

OVERVIEW AND TRENDS OF ETHNIC CHINESE COMPANIES

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ETHNIC CHINESE COMPANIES

Ethnic Chinese companies are generally defined as companies founded/run by overseas Chinese in regions other than mainland China. Such companies operate in various parts of the world and in a wide range of sectors such as trade, retail, financial, real estate, and IT, driving the growth of the Chinese and global economy. They not only contribute to economic growth in countries where they are located, but also play a significant role in the Chinese economy. Their influence is sometimes referred to as “the overseas Chinese phenomenon”.

By region, many ethnic Chinese companies are engaged in high-tech business in North America, while in Europe, Australia, and Africa, they are engaged in restaurant, retail, and real estate business. Their presence is most prominent in Southeast Asia, which is close to China. From around the 7th century, the region has accepted labor migration from Guangdong, Fujian, and Hainan Provinces in China (some acquire a foreign nationality, while others do not)¹. At present, six of the ten leading ethnic Chinese companies are based in Southeast Asia.

In this report, we will overview ethnic Chinese companies in Southeast Asia, where their presence is high, as well as in Japan, and analyze their characteristics and rising investments in China.

TRENDS OF ETHNIC CHINESE COMPANIES

(1) Ethnic Chinese companies in Southeast Asia

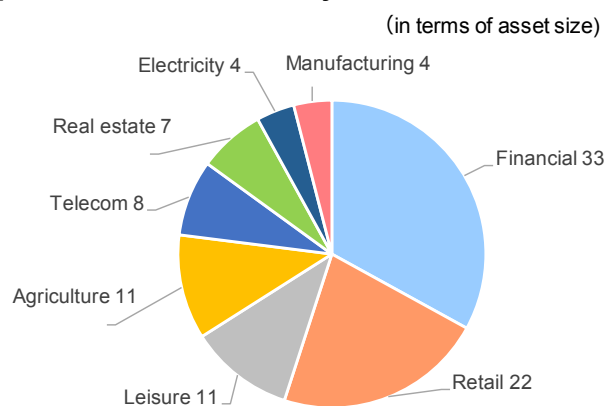
In terms of the number of companies and asset size, and the exception of Hong Kong, Macao, and Taiwan, which are included in greater China, ethnic Chinese companies are most concentrated in Southeast Asia, especially in Malaysia, Singapore, Thailand, the Philippines, and Indonesia. Looking at the region’s top 100 ethnic Chinese companies in terms of asset size, many of them are engaged in the financial, retail, leisure, and agricultural industries, but few in high-tech industries (Chart 1). This is probably because (1) starting high-tech business requires high technological capability and a huge amount of money, and (2) as generational change has yet to take place in most ethnic Chinese companies in the region, they stick to a traditional business model and are cautious about investing in high-tech fields.

Ethnic Chinese companies based in Southeast Asia have aggressively expanded overseas since the 1990s in order to diversify their operations and go global. They particularly invested in mainland China amid its rapid economic growth period. Foreign direct investment in China from Malaysia, Singapore, Thailand, the Philippines,

¹ Overseas Chinese are divided into two types: *Huaren* (who are citizens of other countries) and *Huaqiao* (who move and live abroad but retain the nationality of China).

and Indonesia, where many ethnic Chinese companies operate, surged severalfold from the 1990s, apparently driven by investment by such companies.

Chart 1: Breakdown of Top 100 Ethnic Chinese Companies in Southeast Asia by Sector



Source: Prepared by MGSSI based on Report on Development of Overseas Chinese Entrepreneurs 2017.

While such investment has been made in a wide range of sectors, including financial, real estate, retail, agriculture, and leisure, investment activities are particularly active in the real estate and retail sectors (Chart 2). For example, Malaysia-based HongLeong Group established GuocoLand China in Shanghai in 1994, through which it actively undertakes property development in China. Its investment centers on offices and high-end housing in Beijing, Shanghai, Nanjing, and Tianjing. Meanwhile, Lippo Group in Indonesia has been engaged in port construction and tourist resort development in Fujian, as well as property development and operation of shopping malls and hotels nationwide. Another example is Malaysian conglomerate Kuok Group, which was founded by Robert Kuok, dubbed “Hotel King”. It opened its first Shangri-La Hotel in mainland China in Hangzhou in 1984. Since then, it has opened 50 hotels across China. In Beijing and Shanghai, it also operates Kelly Hotel, the first-class hotel brand of the group.

Chart 2: Major Foreign Investment in China by Ethnic Chinese Companies Based in Southeast Asia

Company name	Based in	Core business	Investment in China
Bangkok Bank	Thailand	Finance	Advanced into China in 1986. Engaged in banking, life insurance, and credit business.
TCC Group	Thailand	Brewing	Advanced into China in 2000. Producing beer and white liquor. Expanded its market share by acquiring breweries in mainland China.
Charoen Pokphand Group	Thailand	Agriculture, retail, telecom	More than 300 companies in various parts of China, excluding Tibet and Qinhai, are under the umbrella of the group. Owns famous brands such as Chia Tai Feed, CP Pharmaceutical Group, CP Food, CP Lotus Corp, Zhengda Variety Show (CCTV's long-running variety program since 1990).
SM Group	Philippines	Retail	Operates shopping malls in Amoi, Quanzhou, Chongqing, Chengdu, and Suzhou. Opened its largest shopping center in China in Tianjin in 2016, with an investment of 3.0 billion yuan.
Jollibee Group	Philippines	Fast food	Acquired Taiwanese fast food restaurant chain Yonghe King and Chinese fast food chain Dim Sum. Also established wholly-owned foods processing company Happy Bee Foods Processing (Anhui) Co. Ltd. in Anhui in 2010.
Lion Group	Malaysia	Retail	Opened its first Parkson department store in Beijing in 1994. Now operates 58 stores in China.

Company name	Based in	Core business	Investment in China
Kuok Group	Malaysia	Hotel, sugar production	Opened its first Shangri-La Hotel in mainland China in Hangzhou in 1984. Since then, it has expanded its network to 50 hotels across China. In Beijing and Shanghai, it also operates Kelly Hotel, the first-class hotel brand of the group.
HongLeong Group	Malaysia	Real estate, finance	Established GuocoLand China in 1994. Actively investing in offices and high-end housing in Beijing, Shanghai, Nanjing, and Tianjin. Developed its largest office building in China in Chengdu in 2011, by investing USD 1.8 billion.
Bank Of Overseas Chinese	Singapore	Finance	Entered the China market by acquiring Chinese bank Wing Hang Bank in 2014. Has already expanded its network to 120 branches in China.
OSIM International	Singapore	Health appliances, tea	Opened its first store in Shanghai in 1993. Operates 265 stores in China. Manufactures/sells health appliances and tea.
Wilmar International	Singapore	Agriculture processing, foods	Established YiHai Kerry Investment Company Limited in Shanghai, through which it conducts business in China. Owns 2,000 stores in 400 cities throughout China. Its edible oil brands "Arawana" and "Hu Ji Peanut Oil" are popular. Investment in China has reached USD 6.0 billion.
Sinar Mas Group	Indonesia	Finance, real estate, agriculture processing, foods	Owns 20 companies each in the paper manufacturing and timber industries. Also engaged in property development in Shanghai, Ningbo, Shenyang, and Chengdu. Established Ningbo Commerce Bank. Investment in China has exceeded USD 10.0 billion.
Salim Group	Indonesia	Foods, automobile	Engaged in real estate business, agriculture investment, production/sales of foods. Investment in China totals about USD 30.0 billion.
Lippo Group	Indonesia	Real estate, finance	Invested about UKD 10.0 billion in harbor construction and tourist resort development in Fujian. Also engaged in property development, and operation of shopping malls/hotels.

Source: Prepared by MGSSI based on various media reports and "Development of Overseas Chinese Entrepreneurs 2017".

In foods and retail, Wilmar International, headquartered in Singapore, established YiHai Kerry Investment Company Limited in Shanghai, through which it conducts food processing and merchandising business all over China. Its edible oil brands "Arawana" and "Hu Ji Peanut Oil" are especially popular in China, and the company is ranked top 10th among edible oil companies there. Jollibee Group, a quick-service restaurant operator based in the Philippines, made inroads into China by acquiring Taiwanese fast food restaurant chain Yonghe King in 2004. The group also acquired Chinese fast food chain Dim Sum in 2008 and steadily expanded its operations in China. Another example is Malaysia's Lion Group. The group ventured into the retail business in China with the opening of its first Parkson department store in Beijing in 1994. It now operates a number of stores nationwide. Meanwhile, SM Group, based in the Philippines, operates shopping malls in Amoy, Quanzhou, Chongqing, Chengdu, and Suzhou.

(2) Ethnic Chinese companies in Japan

Historically, Japan has maintained contacts with overseas Chinese (known as *Huaren* (Japanese: *kajin*) and *Huaqiao* (Japanese: *kakyo*), due to the geographical proximity and similarity in culture and customs between Japan and China. From as early as the Ming dynasty, overseas Chinese came to Japan for trading. Even when Japan was sealed off from the world, Chinese merchants lived in Nagasaki City, a small island of which served as a Dutch trading post and was the only official place for trade between Japan and the outside world. The area where Chinese merchants resided became a Chinatown. Japan later opened the country, and more Chinatowns were created in cities such as Yokohama and Kobe.

After the Chinese government adopted its reform and opening-up policy in 1978, many Chinese students came to Japan and started a business. This has become the mainstream of ethnic Chinese companies in Japan. Many of such founders have acquired permanent resident status and have settled in Japan. According to data released by the Ministry of Justice, Chinese people living in Japan reached 730,000 in 2017, which accounts for roughly 30% of total foreign residents in Japan. The number of Chinese with permanent resident was about 250,000, or 34% of total Chinese residing in Japan. The ratio of Chinese to total foreign residents with a residence status of “Business Manager” was up from about 20% in 2006 to more than 50% in 2017, indicating that the number of Chinese who establish a company in Japan and the number of Chinese companies which advance into Japan have grown.

Ethnic Chinese companies founded in Japan typically offer IT outsourcing services by closely cooperating with employees/partners in China. According to the Chinese IT Companies Credit Association in Japan, the number of IT-related companies founded by Chinese has expanded to about 600 in 2016, since a Chinese student established the first one in 1986.

In particular, our eyes are on EPS Holdings (EPS stands for “Ever Progressing System”), which was founded in 1991 by a Chinese who graduated from Tokyo University. It was listed on the First Section of the Tokyo Stock Exchange in 2006. The company provides a wide range of services (e.g., planning/conducting clinical trials, applications for pharmaceutical approval, post-marketing study) for pharmaceutical companies, medical device manufacturers, medical institutions, and pharmaceutical venture companies, as an outsourcing service provider specialized in healthcare. In 2008, the group established its regional headquarters for China in Suzhou, through which it has invested in manufacturing/sales of medical devices as well as healthcare business in China. It is growing as a trading company specialized in healthcare and connecting Japanese technologies with the Chinese market.

CHARACTERISTICS OF ETHNIC CHINESE COMPANIES

We can point out two major characteristics of ethnic Chinese companies. The first is that they focus on “connections” or “human networks” (in Chinese, “guanxi”), including territorial and family ties. Chinese believe that informal, voluntary, and mutual trust will bring a win-win relationship. Ethnic Chinese companies fully utilize “guanxi” in doing business, as it is useful for credit guarantee and reducing transaction costs.

For example, Terry Gou, the founder and chairman of Taiwan-based Foxconn, was born in Taiwan, but his registered domicile is in Shanxi, China. As such, he has focused on his roots in doing business. For example, he has aggressively made investments in the province and assigned people from the region to key positions in affiliated companies. He has also increased his presence in Shanxi and built a good relationship with the local governments by visiting his grandfather’s grave and donating to schools and cultural facilities there. Another example is Jollibee Group based in the Philippines. As many Chinese living in the Philippines came from Fujian, the company has established a close relationship with Taiwan where many people from Fujian also live. When Jollibee advanced into mainland China, it acquired a Taiwanese fast food chain which had already operated in China and achieved steady growth.

The second characteristics of ethnic Chinese companies is that they have gained the trust of the Chinese government by using various human networks (families, birth place, etc.). For example, when Lin Wenjing (Sutanto Djuhar), the founder of Indonesian conglomerate Salim Group, created the first economic development zone developed by overseas Chinese in his hometown of Fujian in the 1990s, he become acquainted with Xi Jinping, who used to be the head of the province. It was reported that Xi Jinping, who later became Vice President of China, sent a telegram of congratulations on Mr. Lin’s birthday and that Xi Jinping took time to meet Mr. Lin when visiting Fujian. In this way, ethnic Chinese companies can build a good relationship with the Chinese government by using “guanxi”, which is a strong point for them. Rival companies in other countries/regions, such as Europe, the US, and Japan, find it difficult to imitate it.

ETHNIC CHINESE COMPANIES EXPECTED TO INVEST IN CHINA

The government of China also focuses on ethnic Chinese companies, which have roots in China. The central and local governments offer a special consultation service to ethnic Chinese companies, and make active efforts to attract investment in China. In 2014, the Chinese government established a policy of establishing a foothold for ethnic Chinese companies' making inroads into China and introducing the commercial and industrial platform "Qiao Meng Yuan" nationwide, to help overseas Chinese start business in China. By 2017, such platforms were present in 17 locations, including Tianjin, Beijing, Shanghai, Hebei, Jilin, Jiangsu, Anhui, Fujian, Jiangxi, Hubei, Hunan, Guangdong, and Sichuan. As "Qiao Meng Yuan" is to be implemented in each industrial park or national economic and technological development zone, which local governments are concentrating their efforts on, ethnic Chinese companies can enjoy benefits of well-developed infrastructure and preferential treatment in such parks/zones. What is notable is that an "Overseas Chinese Economic and Cultural Cooperation Experimental Zone" was established in Shantou City, Guangdong in December 2014, as a national pilot zone. The national pilot zone is a kind of special economic zone in which national strategies and reforms are initially implemented. The establishment of the aforementioned zone in Shantou indicates that the government now regards collaboration with ethnic Chinese companies as a national strategy, and aims to attract investment from ethnic Chinese companies. Factors behind this include ethnic Chinese companies' willingness to invest in China, their home country, as well as that fact that Chinese president Xi Jinping has emphasized repeatedly cooperation with ethnic Chinese companies in conjunction with his ambition to realize the "Great Rejuvenation of the Chinese Nation" and the "One Belt, One Road" (OBOR) initiative. The above experimental zone is expected to serve as an important base in the "maritime Silk Road" of the OBOR initiative.

Ethnic Chinese companies and organizations are making aggressive moves to expand business in China. In December 2017, the Thailand Chinese Chamber of Commerce, the largest Chinese chamber of commerce in Thailand, announced a plan to construct an office tower for ethnic Chinese companies based in Southeast Asia in the Overseas Chinese Economic and Cultural Cooperation Experimental Zone, by investing 10.0 billion yuan. Meanwhile, Indonesian conglomerate Lippo Group signed a memorandum of understanding with Chinese state-owned, Hong Kong-based conglomerate China Merchant Group (CMG) for cooperation in the healthcare field in October 2017. Lippo Group, through its Siloam Hospitals, plans to open hospitals and clinics in China and enhance cooperation in infrastructure development, including urban development and port construction, in the OBOR countries. In addition, the Indonesian company invested about 628.0 billion rupiahs (roughly 4.9 billion yen) in Chinese internet giant Tencent Holdings in June 2018. Lippo is strengthening its electronic payment and digital business and aims to further expand operations by acquiring Tencent's know-how. This is a good example of ethnic Chinese companies' investment in China with the aim of introducing a Chinese business model in countries where they are based.

As explained above, ethnic Chinese companies are expected to drive industrial/regional development in China, and they are aggressively expanding operations in China. For Japanese and other foreign companies, partnering with ethnic Chinese companies, which have roots in China and are trusted/expected by the Chinese government, is one way to enter the Chinese market. We think it is important for Japanese and other foreign companies to first understand the business portfolios and strategies of ethnic Chinese companies that they are doing business with, then explore the possibility of making an alliance and make a proposal to them, when developing business strategies in China.

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