THE CHINA BUSINESS OF LEADING SOUTHEAST ASIAN CONGLOMERATES

—LEARNING FROM THE FACTORS BEHIND THE SUCCESS OF CP GROUP AND KUOK GROUP —

Harue Shimato
South East Asia & Oceania Dept., Global Economic & Political Studies Div.
Mitsui & Co. Global Strategic Studies Institute
Fei Li
Economic Research Team, Corporate Planning & Strategy Div.
Mitsui & Co. (China) Ltd.

SUMMARY

- Leading Southeast Asian conglomerates actively pursuing business in China include Thailand's Charoen Pokphand (CP) Group and Malaysia's Kuok Group. Thailand's CP Group and Malaysia's Kuok Group.
- Both groups are conglomerates which were founded by Chinese people living overseas and which then entered China immediately after the reform and opening up of the country in 1978, ahead of other foreign companies. They have built deep relationships of trust with the Chinese government. With forward-looking strategies, the two conglomerates have been expanding their businesses for many years in line with China's economic development.
- The strategies of the two groups to transform and improve their business structures in response to structural changes in the Chinese market and external environment can serve as a guide for Japanese companies, as they are also foreign companies doing business in China.

1. SOUTHEAST ASIAN COMPANIES' INVESTMENTS IN CHINA

1-1. Outward FDI from Thailand and Malaysia

Outward Foreign Direct Investment (FDI) by Southeast Asian countries increased rapidly from the late 2000s, with Malaysia accounting for a significantly larger share of overall flows in the first half of the 2010s and Thailand from the latter half of the same decade (Figure 1)[1]. Thailand ranked 20th in the world for Outward FDI in 2021, making it one of the leading emerging countries when it comes to outward investment. For both countries, the main investment destinations are within the ASEAN region, with China accounting for only 2% of the total[2] (Figure 2).

[1] Figure 1 shows outward FDI flows by five-year periods, but in terms of single calendar years, outward FDI by Thailand increased notably only from 2016, when its share of the total rose from 6.8% in 2015 to 27% in 2016.
[2] However, investment in China by both Thailand and Malaysia may be underestimated because there are many companies which invest in mainland China via group companies in Hong Kong.

Figure 1: Southeast Asian countries' outward foreign direct investment flows and stock

	FDI flows								FDI stock
	1990	1995	2000	2005	2010	2015	2020	2021	2021
Total value (US$ mn)									
Singapore	2,034	7,283	6,848	12,553	35,407	45,223	31,758	47,395	1,346,395
Thailand	154	887	-20	311	8,042	4,991	**18,999**	**17,303**	177,044
Malaysia	129	2,488	2,026	3,075	**13,399**	**10,546**	2,419	4,750	134,613
Others (aggregate)	11	1,421	142	4,117	6,356	12,717	9,211	6,390	175,884
SE Asia total	2,328	12,079	8,996	20,056	63,205	73,477	62,387	75,838	1,833,936
Proportion (%)									
Singapore	87.4	60.3	76.1	62.6	56.0	61.5	50.9	62.5	73.4
Thailand	6.6	7.3	-0.2	1.6	12.7	6.8	**30.5**	**22.8**	9.7
Malaysia	5.5	20.6	22.5	15.3	**21.2**	**14.4**	3.9	6.3	7.3
Others (aggregate)	0.5	11.8	1.6	20.5	10.1	17.3	14.8	8.4	9.6
SE Asia total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Compiled by MGSSI based on UNCTADStat data

Figure 2: Recipients of FDI from Thailand and Malaysia
(% of total, balance as of 2Q of 2022)

	Thailand		Malaysia	
1	**Hong Kong**	**15.7**	Singapore	20.4
2	Singapore	13.1	Indonesia	10.4
3	Netherlands	9.4	Cayman Islands	6.1
4	Mauritius	6.5	United Kingdom	5.2
5	Vietnam	5.7	Netherlands	4.5
6	United States	5.3	United States	3.8
7	Indonesia	5.3	**Hong Kong**	**2.5**
8	British Virgin Islands	4.1	Vietnam	2.4
9	Cayman Islands	3.6	British Virgin Islands	2.4
10	United Kingdom	3.5	**China**	**2.3**
11	Japan	3.1	Thailand	2.3
12	Laos	2.8	Cambodia	1.4
13	**China**	**2.6**	Philippines	1.0
14	Malaysia	2.5	Germany	0.8
15	Australia	1.8	Chinese Taipei	0.7

Source: Compiled by MGSSI based on statistics of the Bank of Thailand and the Central Bank of Malaysia

1-2. Investment in China by Thai and Malaysian companies

While Malaysia's FDI mainly takes the form of investment by government-affiliated companies, Thailand's FDI comes from private companies. Regardless of this difference, Chinese conglomerates have long been the drivers of the FDI by both Malaysia and Thailand (Figure 3). While some companies have withdrawn from China due to struggles in the face of competition with local firms[3], Thailand's CP group and Malaysia's Kuok group entered the Chinese market immediately after the country's reform and opening up in 1978. Over the years, the two conglomerates have played leading roles in investment in China, enabling them to carve out significantly stronger positions for themselves in the country compared to those of other Southeast Asian companies.

[3] For example, Thai retail giant Central Group opened a string of department stores in China in the early 2010s, but was forced to close them by around 2015 due to poor sales caused by intensifying competition with local companies. Source: "Multinational Corporations in ASEAN" by Ryuichi Ushiyama, 2018

Figure 3: Examples of major Thai and Malaysian companies investing in China

Thai corporate groups	Source of capital	Core business
CP	Overseas Chinese	Food
Saha Union	Overseas Chinese	Textiles
Thai Beverage (TCC Group)	Overseas Chinese	Beverages
Kratingdaeng (TCP Group)	Overseas Chinese	Beverages
Thai Union	Overseas Chinese	Canned marine products
Mitr Phol	Overseas Chinese	Sugar
Bangkok Bank	Overseas Chinese	Financial
Kasikorn Bank (previously Thai Farmers Bank)	Overseas Chinese	Financial
Krungthai Bank	Government-affiliated	Financial
Siam Cement	Royal family	Cement
Malaysian corporate groups	**Source of capital**	**Core business**
Kuok	Overseas Chinese	Sugar, edible oil
Hong Leong	Overseas Chinese	Financial, real estate
Genting	Overseas Chinese	Leisure
Sime Darby	Government-affiliated	Agribusines, machinery
Khazanah Nasional	Government-affiliated	Investment fund
Petronas	Government-affiliated	Oil

Source: Compiled by MGSSI based on various news reports

2. THE CP GROUP

2-1. Overview

The CP Group's founding family, the Chearavanont family, hails from Chaozhou, Guangdong Province, and started out in the seed and fertilizer trading business in 1921 (Figure 4). The group's joint venture with Arbor Acres (US), the world's largest producer of broiler chickens, marked a turning point for its operations as it led to the first localized production of broiler chickens in Southeast Asia. By the mid-1970s, the company had established a vertically-integrated broiler chicken business ahead of competing feed manufacturers, including handling of feed and breeder chickens, hatchlings, and import of vaccines, as well as the fattening and butchering of broilers, and export of processed chicken meat products.

Figure 4: History of the CP Group (from establishment to the 2000s)

Year	Summary
1921	Chia Ek Chor and his brother Chia Seow Hui move to Thailand and establish Chia Tai Chung, the company begins importing vegetable seeds and fertilizers
1953	Chia Ek Chor's first son, Xie Zhengmin (Jaran), and Chia Seow Hui's son-in-law (Prasoet) begin importing feed
1959	Reorganizes Chia Tai Chung into Chia Tai Seeds & Agriculture, and becomes a major importer of seeds, fertilizers, and feed
1967	Establishes Charoen Pokphand Feedmill, and begins to produce feed domestically
1970	Launches a joint venture business with the US company Arbor Acres, the world's leading broiler chicken producer
1973	Establishes a broiler hatchery and a modern broiler processing plant, and begins exporting frozen chicken to Japan
1979	Establishes China's first foreign-capital livestock company, in Shenzhen
1980	Enters the pig farming business
1983	Upon the death of Chia Ek Chor, his fourth son, Dhanin, becomes the group's chairman and begins implementing management reforms
1986	Begins production of ham, sausage, and bacon in a joint venture with Oscar Mayer, the largest meat processor in the US
1988	Makes a full-scale entry into the wholesale and retail business, including the wholesale business for small and medium-sized enterprises through a joint venture with Makro of the Netherlands, and convenience store business through a joint venture with 7-Eleven of the US
1990	Enters milk production segment through a joint venture with the then Meiji Dairies
	Obtains concession to install a network of 3 million telephone lines nationwide from the public Telephone Organization of Thailand
1990s	Expands into overseas markets, including motorcycle manufacturing and retail business in China (Lotus Supercenter), feed production in Vietnam, and shrimp farming in India
2000s	Accelerates expansion overseas in various areas, including fishmeal production and shrimp farming in Vietnam, shopping malls in China, feed production and pig and poultry farming in Russia, livestock farming in Laos, and feed and livestock farming in the Philippines

Source: Compiled by MGSSI based on "Zaibatsu in Thailand: Family business and management reforms" by Akira Suehiro and Makoto Nambara, 1991; CP Group website (https://www.cpgroupglobal.com/en/about-cp/milestones)

Dhanin Chearavanont, who became chairman of the CP Group in 1983, has promoted the diversification of the business since the late 1980s and has grown the group into the largest conglomerate in Thailand. The group's main operations are in the following eight business lines: (1) agro-industry and foods, (2) retail and distribution, (3) media and telecommunications, (4) e-commerce and digital, (5) property development, (6) automotive and petrochemicals, (7) pharmaceuticals, and (8) finance and insurance. The conglomerate has a presence in 21 countries and derives one-third of its total revenues from the Chinese market[4].

2-2. History of the CP Group's business in China

The CP Group was the first foreign enterprise in China to establish a livestock company, setting up operations in Shenzhen in 1979, and has since invested in more than 600 companies throughout the country over around 40 years. Aside from its mainstay agro-industry business, the group diversified into real estate, finance, retail, and other businesses in the 1990s. The group is considered a pioneer because it was the first foreign enterprise in China to manufacture and sell animal feed and to establish a bank and a supermarket. Since the 2010s, the CP Group has promoted business alliances with blue-chip companies in other industries, such as by becoming the largest shareholder of Ping An Insurance (Group) Company of China, and together with Itochu Corporation invested approximately US$8.5 billion to acquire a 20% stake in the state-run conglomerate CITIC Group. It has also signed a strategic alliance agreement with Alibaba Group (Figure 5).

Figure 5: Development of the CP Group's business in China

Historical context		Business development
1970s	Reform and opening-up	**1979: Establishment of a livestock breeding enterprise (first such foreign-capital enterprise in China)**
1980s	Establishment of Shenzhen Special Economic Zone Tiananmen Square protests	1984: Establishment of a feed production enterprise (first such foreign-capital enterprise in China) 1985: Establishment of an integrated aquaculture and processing company (first of its kind in China)
1990s	Deng Xiaoping's South Tour Speeches Return of Hong Kong (to mainland China) Asian financial crisis	Early 90s: Entered the real estate market **1992: Establishment of a bank (first foreign bank in China)** **1997: Development of a supermarket chain (first foreign company to do so in China)**
2000s	China's accession to the WTO Collapse of Lehman Brothers	2000: Listing of pharmaceutical subsidiary in Hong Kong 2002: Opening of comprehensive shopping mall in Shanghai (first in China)
2010s	China ranks 2nd in the world in terms of GDP Stable economic growth	**2012: Acquisition of shares to become largest shareholder in Ping An Insurance (Group) Company of China** 2014: Sale of stake in telecom subsidiary to state-owned China Mobile Establishment of a joint venture with SAIC Motor in Thailand **2015: Acquisition of shares in CITIC Group** **2016: Conclusion of a strategic alliance agreement with Alibaba Group**
2020s	COVID-19 pandemic	2020: Completion of head office building in Beijing's CBD area

Source: Compiled by the Economic Research Team of Mitsui & Co. (China) Ltd. based on information on the CP Group's website

2-3. Factors behind the CP Group's success in China and its future direction (based on information gathered from interviews)

The CP Group's success in China can be attributed to (1) the trust it has built with the government in many areas and (2) its pursuit of diversified business development over many years.

(1) The CP Group is seen by the Chinese government as one of the most trusted foreign companies and has thus even been invited to participate in national projects. The group has developed a deep and ongoing relationship with the government by leveraging the connections of its Chinese founders and hiring and appointing former government officials and Chinese nationals to its management team. In addition to its ties

4 According to interviews with the group, the conglomerate derives one-third of its revenues from Thailand, one-third from China, and one-third from other regions.

with the central government, the group also maintains a close network with various government departments and local governments with regard to business licenses and permits, tax applications, fire safety inspections, etc., to promote its business. Opening a supermarket or convenience store in China requires approval from at least six government departments. In one case, the group received approval in about three months, whereas the process normally takes about six months. To do so, the group also invests in less profitable projects at times to maintain good relations with the government.

(2) After entering China with its mainstay agro-industry business, the CP Group pursued business diversification over a long period of time. In doing so, the group has diversified its management resources, and reinforced functions such as raw material procurement, product supply, and information gathering, and this has led to sales expansion, enhanced competitiveness, and the development of new markets. However, the supply chain disruption caused by China's zero-COVID policy from 2020 affected the group's agro-industry business and retail business.

As for the future direction of the group, it is shifting its focus to the Greater Bay Area (GBA) given the complexity of the international situation. At the same time, it is shifting its focus on wellness, education and logistics, which are relatively unrelated to economic security, and is pursuing new diversification through flexible management and calm decision-making.[5] (Figures 6 and 7).

Figure 6: CP Group's pharmaceutical subsidiary in Jiangsu Province *Rapid expansion from 2020

Source: Website of Chinese online publication Sohu
https://www.sohu.com/a/479560854_121101001

Figure 7: CP Group's main business lines (red text indicates strategic focus areas going forward)

Agro-industry, food	Retail, distribution	Property development	Industrial	Finance, investment	Wellness	Others
• Seeds • Livestock & fisheries • Feed • Aquaculture • Food processing	• Supermarkets • Restaurants • E-commerce	• Shopping malls • Office buildings	• Automotive parts manufacturing • Motorcycle manufacturing • Industrial equipment sales	• Banking • Commercial insurance	• Pharmaceuticals • Medical services • Health management services	• TV programs • Logistics • Education

Source: Compiled by the Economic Research Team of Mitsui & Co. (China) Ltd. based on interviews and information on the CP Group's website

[5] International situations, such as the friction between the US and China, are affecting the CP Group's operations in its home country of Thailand as well. As a countermeasure, for example, in infrastructure construction, the group is diversifying risk by introducing technology and funds from both China and the West, whereas in the past it has used 100% Chinese technology and products.

3. THE KUOK GROUP

3-1. Overview

Robert Kuok, founder of the Kuok Group, was born in Malaysia in 1923, but his father was from Fujian, China. He got his start in the food trading business in 1949 and found success in the sugar trade in the 1960s and 1970s, and is known as the "Sugar King" of Southeast Asia. In 2007, the PPB Group conglomerate under the Kuok Group umbrella became the largest shareholder of Wilmar International, one of the world's leading palm oil producers.

From the 1970s, the Kuok Group made forays into the marine transportation and hotel businesses, and has been actively expanding overseas. The group's Shangri-La Hotel has grown to become the largest hotel chain in Asia. As Robert Kuok dislikes the Malaysian government's Bumiputra policy (Pro-Malays affirmative action), he has moved his base of operations to Hong Kong[6] (Figure 8).

The group's main business fields are (1) food and agribusiness, (2) properties, (3) maritime, (4) hospitality, (5) logistics, and (6) others(data center, cinema, etc).

Figure 8: History of the Kuok Group (from establishment to the 2010s)

Year	Summary
1949	Establishes Kuok Brothers, a holding company for the food trade, and begins trading of rice, sugar, and wheat flour
1953	Establishes Kuok Singapore to launch operations in Singapore, Thailand, Indonesia, and other regions
1959	Establishes Malayan Sugar Manufacturing in a joint venture with Nissin Sugar and Mitsui & Co.
1962	Establishes Federal Flour Mills (FFM), which commences operations as a wheat flour miller in 1966
1968	Establishes the holding company PPB Group, and begins production of livestock feed
1971	Opens the first Shangri-la Hotel in Singapore
1974	Establishes Kerry Holdings in Hong Kong to oversee Hong Kong and China operations
1980	Expands into mainland China
1996	Lists Kerry Properties on the Hong Kong Stock Exchange
2007	Acquires 18.35% stake in Singapore-listed Wilmar International, one of the world's leading palm oil producers, becoming its largest shareholder
	Enters shipbuilding and vessel repair business
2016	Sells the South China Morning Post newspaper and SMCP Group's media business to the Alibaba Group

Source: Compiled by MGSSI based on information on the Kuok Group's website (https://www.kuokgroup.com/about) and various news reports

3-2. History of the Kuok Group's business in China

The Kuok Group entered the Chinese market in 1980, opened its first Shangri-La Hotel in China in 1983 in Beijing, and built the China World Trade Center office tower[7] in Beijing in 1985. In the agribusiness field, the group built China's first palm oil plant in 1988 in a joint venture with the state-owned COFCO Group, and began the first-ever retail sales of edible oil in the domestic market in 1991. The agro-company Wilmar International's Chinese unit has established grain and food manufacturing and processing plants throughout China. It raised a record US$2 billion when listed on the Shenzhen Stock Market in 2020 (Figure 9).

[6] Robert Kuok's nephew Kuok Khoon Hong leads Wilmar International, his second son Kuok Khoon Ean heads up Shangri-La Hotel, and his third son Kuok Khoon Hua is in charge of Kerry Group.

[7] Many leading foreign companies, including Mitsui & Co.(China), are tenants in the building.

Figure 9: Development of the Kuok Group's business in China

Historical context		Business development
1970s	Reform and opening-up	**1973: Procurement of 300,000 metric tons of sugar for China** 1974: Establishment of Kerry Holdings in Hong Kong
1980s	Establishment of Shenzhen Special Economic Zone Tiananmen Square protests	1980: Entry to China's market **1983: Construction of first Shangri-La Hotel in China, in Beijing** **1985: Construction of the China World Trade Center office tower in Beijing** 1988: Establishment of a joint venture enterprise with COFCO
1990s	Deng Xiaoping's South Tour Speeches Return of Hong Kong (to mainland China) Asian financial crisis	1990: Start of operations at China's first palm oil factory **1991: Launch of first-ever retail sales of edible oil in China** 1993: Establishment of China's first grain manufacturing company in a joint venture with COFCO and the US company AMD 1996: Listing of Kerry Properties in Hong Kong
2000s	China's accession to the WTO Collapse of Lehman Brothers	2002: Introduction of first blended edible oil product to the Chinese market, to increase health consciousness among consumers 2005: Start of petrochemical plant operations in Shanghai 2009: Establishment of global R&D center in Shanghai
2010s	China ranks 2nd in the world in terms of GDP Stable economic growth Digitalization	**2014: Establishment of data center company in Beijing** 2016: Sale of entertainment business under its umbrella to Alibaba Group 2018: Construction of head office building in Shanghai's Pudong district
2020s	COVID-19 pandemic	**2020: Listing of Wilmar's Chinese unit on the Shenzhen Stock Exchange**

Source: Compiled by the Economic Research Team of Mitsui & Co. (China) Ltd. based on information on the Kuok Group's website

3-3. Factors behind the Kuok Group's success in China and its future direction (based on information gathered from interviews)

The Kuok Group's success in China can be attributed to (1) a deep relationship of trust with the government and (2) a dynamic spirit of taking on new challenges and having a bold attitude toward investment.

(1) Before its entry into China's market, the Kuok Group had formed a close relationship with the Chinese government through its support measures. In 1973, during the Cultural Revolution, when founder Robert Kuok learned that China was facing a sugar shortage, he helped by procuring 300,000 metric tons of sugar from the international market. In 1985, when the central government decided to develop business areas in Beijing to attract foreign companies, believing in the potential of China, which had just emerged from a centrally planned economy, the Kuok Group invested US$530 million to build the China World Trade Center. The office tower is situated in the heart of what has now become China's top central business district (CBD), where land values alone are in the tens of billions of dollars. Because of the good relationship with the government that the group has cultivated in this way, it is given preferential treatment when it comes to entry into new industries, land (usage rights) acquisition prices, taxes, and so on.

(2) Kuok executives have used their exceptional business acumen to seize business opportunities and boldly invest in China. Many foreign companies were hesitant to invest in China after the Tiananmen Square protests in 1989 due to concerns about the political and social situation there. In contrast, the Kuok Group, supported by the deep trust it had built with the Chinese government, ventured to focus on land acquisition and investment expansion, in anticipation of the future, and introduced its core edible oil production business in China before other foreign companies, thereby gaining an advantage in the market.

In recent years, as China has shifted from high economic growth to the pursuit of high quality growth, the group has also shifted its focus areas to food processing, medical care, and elderly care (Figure 10). The group believes these areas are less susceptible to international situations, such as the US-China relationship. As one example of this, Wilmar is building ready-to-eat (RTE) food (prepared food) factories in Zhejiang, Henan, and Heilongjiang provinces with investment on a scale of ¥10-20 billion, and plans to expand to 100 locations nationwide over the next 10 years (Figure 11). In addition, the Kuok Group is expanding its consumer-oriented business with an eye on the potential of the Chinese market, particularly focusing on middle-class and affluent consumers, and targeting second-tier cities[8] where consumer spending is strong but competition for supply is not so fierce. Although the COVID-19 pandemic has slowed the Kuok Group's investment in China, the group plans to continue to expand its business by digging deeper, as it expects an economic recovery after the transition to a “with-COVID-19” lifestyle and believes in the potential of the Chinese market.

Figure 10: Kuok Group's main business lines (red text indicates strategic focus areas going forward)

Food, agribusiness	Properties	Logistics	Maritime	Wellness	Others
• Edible oil manufacturing • Sugar refining • Flour milling • Palm oil manufacturing • Food processing	• Office buildings • Apartments • Hotels • Shopping malls	• Transportation, shipping • Cross-border e-commerce • Logistics infrastructure	• Marine shipping • Shipbuilding, vessel repair	• Pharmaceuticals • Elderly care	• Cinemas • Wine sales • Data center infrastructure

Source: Compiled by the Economic Research Team of Mitsui & Co. (China) Ltd. based on interviews and information on the Kuok Group's website

Figure 11: Wilmar's production plant for ready-to-eat food under construction in Henan province

Source: Website of Chinese online publication Sohu
https://www.sohu.com/a/579487403_443659

4. CONCLUSION

The strategies applied by these two groups that have brought them success in China’s market can be summarized as follows: (1) Avoidance of political and policy risks and mitigation of market risks that are strongly influenced by policies, supported by deep relationships with the Chinese government established on various fronts, and (2) a flexible strategy to diversify business and shift focus areas based on the outlook for changes in China's economic and industrial structure and market potential.

Strategy (1) is due to the historical circumstances of the time when both groups entered the market and the relationships which were established with the government accordingly, and as such, it is not something that other foreign companies entering the market in the future can easily emulate. Moreover, companies should

[8] Examples include Hangzhou in East China, Zhengzhou and Changsha in inland China, and Chengdu and Chongqing in Southwest China.

probably maintain a fair amount of distance from the public sector, considering the risk of having a too-close relationship with the government. Keeping in mind these considerations, it would be a good idea for Japanese companies to do business in China by partnering with leading Southeast Asian conglomerates that have already established favorable relationships with the Chinese government.

Strategy (2) is their future direction and has implications for Japanese companies. Amid the structural shift of China's economy from its position as the world's factory to becoming the world's market, and from high economic growth to high quality development, both corporate groups intend to maintain the scale of their operations in China while flexibly rearranging their portfolios. The strategy is to identify market potential and new consumer trends, and specifically shift the focus to downstream consumer-related businesses such as pharmaceuticals, medical care, nursing care, education, food processing, retail, and logistics, and also shift attention to the GBA and second-tier cities in eastern and inland China. Japanese companies are also analyzing the situation surrounding their business and consumption trends in China from multiple perspectives. The dynamic spirit of these two Southeast Asian conglomerates to take on challenges and their ability to make investments based on quick decisions should serve as a guide for Japanese companies.