relations with the Chinese economy, attract investment from China and create development partnerships with China. Mari Pangesty adds that given greater openness, growth in Chinese domestic demand coupled with growth of its labour intensive exports, which are still dependent on raw material and intermediate inputs, certain imports from Southeast Asian countries are likely to increase. The products that will benefit these countries are oil, gas, wood, rubber, agriculture based products together with manufactured products such as electrical machinery and the like. Indonesia is a case in point here due to its huge quantity of natural resources. Basically, it is up to the Southeast Asian countries, especially ASEAN members, to ensure competitiveness when supplying these products to China thus benefiting from a rising Chinese economy (Pangesty 2002: 85).



Actually, the rising economic might of China, when combined with Japan and Korea, threatens to turn Southeast Asia, except for Singapore, into an economic sideshow. Jusuf Wanandi stresses that it will be wise for Southeast Asia to commit China to a regional web of rules and institutions so as to be able to contain and partly control the economic might of China (Wanandi: 2002: 232-33). Mari Pangesty also stresses the importance of creating regional networks based on free trade agreements such as the ASEAN Free Trade Area (AFTA), as well as other regional configurations like the ASEAN+1 and the ASEAN+3, combined with bilateral trade relations between China and each of the ten ASEAN countries.

However, it is imperative to prevent the development of rigid bilateral centre-periphery, like structures between East and Southeast Asia with all the patron-client relationships that might entails. This means to contain or rather to create manageable co-operative economical relationships with China, and to a lesser extend East Asia in general, seen from a Southeast Asian perspective, is thus through regional co-operation where free-trade agreements are the means and equality in partnership is the goal. Compared to regionalism in the Americas and the enlargement of Europe, however, East and Southeast Asia are still searching for their own institutional identity (Pangesty 2002: 81).

China's ascendance to economic superpower status does not, however, only mean doom and gloom for the Southeast Asian economies. Becoming a big economy also brings about a growing domestic demand for (imported) goods and thus an expanding home market as mentioned above. For example, according to Bloomberg News¹ the Asia-Pacific region exported 44 per cent to China in the first 10 months of 2004. That is equivalent to about US\$219.7 billion. Malaysia alone sent 16.2 per cent of its foreign shipments to China in the first half of 2003, five times as much as in 2000. Because of an annual growth rate of about 8.5 % in 2003, 9.3 % in 2005 and was forecasted by BBC Business New in December 2005 to grow a further 9.4 % in 2006 and 9.5 % in 2007, which makes China the fastest growing economy among the 10 biggest economies in the world, China is also a new source of income for the developing economies in Asia.

¹ Bloomberg News 12 January 2004.

The downside to it, however, is that these growth rates, which attract a huge amount of FDI, may reduce the prospects for growth in such countries as South Korea, Singapore, Malaysia and Thailand, the Bloomberg News agencies reports². The combination of low inputs of FDI and a China oriented export economy carry the potential threat for at least some of the Southeast Asian economies that it makes them even more dependent on China's ability to drive export-led recoveries, thus creating the background for the before mentioned highly problematic centre-periphery structure. As one observer puts it, however, this potential negative development is more or less outweighed by the acknowledgment that a growing China is like a rising tide, as it lifts all boats in its vicinity.

It is against this background of a fluid and potential volatile economic landscape in East and Southeast Asia that this paper focuses on one particular ethnic group that has become a centre piece in the discussion of whether a rising Chinese economy is a benevolent or predatory force³. We are referring to the ethnic Chinese in Southeast Asia. Despite the coherent ethnic and cultural nature generally described to this particular group the present article argues that in actual fact it is divided into many smaller and bigger fractions, economically, politically as well as culturally due to questions of national loyalties combined with a host of different economic and cultural preferences on behalf of the countries in which the ethnic Chinese reside. This differentiation among the ethnic Chinese in Southeast Asia, it is argued, is a reflection of multi-dimensional impacts such as colonialism, different types of social and political entrenchments in the different communities and nations of residence. This again makes the ethnic Chinese, conceived of as regional wide minority groups, vulnerable towards the effect of a rising Chinese economy and especially the impacts it has on the individual Southeast Asian national economies thus boomeranging back more or less negatively on their respective ethnic Chinese minorities. To further concentrating our focus on the ethnic Chinese, this paper focuses mainly on those who live in Indonesia and Malaysia. Finally, the main focal point in this paper is not Chinese controlled MNCs or conglomerates but rather SMEs, as it is mostly they which are thorn between national loyalties and local constrains; not only towards other ethnic Chinese but also towards their non-Chinese local and national compatriots.

Southeast Asian Ethnic Chinese and the Impact of Mainland Chinese Capital

The impact of the ethnic Chinese in Southeast Asia has been documented since the 14th century. It was, however, not until the beginning of the 18th and 19th century that migrants and sojourners from especially the southern part of Mainland China, Fujian, Guangdong, Hainan and Guangxi provinces, began in earnest to settle down in Southeast Asia, in particular in today's Malaysia and Indonesia. Here some worked as indentured labours in the European owned rubber plantation and tin mines, while others settled down as traders of various kind. These migrants used already existing Chinese networks establish on transplanted conceptions of guilds based on various types of professions, sometimes were organised like secret societies, common religious orientation, language or dialect or descent affiliations to certain geographical locations in China. The common denominators behind these were basically group identification and principles of *guanxi* (reciprocal relationships) and *xinyong* (trust), just to mention the two most important ones⁴.

In particular *guanxi* affiliations seems to have survived the test of time. For example, several observers have argued that *guanxi* affiliations⁵ within a Chinese network were and still are a kind of *modus operandi* for doing business within the ethnic Chinese business community⁶. The all-encompassing nature attributed to *guanxi*-affiliated networks is also prevalent in discourses on the Chinese diaspora, that is, the generic name for overseas Chinese networking practices⁷.

² Yeung 2006: 7-8.

³ For a general discussion, see Bolt 2000

⁴ For further details, see Jacobsen 2005

⁵ A short hand definition of *guanxi* is that it constitutes a form of social exchange based on sentiments and emotions and are marked by a mutual belief in reciprocity and loyalty.

⁶ Luo (2000), Yang (1994), Weidenbaum and Hughes (1996), Kotkin (1992)

⁷ McKeown (2001), Bolt (2000) and Gipouloux (2000).

For Kotkin (1992), for example, the Chinese diaspora is characterised by an enduring sense of group identification and global linkages, and for Callahan (2002) the comparative advantage of the diaspora's Confucian reading of capitalism is that cultural ties lower the transaction costs of doing business in China and Southeast Asia, as the legal system in this region is not fully developed and implemented⁸.

These perceptions of capitalism in a Chinese environment, in the present context of a Southeast Asian Chinese, seems to portray the ethnic Chinese as having constructed a kind of fifth-column, non-grounded transnational flow of ethnicised capital that mainly thrived within closely knitted circles, maintained by age-old Chinese kinship, language or even philosophical affiliations. One cannot help feeling that such perceptions have an Orientalist feel attached to them!⁹ However, when taking a critical look at the literature on the relationship between contemporary Chinese business enterprises and guanxi affiliated networks in East and Southeast Asia, an absence of a profound influence of the latter on the former together with a lack of cohesiveness within the Chinese diaspora per se are revealed. Wong (1998), Gomez and Hsiao (2001) and Jacobsen (2007) have problems finding evidence for a dominance of chain-related guanxi affiliated business deals within the diaspora, based on ethnic affinities or shared identities.



On the contrary, profit driven motives seem to prevail—be it with intra-ethnic or inter-ethnic business relations thus also linking up with domestic, non-Chinese, business communities in the country of residence. This flowing in and out of the Chinese diaspora, governed partly by personal strategies and partly by contextual circumstances, is a practice that Riggs (2001) has defined as a process of diasporisation and de-diasporisation, when switching from mono-ethnic to multi-ethnic spatial relations, be they local, national or international. Cribb (2000) and Gomez and Hsiao (2004) furthermore contest the thesis that the institutions, norms and practices of the ethnic Chinese are the main reason for the growth of their enterprises. They question whether Chinese entrepreneurs have depended primarily on business networks based on shared identities to develop their corporate base.

This argument is further spelled out by Qiu Liben (2000) who writes that if one examines contemporary Southeast Asian Chinese networks in a historical context it can be seen that they were not products of the economic and cultural expansion of China but rather the product of a global capitalist expansion. She continues:

'The Chinese networks themselves have changed with the needs of time; they developed from the networks of bangs (organisations based on guanxi like connections, MJ) to the networks of the overseas Chinese and then to the open and multi-cultural networks shared by citizens of various countries. This has enabled them to play an important role in the sustained economic development of Southeast Asia and in integration of the region' (Qiu 2000: 203).

This confirms Arif Dirlik's (1996) proposition that guanxi business practices is an ethnicisation of universal capitalist practices and not a specific Chinese economy paralleling global capitalism. Returning to the discussion of the cohesiveness generally attributed to the Chinese diaspora, this paper ascribes to the idea that a diaspora constitutes a decentred, multi-levelled and fractious, generally ethnically affiliated, ideational network that allows people to move in and out of a given diaspora depending on their current social and political situation¹⁰. The adherence to a perceived pertinent diaspora thus depends on relative social, economic, and political contextual givens. An understanding of a given diaspora does therefore not depend on systemic network approaches, that is, theoretical constructs hovering above empirical and geographical constrains as indicated by Ong and Nonini's 'ungrounded empires' (1997), but rather by analysing de facto socio-political contexts that delineate the positioning of an individual in a pertinent for that person diaspora. By taking such an approach it is imperative to focus on those social, political, and economic forces that have the capability of generating changes in the societal embedment of the ethnic Chinese.

⁸ For a critical discussion of 'Confucian capitalism', see Yao 2002 and Dirlik 1996.

⁹ For a discussion of the inner workings of the Chinese diaspora globally, see Ong and Nonini 1997.

¹⁰ For a fascinating discussion in this connection, see Ang (2001) and Riggs (2001).

On the Relationship between Chinese Entrepreneurs and the Impact of Mainland Chinese Capital

This leads us to forward the main question in this paper: having disentangled Chinese network practices and having stressed how imperative it is to focus on those social, political, and economic factors that have the capability of generating changes in the societal embedment of the ethnic Chinese, this prompts us to ask how the ethnic Chinese have reacted towards the growing Mainland Chinese economy? Arguably, by focusing on ethnic Chinese SMEs and stressing the importance of analysing them in relation to their societal embedment the importance of the Mainland Chinese economy comes second to those entrepreneurs. They have to primarily secure their freedom of manoeuvre in their communities of residence, a freedom that is guided just as much by political and cultural engineered strategies as by cynical economic calculations or emotional or ideological attachments to 'the old country'.

This argument becomes so much more important as the rising Chinese economy influences, as we have seen, positively or negatively the economic performances of the various countries in the Southeast Asian region. This again influences the domestic attitude towards the ethnic Chinese in their respective communities of residence¹¹. Arguably, the ethnic Chinese in Southeast Asia do not unilaterally embrace or cheer the expanding Chinese economy, as it has a profound influence on their freedom of manoeuvre in their communities of residence. Instead we see a careful balancing of how to achieve the better of the two worlds: increased potentials for expanding one's business without jeopardising the relationship to a domestic non-Chinese social and political environment. In the following two small case studies of ethnic Chinese SME business communities in Manado, the provincial capital of North Sulawesi, Indonesia, and in Johor Baru in the State of Johor, southern Malaysia. The paper focuses in particular on how they relate to their respective communities of residence and whether the current economic events in Mainland China have any influence on their current economic performance.

Two Southeast Asian Case Studies

Manado in North Sulawesi Province, Eastern Indonesia

Two things stand out when studying the Manadonese Chinese Business community. The first is a high emphasis of assimilating into the Minahasa community¹² – a preferred societal positioning that is underlined by referring to oneself as a *peranakan*. Stressing assimilation instead of integration and categorising oneself as *peranakan* is similar to stressing both a diachronic and synchronic sense of belonging. Being a *peranakan* emphasises having roots in the local community and being assimilated refers to an abolition of ethnic differences. At face value these two main aspects of being Manadonese Chinese could be one of the factors that explain why there have not been any violent clashes between ethnic Chinese and the Minahasa before, during and after the fall of the New Order regime.

The second thing about the Manadonese Chinese is that they do not stand out as a distinct ethnic group among the Minahasa. On the contrary, even the Minahasa stresses the almost total assimilation of the Chinese into the local communities. It seems as this can to a certain degree be attributed to the fact that the mechanisms for marking oneself out as a distinct group do not influence the current inner functioning of the Manadonese Chinese conceived of as an ethnic group. For example, *guanxi* affiliations do not play an important role within the ethnic Chinese business community even though they can still be identified as a social signifier amongst the Manadonese Chinese. As such this study subscribes to Gomez and Hsiao's critique of *guanxi* practices in a modern economy. As previously stressed it is the profit motive that plays the greatest role for the Chinese entrepreneurs when conducting business, not ethnic factors or cultural preferences, a fact that also goes for the Manadonese Chinese entrepreneurs.

¹¹ Bolt 2000: 119-25, Yeung 2006: 14.

¹² The Minahasa is the main ethnic group in North Sulawesi Province.

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An interesting consequence of the non-dominant position of *guanxi* in the Manadonese Chinese business community is that it, because it is so weak, actually undermines the functioning and effectiveness of *kongsi* organised businesses. Arguably, *guanxi* affiliations can be conceived of as reinforcing the inner workings of *kongsi* organised businesses, as both strives towards reinforcing relations between the Chinese partners and thus indirectly promoting a distinct Chinese-ness in terms of business practices. However, as it is now *guanxi* only constitutes but one out of several business strategies when establishing *kongsi* based companies. This de-linked relationship between *guanxi* and *kongsi* thus reinforces processes of assimilation and down plays the development of a distinct ethnic (Chinese) identity. Such a development is reinforced by yet another factor, namely religious affiliations, as Christianity, the dominant religion in North Sulawesi, is generally seen as a facilitator between non-Buddhist Chinese and Christian Minahasans. And as Christian Chinese by far outnumbers Buddhist Chinese processes of assimilation are further reinforced.



However, taking processes of assimilation to their ultimate limits leads towards the assumption that ethnic distinctive features become hybridised to such an extent that the original ethnic identities involved are gradually being dissolved and a new commonly agreed upon cultural denominator arises. Such a perspective can only be an illusion. Assimilation processes are always based on asymmetrical relationships. In the case of the Manadonese Chinese and the Minahasa the latter is the dominant part and it would be difficult to imagine that they would give an inch of their perception of ethnic supremacy in relation to the ethnic Chinese. As such assimilation processes are about stipulating power relations that are manifested in social integration and more or less peaceful co-existence. Ethnic distinctions remain despite these processes but descent towards a lower level of social practice. They only resurface during ceremonial occasions, which are societally detached and socially accepted by the dominant 'other'.

A somewhat unexpected consequence of these processes is that the Manadonese Chinese becomes de-linked from the Chinese diaspora. By far the greatest numbers of informants have detached themselves from their ancestral root in either Fujian or Guangdong Province. Mainland China is currently being conceived of as either a potential promising target for doing transnational business or as an interesting tourist destination. The 'home' part of the Chinese diaspora has thus been separated from the otherwise classical triangular perception of diasporic constellations, namely the 'home-host-migrant' construct. This points towards the fact that diasporas are multi-dimensional entities that are contextual defined. Even though the Manadonese Chinese has currently cut off the 'home' part of the Chinese diaspora the linkages are still there, but dormant. This means that when not activated diasporic links descends into a deeper layer within peoples mind and remains there until various social and political events reboots them back into existence.

On the basis of this, it is possible to suggest that a diaspora is a latent structure, that is, not a permanent established ethnic oriented national or international router for migrant and sojourners. A diaspora only becomes alive locally when certain social, political or economic events highlight or squeezes a certain ethnic group, for example, the Chinese, as have been the case several times in Indonesia. This confirms Riggs's (2001) notion of diasporisation and de-diasporisation as people utilise a given diaspora when need be. In between, it does not exist in their minds.

As for now North Sulawesi provides them with a social and political safe heaven, and the Minahasa accepts them in their midst as they constitute an important economic factor in the province. So for the time being the Manadonese Chinese are highly localised, that is, 'assimilated' and thus de-linked from the Chinese diaspora. For how long these positive inter-ethnic relationships will last depends on a whole range of things; economic performance, locally as well as nationally, religious harmony, and amicable and non-competitive inter-ethnic relationships, just to mention a few areas of potential contention. When and why a shift in these relationships might occur, thereby giving rise to a potential re-linking of the Manadonese Chinese to the Chinese diaspora, can only be determined through empirical studies, not theoretical predictions¹³.

Johor Baru in the State of Johor, Southern Malaysia



Contrary to the Manadonese Chinese entrepreneurs in North Sulawesi, there is a clear perception among the ethnic Chinese SME entrepreneurs in Johor Baru (JB) of being different from other ethnic groups in this part of Malaysia and of being treated accordingly by the community of residence. The blame for this state of affairs is laid on the official *bumiputra* policy that promotes a positive discrimination of the Malay population at the expense of the Indian and in particular the ethnic Chinese population. A consequence of this policy, according to ethnic Chinese spokespersons, is that the Malaysian people got most of public benefits in terms of education, jobs and financial support from the government, both at state and federal government level. For example, terms of education, this leads to that most Chinese students attend the many private school and higher education institutions to be found throughout Malaysia or go abroad to take their education. In JB, there are quite a few of them but many young people prefer to cross the Johor Strait in order to get or continue their education in Singapore. The negative consequence of this is that many do not return to JB so as to put their new won skills to work there but choose instead to settle down and marry in Singapore.

As can be seen, the relationship between ethnic Chinese and the *bumiputra* are not governed by policies of assimilation but rather by a policy of a peaceful co-existence based on a public framework of mutual inter-dependency. In a sense this relationship is perhaps more honest towards the reality, as it is not dressed up in a rhetoric of assimilation as in North Sulawesi. This proves our previous stand on the relationship between integration and assimilation, in that the latter is but a cover up for an asymmetrical power relationship between the two groups. In JB this power relationship is by no means covered up but played out in public! Because of this officially sanctioned practice of positive discrimination ethnic Chinese identity contrast sharply with that of Malay identity, in that it is spelled out in specific Chinese cultural and religious associations and trade organisations such as the Chinese Chamber of Commerce and Industry and other professional or non-professional organisations, which are mainly attuned towards serving ethnic Chinese interests. A somewhat negative consequence of this is that the ethnic Chinese feel superior towards the Malay and Indian communities in terms of economic performance, but pragmatically recognises that the Malays in particular have the political power to impose their aspirations and ambitions on the Chinese thus forcing them to support or at least accept a *status quo* as defined by the Malays!

As an example of these ethnic Chinese organisations, one finds the clan based language groups. There are a variety of ethnic Chinese languages spoken in JB, which is contrary to the situation in Manado in North Sulawesi, where Hokkian speaking Chinese predominate with about 85 per cent. In JB there are Teochius, Hokkians, Hainans, Hakka, and Cantonese-speaking Chinese in almost equal proportions. Representatives from these language groups' mix but are nonetheless divided into clans that provide each other with help when doing business amongst themselves, with *bumiputra* entrepreneurs, and when linking up to business contacts in Mainland China. In fact, all five language groups have formed their own associations. They are mostly social associations and not specifically oriented towards economic or political ends. Basically, these associations are interest groups, which means that they can exert pressure on politicians and parties alike by giving 'advices' about the needs and demands of the ethnic Chinese community.

¹³ For more details, see Jacobsen 2007.

These associations maintain strong ties to Mainland China and see it as their main concern to uphold the ties to the old country in terms of culture and language. Especially within the area of language are they very active, as many of the younger Chinese have problems speaking the various Chinese dialects or Mandarin for that matter.

As mentioned, the different clans are not exclusive in the sense that they stick to themselves. On the contrary, they intermarry and initiate joint business ventures. There are, however, rather strained relations towards the bumiputra business community and towards the local state and federal state because the close relationship between the three; the bumiputra business community is explicitly supported by the two latter thus leaving the ethnic Chinese (and the Indian) business community more and less outside influence in this connection. Despite these constraints there are business related joint ventures between the ethnic Chinese and bumiputra. This is actually necessary if ethnic Chinese entrepreneurs are interested in getting government contracts for major projects. In case the Chinese companies succeed in gaining government contracts they have to have at least one Malay representative in the company's board of directors, as the law requires that. Such arrangements are very similar to the Ali-baba arrangements in Indonesia.



The Cantonese association is the oldest one of the five 'clans'. It was founded at around 1880 and has been active ever since. The Hokkien association is the youngest one while the other three were founded in between the Cantonese and Hokkien ones. For many, especially older ethnic Chinese entrepreneurs in JB, guanxi affiliations are very important for governing interaction within and between firms. This goes even more in relation to the work done within and between the language associations. Interestingly, the guanxi-governed associations do not automatically invite new migrants from Mainland China to settle down in JB, even though they have quite close connections to Mainland China. If a newly arrived migrant who originates from, say, Guangdong, he would not necessarily have contacted the Cantonese association before leaving Mainland China. Generally, migration occurs on a personal initiative without the help of the association. The latter only becomes important when the new migrants have settled down in JB. Then the migrant was invited to utilise the various networks that the Cantonese association had.

Guanxi practices are still important, not only within these associations but also within the business community, a fact that is reinforced by a general perception of exclusion and social marginalisation. There are, however, different attitudes towards guanxi practices within the ethnic Chinese business community. It is in particular among the older generation of entrepreneurs that guanxi affiliations are regarded as being very important, especially when initiating new business ventures. The initial meeting between new business partners, for example, are arranged along guanxi lines, that is, pre-organised by an intermediary that both parties trust.

This way of initiating and conducting business is not that prevalent among the younger generation of entrepreneurs. For them, Chinese entrepreneurs do not exist in a vacuum, as some of the older entrepreneurs seem to think. They have to take account of the changing modes of doing business with the outside world - not only in relation to the Malaysian economy but also to the global one, forcefully represented by Singapore just across the Johor Strait! Many young entrepreneurs regard a guanxi-dominated economy as a hindrance towards economic flexibility and a free flow of capital. Both of these economic premises are necessary when addressing them at times volatile fluctuations within the global economy. As a consequence a rethinking of business practices within the ethnic Chinese business environment in JB is under way, as stiff competition from especially Singapore combined with a brain drain of the best young entrepreneurs towards Singapore is on the rise, thus threatening the overall economic environment and performance in Johor Baru. Interestingly, it is thus Singapore and not Mainland China that poses the greatest threat towards the economy in JB. Mainland China is conceived of as an opportunity that can be exploited if the possibility for doing that is present, not as a threat or a must, as most of JB's SME enterprises, both Chinese and non-Chinese, are directed towards the domestic market in Malaysia and in particular towards the nearby Singaporean market and then further out into the East and Southeast Asian markets¹⁴.

¹⁴ For further details, see Wee, Jacobsen, Wong 2006.

The China Factor and the Constrains of the Local

One of the main purposes of this paper has been to assess the importance of Southeast Asian countries social and political attitudes towards the ethnic Chinese entrepreneurs and whether that has any influence on how the latter relate to Mainland China. The main focus has been on SMEs, as they are much more societally grounded and thus vulnerable in relation to the social and political whims of their respective communities' of residence than the ethnic Chinese controlled MNCs and major conglomerates. The two latter are in a much stronger position to weather more or less awkward shifts emanating from the political establishment in their respective communities of residence than the SMEs, as they are capable of moving their production lines and capital assets to other locations outside their Southeast Asian location if need be. Furthermore, conglomerates and MNCs are also more prone to follow the mainstream of international capital flows in order to maximise their output. In these cases *guanxi* and *xinyong* together with other culture specific Chinese modes of doing business have little influence, as the rate of profitability within global capitalism carry much more weight¹⁵.



From a general perspective, Southeast Asian Chinese SMEs are generally more or less forced to comply with what kind of rules for conducting business there are in their communities of residence. That goes in particular when dealing with non-Chinese entrepreneurs. When doing business on an intra-ethnic basis, that is, with other ethnic Chinese entrepreneurs, *guanxi* and other culture specific Chinese modes of business practices have a much greater leeway. This does not mean, however, that intra-ethnic business practices are exclusively conducted along culturally defined modes. On the contrary, as shown in especially the Manado case the culturally informed business practices constitute but one set of practices out of other business practices when designing various intra- and inter-ethnic business strategies.

The differences between SMEs and the large Chinese controlled MNCs and conglomerates furthermore entail different attitudes towards the economic possibilities in Mainland China. As stipulated in the beginning of this paper the economies that will benefit the most from China are those that can penetrate the growing Chinese market, develop complementary relations with the Chinese economy, attract investment from China, and develop partnerships with Mainland Chinese entrepreneurs. MNCs and conglomerates are much more capable of taking advantage of the opportunities offered by an expanding Mainland Chinese market, as they can penetrate it by offering superior management expertise and technological know-how, have access to huge amounts of capital and production assets, things that are much wanted by Mainland Chinese entrepreneurs and governmental development schemes. Furthermore, if MNCs prefer to stay on in Southeast Asia but still want to enter the Mainland Chinese market they also in this connection have an advantage compared to the SMEs in that they are capable of conforming and changing their production base locally so as to be able to meet the needs of Mainland Chinese investors. In this sense Mainland China constitutes a major attraction seen from the perspective of MNCs and conglomerates.

These possibilities do not apply to SMEs, as they are more or less dependent on local conditions such as *bumiputra* policies in Malaysia and *Ali-baba* relationships combined with negative stigmatisation in Indonesia. In other words, they are much more grounded and dependent on contextual constraints. This also means that the question of integration and assimilation in relation to the host community becomes so much more important and actually decisive for whether to orient oneself towards Mainland China or the host community. In real life there is not much choice. The local always prevails over the international, as the former is the one who provides the individual ethnic Chinese entrepreneur and his company with a framework within which to thrive and die - a framework that is not only constrained in terms of business opportunities but also in terms of ethnicity and negotiated identities. On the basis of this, the market in Mainland China remains a distant and problematic potential.

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INTERNATIONAL HEADLINES

Japan To Boost Economic Ties With India
MENAFM.com, 17th August, 2007

Japan and India will seek to bolster lagging business ties between Asia's largest and third-largest economies. Japan is India's biggest donor of economic aid, but trade and investment between the two have been weak as Japanese companies have focused on China and Southeast Asian nations, such as Thailand and Vietnam. The two countries have already agreed to forge an economic partnership agreement within two years, and they also have an ambitious plan to build, with Japanese assistance, a \$90 billion industrial corridor with state-of-the-art infrastructure linking Delhi and Mumbai.



China Expected To Overtake US Become World's Second Largest Exporter
People's Daily Online, 21st August, 2007

China may overtake the United States to become the world's second largest exporter in 2007 if it maintains current export growth speed. China currently ranks third after Germany and the United States in export volume. It is highly possible that China will surpass the United States and become the world's second largest exporter in 2007, only next to Germany. Figures show that last year China trailed behind the United States in total exports volume only by less than \$70 billion, while its export growth rate is seven percentages higher than that of the United States. If calculated on the basis of current growth rate, China may exceed the United States in total export volume by \$50 billion this year.

Africa Marching Towards East To Trade
all.Africa.com, 21st August, 2007

China and India are emerging economic giants whose economies are among the fastest growing in the world. Both countries' appetite for Africa's commodities, especially raw materials, is unprecedented. On the other hand, a rise in economic growth in a number of African countries is increasing the demand for Asian manufactured goods. However, trade in most of Africa remains poor owing to the continent's small, landlocked countries and high geographic segmentation. South Africa and Nigeria account for 55 per cent of the continent's economic activity, while 18 countries have 36 per cent of Africa's population. The good news is that over the past 15 years, trade flows between Africa and Asia have increased rapidly making Asia Africa's third most important destination after the EU and the US. To sustain this, the need to develop strategies to leverage the current export explosion and to create opportunities benefits are much expected in long term economic prospects.

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