35 2010 November

Interdependency versus Notions of Decoupling in a Globalising World: Assessing the Impact of Global Economics on Industrial Developments and Inter-Ethnic Relations in Penang, Malaysia

Michael Jacobsen

Editor of the Copenhagen Discussion Papers:
Associate Professor Michael Jacobsen

Asia Research Centre
Copenhagen Business School
Dalgas Have 15
DK-2000 Frederiksberg
Denmark

Tel.: (+45) 3815 3396
Email: mj.int@cbs.dk
www.cbs.dk/arc

Interdependency versus Notions of Decoupling in a Globalising World: Assessing the Impact of Global Economics on Industrial Developments and Inter-Ethnic Relations in Penang, Malaysia

Michael Jacobsen
Associate Professor
Asia Research Centre
Copenhagen Business School
mj.int@cbs.dk

(November 2010)[1]

Abstract

Due to the increasingly integration and thus inter-dependency between the global economy, a given national economy and their societal embedment a triangulation between the three elements is a must if one is to understand the dynamic processes between them. This article focuses especially on the national economic and societal aspects of such a triangulation thus positioning the national dependencies of the global economy in the background. The notion of triangulation is perceived by the author to be more holistic and relational oriented compared to an approach based on decoupling. The latter aims through sector defined studies to assess the level of connectivity between global and national economics as well as between them and their societal embedment in order to detect whether there are potential fault-lines between the three thus mitigating the notion of decoupling. This article applies a triangular approach on the

[1] Paper for the 4th East Asian Net Research Workshop at Charles University, Prague. 6-7 October, 2010. Please do not quote or cite without the permission from the author.

electronic and electrical manufacturing sector in Penang. It concentrates in particular on how companies within this sector relate to pertinent governmental initiated industry policies and the impact of the inter-ethnic related affirmative action policy in this connection. The global aspect of the triangulation has thus been put on a back burner in this study, as the article emphasises the importance of pointing towards the inter-dependency between the political, the inter-ethnic and the economic sectors in Penang, as they are perceived to condition each other.

Keywords: *Decoupling, triangulation, economic development, inter-ethnic relations, industrialisation, nation building, Penang, Malaysia.*

Introduction

In this age of globalisation it seems a bit odd talking about decoupling from the global community. How is it possible to decouple from a world where increasing interdependency and harmonisation are keywords? In the political realm it seems almost meaningless to suggest that a nation state could withdraw from the global community thus concentrating and nurturing its domestic potentials. Looking towards the economic realm it seem even more unreasonable talking about a national economy withdrawing from the global economy taking the increasing internationalisation of local markets into account. Nonetheless, there is a discourse that discusses just that, namely whether or not to decouple economically and politically from the global community. And it is not only representatives from academia that discuss this for the sake of either verifying or falsifying the notion of decoupling. Many politicians and economist seem to view decoupling as a viable possibility or solution, when the domestic political and economic situation clashes with an ever entrenching globalisation jeopardising local interest in the process. The present article explores this discourse by first taking a critically look at the concept of decoupling. It then proceeds by presenting an alternative approach to studying the relationship between the global and national by introducing the concept of triangulation. The basic idea behind this is that the relationship between economic globalisation, national economics and a given societal context in which the two former is embedded is governed by various layers of interdependency. This means that one cannot focus solely on one corner of the triangle thus decouple, so to speak, the other two corners in the triangle in order to understand, for example, the political forces at play there. One has to take all three points in the triangle into account in order to disentangle the complex web of interdependency between them. To illustrate the importance of this approach a case study based on the electronic and electrical manufacturing sector industry in Penang, Malaysia, is introduced. The paper ends up by returning to the decoupling discourse in order to discuss it in the light of the findings from the case study.

On the notion of decoupling: real possibility or an intellectual exercise?

A relevant point of departure for beginning debunking the notion of decoupling is to search for its roots. Here the Dependency School that dominated the academic discourse during the 1960s, 1970s and 1980s immediately springs into mind with its focus on an almost deadlocked political and economic dual power structure consisting of a Third World development relative to developments in a First World. The theoretical foundation behind this duality was mainly based on neo-Marxist approaches formulated by scholars such as Gunder Frank, Dos Santos, Amin, Cardoso and Wallerstein. The point of departure of this school of thought was historical and structural determined processes that sprang from a colonialist and imperialist perspective, and centred on either a center-periphery relationship in which capital accumulation and export orientation was the main point of departure. A related notion of a dual world structure was the metropole-satellite relationship, which focused on how industrial and agricultural sectors related to each other. The main region where these approaches were applied was Latin America. The link to the current discourse on decoupling was provided by Gunder Frank, who maintained that Third World countries should de-link from the First World in order to develop as such linkages were harmful for the periphery. The way in which this de-linking was to take place were by having fewer linkages to the center and thus concentrate on domestic development and import substitution, all guided by a developmental state based on a revolutionary socialist ideology.

As is well-known these theoretical macro perspective were later replaced by multi-polar theories of globalisation in which multinational companies were the main players and nation states economic facilitators for industrial internationalisation processes, - events that in particular has resulted in theories of international business practices. Up until 2008 observers found supportive evidence for notions of decoupling in especially emerging markets in Asia, as some of these economies from the 1970s and onwards seem to be relatively unscathed from the troubled Western economies. A good case in point is the discourse on Asian Values during the 1970s, 1980s and early 1990s, and again after the Asian financial crisis in 1997 in the tremendous economic growth of especially China and India as well as much higher growth rates in the rest of East and Southeast Asia compared to those in the Western economies. As such emerging economies were perceived to be resistant towards the contractions in the American and European economies due to their strong and constantly growing domestic markets, high currency reserves and prudent macro-economic policies, partly based on experiences learnt during the 1997 financial crisis and partly based on perceived specific modes on doing business compared to their Western counterparts.

During 2008 and 2009, however, cracks in the notion of decoupling began to emerge again. The meltdown on Wall Street in the fall of 2008 sent shockwaves through the entire global financial system, not least in the emerging Asian markets. Contrary to what the decouplers expected, the losses were even greater outside the US with the worst experienced in emerging markets and developed economies like Germany and Japan. Even though China was relatively hard hit by the global economic contraction that followed the financial meltdown, it experienced together with India and a group of larger emerging markets in Asia a decent rebound, whereas the US, Europe and Japan still to this day remain more or less troubled by the ongoing financial turmoil.

Here in the first half of 2010 it seems as if we are approaching the bottom of the seemingly ‘U’ shaped economic crisis. Taking the many state introduced fiscal-stimulus packages into account around the globe in order to stabilise the individual national economy it seems at least for the time being that the Asia packages have had the greatest impact on the individual economies thus rejuvenating in the process an otherwise rather battered notion of decoupling. Some have advocated for the emergence of a new generation of decoupling related theories. However, the main question is whether the current stabilising of the Asian economies is a sign of a budding decoupling from the global economy, in particular the Western economies! This is still too early to state as a fact, as we do not know whether the current recovery will be sustained once the effects of the massive stimulus packages begin the fade.

Taking a critical approach towards analysing these developments from a decoupling perspective, China, like the other emerging East and Southeast Asian economies still remain tied to the US economy through the dollar. Without a delinking from the dollar, a decoupling of the East and Southeast Asian economies from the US economy remains unlikely. Another aspect that goes against an acceptance of a decoupling perspective based on a differentiated level of economic recovering is the relationship between decoupling and economic contextualisation. Even though the individual economy has been stimulated by its respective state this is not to say that the economy is also becoming detached from the global economy. The linkages between a national economy and the global economy are still there, as can be seen when looking at the national economy’s dependency of foreign direct investments (FDI) for its continued existence and its membership of the World Trade Organisation (WTO) thus aligning its economy with the global one. What about political decoupling then? This has been tried by ASEAN through its 1998 initiated developmental regionalism experiment in the Asian region. This was shot down 2001 by the major global economic players as being an attempt to introduce differentiated levels of competitiveness between the national, regional and global level thus damaging the free flow of capital (Nesadurai 2004).

As can be seen it is problematic to employ the notion of decoupling, as the global – local nexus is rather strong and pervasive. It seems as if the notion of decoupling is to cover up for a process that can be defined as a budding dismantling of a US and European global economic hegemony and a move towards a more fluid and contextualised conditioned shifting of centres of capital accumulation. Asia (and China and India in particular) is a very good case in point, taking the current developments in this region into consideration! De- or re-coupling, if we are to use these terms at all, seems to this author to be not so much of an economic nature, but rather constitutes a part of a political inspired discourse in which the notion of de- or re-coupling constitutes a potent political signifier. Taking this stand on decoupling reduces it to a domestic policy manifestation that reflects a current position in an international landscape of multiple and shifting power centres, thereby unintentional accepting an increasing global interdependency between and harmonisation of the individual national economies.

Introducing an alternative to notions of decoupling: a triangular analysis based on interdependency between the global economy, the national economy and the societal context in which both are embedded

Due to the above discussion of an increasing interdependency between the global economy, a given national economy and societal factors in this context a triangulation between the three is a must if the processes and thus the inter-dependencies between the three players in the triangle are to be fleshed out. This article focuses in particularly on the national economic and societal aspects of this triangulation thus leaving the national dependencies of the global economy simmering in the background. One of the reasons for this priority is that the present article is mainly based on institutional theory when analysing the relationship between the national economy and the societal factors that colours the industrial setup. This means that it is not only the economic performance of Malaysia, the country chosen for this analysis, that is important when seen from a global investment perspective, but also the institutional setup and more general societal factors that constitute very important sources of information when deciding whether or not to invest in Malaysia. The main geographical area of interest in Malaysia is Penang, and the chosen industry sectors in Penang are in particular the Chinese owned electronic and electrical manufacturing companies of which Penang is famous for accommodating so successfully.

The article will not go into detail with the electronic and electrical manufacturing sector per se, but instead focus on how the companies within this sector relate to pertinent governmental initiated industrial policies as well as how they relate to the impact of the inter-ethnic related affirmative action policy, as defined in the 'old' New Economic Policy (NEP) from 1971 and onwards.

In order to initiate this discussion it is imperative to take a point of departure in the composition of the population in Malaysia, as that is an all-important issue to take into account before discussing any economic and political developments in this country. The three dominant ethnic groups in Malaysia are the Malays, the Chinese and the Indians, which in 2006 were categorised as below[2]:

	Malaysia	**Penang State**
Malays	56 %	40 %
Chinese	31 %	43 %
Indian	7 %	10 %
Others (including Orang Asli)	6 %	7 %

Since the introduction of the NEP in 1971 this inter-ethnic setup has more or less been locked in terms of inter-ethnic harmonisation. A driving force behind this is the above mentioned affirmative action policy that favours ethnic Malays on behalf of the other two ethnic groups, - a policy that was initiated after the Kuala Lumpur riots in 1969 and written into the NEP in 1971. According to observers this has resulted in a hardening of ethnic borders thus making social and societal mobility across ethnic boundaries rather difficult. Processes of identity formation are therefore still closely following ethnic borders.

[2] http://en.wikipedia.org/wiki/Penang. It has so far not been possible to find more updated data in this connection.

The main consequences of this are that the most important jobs within the state bureaucracy are not necessarily manned by the best educated, and the students at the universities are not necessarily the best qualified due to the politically designed affirmative action policy with its emphasis on promoting the Malay. Perhaps the most serious consequence of this inter-ethnic deadlock is that it denies Malaysia its freedom of manoeuvre in a situation that demands action when confronted by serious domestic economic problems such as an erosion of its competitive base, a decrease in private investments, a decline in productivity and a serious 'brain-drain' situation within both academia and industry.[3] These problems have to be seen in relation to the current global economy that is characterised by financial and economic contractions. For Penang in particular this has meant that the main economic players, the multinational companies (MNCs), in the electronic manufacturing sector are contemplating moving to other Asian economies such as, for example, Vietnam, Indonesia or India, which offer better factor conditions than Penang is currently capable of doing. This means that if Penang is to uphold its position as a regional high-tech hub then it has to move up the value chain by making the 250 plus MNCs in the high-tech business move their R&D departments to Penang.

The possibility for doing so is there due to a highly developed industrial infrastructure and an investor friendly government. The problem is, however, that a complex state bureaucracy is taking a toll on an effective handling of business matters. The same goes for the production of university graduates for the R&D heavy industries. As mentioned above one of the main reasons behind these serious problems is the politically designed affirmative action policy that emphasises ethnic belonging over the best qualified individuals regardless of ethnic background. Even though the political establishment has maintained several times that the affirmative action policy is to be phased out and all citizens of Malaysia regardless of ethnic belonging is to be perceived as Malaysian per se it is still very much in place. The political cost of dismantle the policy seems to be too high for the Malays. Basically the reluctance of initiating such a change jeopardizes the overall strategy of moving Penang up the value chain. The frozen ethnic boundaries and thus locked mode of identity formation constitute a

[3] Poh Heem Heem. Penang Economic Monthly. June 2010.

kind of lid on the economic development in this the fourth largest contributor to the Malaysian GDP.

In the following the main focus will be on the ethnic Chinese owned SMEs within the electronic and electrical manufacturing sector. They are to constitute a counter study towards a stereotypical perception of the Chinese as an intra-ethnical oriented as well as more or less homogeneous group.[4] The article takes a more critical perspective of the ethnic Chinese thus introducing a more complex view stressing that the Chinese entrepreneurs are more inter-ethnic rather than intra-ethnic oriented economic players.[5] This way of perceiving the Chinese Malays demonstrates that stereotypically notions of Chinese-ness might be based on a politically motivated process of social engineering that is to legitimise a perpetuation of the current affirmative action policy towards the ethnic majority. In order to introduce a holistic analysis of these development the following sections focus on the economic setup in Penang, how the ethnic Chinese SME community relate to the economic policies of the Penang state and how the affirmative action policies impact on it in this connection. The article focuses in particular on the impact of the governmental initiated economic facilitators which are to stimulate the overall SME community in Penang. The article contextualises this discussion by introducing the national political ideology Vision 2020 together with the more concrete developmental schemes coined the Multimedia Super Corridor (MSC) and the Northern Corridor Economic Region (NCER). The idea is to assess the impact these national initiatives have on the Penang industrial setup. As stated above, this article is determined to show the importance of institutional analyses on not only the economy in Penang, but also within Malaysia as a whole, as the affirmative action policy and its many ramifications hits nationwide thus providing a potential global investor with a solid set of data on which to decide whether to invest or not.

On the Economic set-up in Penang

[4] Gomez (2002), Gomez and Benton (2004), Boulton (2005), Yeung (1999).
[5] Jacobsen (2006), Yen Ching-Hwang (2002), Tan Chee-Beng (2004).

When discussing the economic development of Penang one has to distinguish between prior and post 1971. In pre-1971 Penang was mainly a plantation economy mixed up with government initiated import substitution initiatives. This was to ensure that the local economy could stay independent of foreign interests and produce enough for local consumption. As there were no manufacturing companies and as the British owned companies in mainly the trading and plantation sector did not restore their operations to the pre-war level after WWII, unemployment was rather high during that period.

After 1971 things changed quite rapidly. Due to a progressive Penang State government under Tun Lim Chong Eu the government identified the electronic industry as having the best potential to absorb Penang's excess of semi-skilled labour. The southern part of the island quickly became highly industrialised thanks to the establishment of the Bayan Lepas Free Industrial Zone that was set up in 1972. It has over the years attracted more than 250 MNC high-tech companies such as Dell, Intel, AMD, Altera, Motorola, Agilent Technologies, Hitachi, Osram, Plexus, Robert Bosch, Fairchild Semiconductors and Seagate, most of which are mainly located within Bayan Lepas. Due to the nature of the MNCs Penang has concentrated mainly on the manufacturing sector focusing in particular on semiconductors, computer and computer peripherals, data storage devices, telecommunications equipment (software) and consumer electronics. To service the MNCs more than 1200 local support industries have sprung up within and outside Bayan Lepas. They are mainly specialised within automation, plastics, precision engineering and metal work, chemical products and packaging of various kinds.

A consequence of these developments has been that today Penang state has the fourth-largest economy in Malaysia, after Perak, Selangor and Johor. Manufacturing has now become the most important component of the Penang economy contributing about 43% to the State's GDP.[6] Furthermore, in January 2005 Penang was formally accorded Multimedia Super Corridor Cyber City status, the first outside of Cyberjaya on the Malaysian peninsula,

[6] Penang Sustainability Report 2008.

with the aim of promoting the development of high-tech industrial parks which are to conduct cutting-edge ICT research. The latest area of research in Penang to be taken up is the establishment of a biotech park thus leveraging on its industrial infrastructure that has made it Malaysia's foremost electronic hub. These new initiatives are in line with the 9th Malaysia Plan, which has identified these sectors as some of the main areas that is to help drive the country forward towards a developed knowledge economy as required by the Cyber City status.

As mentioned above, however, the state has experienced a gradual decline of foreign direct investments (FDI) due to factors such as cheaper factor conditions in Vietnam and Indonesia and in China and India, and arguably, lagging human capital in the form of a well educated and up-to-date labour force. Furthermore, the entrepôt trade has declined due in part to the loss of Penang's free-port status in 1969, but also due to the aggressive development of Port Klang near the federal capital Kuala Lumpur. However, the container terminal in Butterworth, on the mainland side of Penang State, is in for a major upgrade. This is detailed in the Northern Corridor Economic Region developmental plan that was initiated in June 2007. The main objective was to service the northern Malaysian region, but still carter for the rest of Malaysia in competition with Port Klang.[7] Other important sectors of Penang's economy that are to be upgraded according to this plan include, for example, health tourism, which is currently mainly clustered in the northern part of Penang Island as well as in Georgetown. Other sectors that are to be upgraded are finance, shipping and a variety of service sectors catering for the industrial development in the state per se.

Penang State Government's Economic Policies and the Chinese SME Community

In order to counter the above mentioned industrial decline the previous Penang State Government (PSG) under chief minister Tan Sri Dr. Koh Tsu Koon initiated a recovery oriented economic policy. Owing to limited land size and the highly industrialised nature of Penang's economy, agriculture was given little emphasis in its developmental plans. This

[7] Lim Wei Seong 2007, http://en.wikipedia.org/wiki/Penang.

comes as no surprise, as agriculture was only contributing about 1.3% to the state GDP in 2000 and there is no prospect of it to increase substantially in the years to come. The PSG is thus concentrating on servicing and upgrading the current industrial setup.

Even though Penang got the Multimedia Super Corridor (MSC) status in 2005 the Penang manufacturing industry still faces stiff competition from the original MSC on the Malaysian mainland thus threatening its position as Malaysia's 'Silicon Island'. The up until March 2008 Chinese dominated Gerakan Party, that has led the state government since 1969, was well aware of this and took several steps to address this threat. According to Peggy Toe, selling Penang was an important element in the government's industry competitive strategies and in line with the economic prescriptions promoted by both Vision 2020 and MSC for setting-up a new Malaysia. Accordingly, Penang stepped up its plans to become a symbol of this new emerging era (Toe 2003: 554).

In 1992, Penang Development Corporation (PDC)[8] was asked to develop a road map for operationalising the main ideas behind Vision 2020. In drawing on this vision PDC developed the theme 'Penang: Into the 21st Century' to outline its goals. It first aimed at diversify Penang's economy by nurturing a local manufacturing capability that was high-tech based and competitive driven, thereby responding to the demands from the various MNCs, and second, to develop a sophisticated service sector buttressed by the 'state-of-the-art' technology and skills, and finally, to modernise and upgrade the dormant productive capabilities in the agricultural sectors.

Besides these initiatives the Penang State Government, strongly supported by the private sector, initiated several projects that laid the groundwork for implementing the strategies as defined by PDC. For example, two new Free Industrial Zones and five industrial parks covering 1,850 ha of land on both Penang Island and Port Wellersley on mainland Penang were developed. Tax incentive schemes were introduced to entice foreign capital. A highly

[8] PDC was inaugurated in November 1969. It is still the main state development agency to help develop, plan, implement and promote socio-economic projects on behalf of the state government. It thus functions as the investment arm of the state government (http://www.pdc.gov.my/).

diversified electronics industry and supporting industries in engineering, metal, plastics and packaging for the electronic/electric industry were courted together with industries in the textiles and apparel sectors.

Initially MNCs were attracted to Penang due to its highly qualified labour resource, an efficient transport and communication infrastructure and the existence of an efficient banking and insurance sector combined with well developed freight and forwarding services. Automation was encouraged right from the start in order to keep labour costs down. The Penang State Government was quite supportive of foreign ventures and proved an important facilitator of business. The Penang State was so successful in reinventing itself as a progressive developmental state that manufacturing increased from 13% of GDP in 1971 to more than 50% of the GDP in 2000, employing more than 40% of the total labour force. In June 2000 there were 693 factories in Penang with a paid-up capital exceeding RM 7.3 billion. Of these 37.8% of investments came from overseas investors, the largest being Taiwan followed by Japan, the US and Singapore (ibid 2003: 554).[9] Furthermore, besides providing both tax and non-tax incentive packages for both local SME industries as well as for MNCs the Penang State Government introduced two new economic facilitators to help further develop the industrial setup in Penang, namely investPenang and the Socio-Economic and Environmental Research Institute (SERI)[10].

Now, before discussing how the economic facilitators and government initiatives have impacted on the Chinese SME business community that constitutes a major part of the industrial setup in Penang and is the main focus in this article, a definition of what is meant by SME is described. Generally, it can be defined into two broad categories[11]:

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[9] Although tourism is the second pillar of growth in Penang this sector will not be discussed in this report due to the main topic, which focuses on Chinese SME entrepreneurs. For further readings on the tourism sector, see Peggy Teo 2003.

[10] With regard to SERI this is a research institution that is mainly used by the Penang State Government and as such is of no direct help to the SME community. It does, however, provide the government with input of the developments within this part of the industrial setup (http://www.seri.com.my/index.php).

[11] The following is based on definitions provided by 'Small and Medium Industries Development Corporation' (http://www.smidec.gov.my/index.jsp). For further information of the SME community in Penang, please see Penang Economic Monthly. Vol. 9, Issue 4. April 2007.

1. Manufacturing, Manufacturing-Related Services and Agro-based industries: Small and medium enterprises in the manufacturing, manufacturing related services and agro-based industries are enterprises with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25 million.

2. Services, Primary Agriculture and Information and Communication Technology (ICT): Small and medium enterprises in the services, primary agriculture and Information & Communication Technology (ICT) sectors are enterprises with full-time employees not exceeding 50 or with annual sales turnover not exceeding RM5 million.

Based on these framework definitions a characteristic of the Chinese SME community in Penang can be summarised as follows: about 85% of the local industry in Penang can be classified as SMEs, the majority of which are owned by Chinese. During an interview with representatives from the Chinese Chamber of Commerce in Georgetown it was emphasised that the typical Chinese SME is currently undergoing a change. They are not only family run enterprises but are evolving into more complex and diversified entities, the specific characteristics of which depends on the size and constitution of the individual company. The micro or 'Mom and Pap' Chinese SMEs are typically very small family owned and run companies that produce a rather narrow range of products. This is especially the case if they are suppliers to major local or foreign companies. The small and medium SMEs constitute a more diversified lot. The most efficient of them has hired professional, not necessarily Chinese, managers to run the business in an 'arm's length' mode, but maintain the control over business assets and strategies themselves. Interestingly, the development of the latter is based on generally acknowledged Chinese modes of networking. For example, *guanxi* ways of networking constitute an important strategy among ethnic Chinese in Penang thus matching the general stereotype of Chinese business practices.[12]

It is thus possible to divide the Penang Chinese SME community into three main categories: 1) a 'classical' one consisting of 100% family owned and run SMEs (mainly micro SMEs), 2)

[12] Cribb (2000), Jacobsen (2007), Tong and Yong (1998).

100% family owned SMEs that are professionally managed according to 'arm's length' principles, but make use of 'classical' Chinese business strategies and network practices (mainly small and some medium SMEs), and 3) those SMEs that are about 50% or less owned by Chinese entrepreneurs, are professionally, that is, not family managed, and combine 'classical' Chinese strategies and network practices with modern market seeking techniques thus pushing them towards the upper level of the SME category and perhaps into the category of public listed companies (PLC) thus leaving the SME category all together.

There are two main reasons behind this differentiation of the Penang SME community. First and foremost, there is an ever entrenching global market economy that forces structural as well as organisational changes on the companies towards establishing a division of labour between ownership and management and to venture outside the immediate domestic market in order to expand their reach. The second reason for this differentiation is what can be defined as a negative tendency towards re-investment in one's own company due to what other observers have define as a localised mindset that focuses more on profit optimisation than technological and managerial upgrading. This goes especially for the 100% family owned and run companies. This kind of companies is open towards new production avenues that turn them into becoming, for example, suppliers to MNCs, but this does not move them up the value chain due to the before mentioned mindset. What, however, all categories of Chinese SMEs share is a kind of openness towards change per se that drives them forward although in different directions. This is, according to representatives from the Chinese Chamber of Commerce, an inherent aspect within the nature of the Chinese business practice, namely an acceptance and willingness to adapt to changing circumstances.

Interestingly, the differences between the three groups of Chinese SMEs are also reflected in their respective network practices. For example, the smaller the SME are the more ethnically based their network practices become. As a company moves up the value chain its network practices begin to cross ethnic boundaries and branch out into a non-ethnic related business environment. This has a direct bearing on the degree of linkages to the global business community. Such linkages demand cross-cultural relationships, as market forces do not distinguish between race and culture, but rather on whether a company is capable of thriving in a competitive environment. In this particular context there is thus a real difference between the global and the local. The above described differences within the Chinese SME business community constitute what I later on will refer to as a variety of fault lines within this community, thus showing that the latter is not a homogeneous community but rather a dynamic one in which firms develops, dies or do not do anything but survive and are quite satisfied by doing just that!

Dynamics within the Chinese owned SME community: From SME to PLC and (almost) back again: on the impact of the affirmative action policy

As discussed above the Chinese SME community in Penang is not a homogeneous or static group, - a fact that will be elaborated upon later on in greater detail. Not even the top companies of the SME group constitute a static upper layer of the SME category. Here medium sized companies move beyond the upper limits of the SME category and into the order of public listed companies. The demarcating lines between these two main categories are thus not absolute! The latter type of companies constitutes a kind of role model for those SMEs that aspire to move up the value chain. There are some factors, however, that work against the full developmental potential of the PLCs, - factors that have their roots dating back to the New Economic Polices (NEP) and the embedded affirmative action policy, both initiated in 1971.

In an attempt to explain the relationship between NEP's economic policies and the underlying inter-ethnic dimension Khoo Boo Teik writes that without dismissing some of NEP's underlying, more generalised principles about an equitable inter-ethnic distribution of wealth via the affirmative action programmes, he suggests that Malaysia's NEP was never exclusively restricted to ethnicity and ethnic relations. NEP encompassed state policies that affected ethnic identities, inter-ethnic power sharing and an ethnically targeted distribution of developmental benefits, but was not confined to these issues alone (Khoo 2004: 4).

Khoo concludes that NEP could heighten as well as diminish ethnic differences to the extent that issues of ethnic identity and problems of cultural grievances in Malaysia had always had an economic aspect to them. The substantive attainment of NEP's socioeconomic goals diminished the likelihood of intense ethnic economic rivalry while the Mahathir regime's economic solutions to cultural problems in the 1990s encouraged a deeper sense of national purpose and identity (Khoo 2004: 18).

However, the ethnic issue still lingers on. Zooming in on the political realm one finds several examples of a discourse on more or less tense inter-ethnic relations just beneath the surface. For example, during 2006 several complains from the Malaysian community in Penang have been voiced of being marginalised in terms of political influence due to the fact that the Chinese dominated political party Gerakan from the ruling coalition Barisan Nasional has held the position of Chief Minister since 1969 and up until March 2008. This critique of not being a multi-cultural party and thus not contributing towards forwarding Penang's and ultimately Malaysia's, racial harmony has been denied by the party's vice-president, Datuk' Teng Hock Nam. He said that such statements are not fair just by looking at the racial makeup of its members. Even though about 80 % of Gerakan members are Chinese, the party has always adopted a non-racial approach to Malaysian politics.[13]

Despite indicated otherwise by various observers, racial tensions do exist and contemporary Malaysia has still not moved beyond the confines of the affirmative action policy. As a consequence conflicting inter-ethnic relations are occasionally surfacing, if not constantly simmering just beneath an otherwise tranquil multiracial surface. One only needs to read the articles in the Straits Times in late November 2007 on Malay Chinese, who immigrated to other countries due to better life conditions there than in Malaysia, as well as the articles on Malay Indian demonstrations in November and early December 2007. That the inter-ethnic question was still not solved in July 2009 could be seen in an article in The Straits Times, where the former Prime Minister Mahathir Mohamad maintained that non-Malays are the real masters in Malaysia. Mahathir were cited for saying that the affirmative action share of the

[13] The Star. Nov. 13, 2007.

corporate pie is only 20%, while Chinese Malaysians hold 50% despite them making up a mere 26% of the population.[14] On the basis of these simmering sub-societal tensions I will in the following maintain that the affirmative action policy, besides demonstrating that it is still in existence, also hampers the Chinese SMEs efforts to move up the value chain, thus damaging the development of the Malaysian economy per se.

As stated by representatives from several PLCs during fieldwork in Penang in 2007 and 2008, due to a federal governmental requirement of 30% Malay equity ownership of non-affirmative action owned PLCs, most Chinese company owners have chosen to transform their companies into holding companies instead of creating one major local company. The logic behind this dates back to a 1975 federal governmental legislation on investment practices, which states that Chinese entrepreneurs had to apply for permission to invest more than 2,5 million Ringgit (RM) in any type of business. This benchmark is currently (2008-2009) being debated and a new benchmark of about 10 million RM is proposed. If a Chinese entrepreneur got the permission to invest from the authorities, then 30% of this new enterprise is to be handled over to Malays as either shares or 30% Malay equity ownership of the business in question in case the company wants to get listed on the stock exchange in Kuala Lumpur. If a company intended to invest more that 2.5 million RM and the 30% affirmative action equity is not met, then it will be scrutinised by the authorities.[15]

The political rationale behind this business ownership policy was and still is to enforce Malay participation in non-Malay owned companies so as to raise the percentage of Malay entrepreneurship in the Malaysian corporate world to at least 30%. The downside of this policy has so far been twofold. First, it has created tensions between Chinese and Malay entrepreneurs in terms of business ownership due to a general notion of that the Malay private investment rate is relatively low and that suitable Malay partners are difficult to come by. Second, Chinese entrepreneurs have, when contemplating listing their companies on the stock exchange, formed holding companies instead, which consist of numerous specialised

[14] The Straits Times Wednesday, July 22, 2009. See also The Straits Times 21 April 2008.
[15] For a critical discussion of this remnant from the NEP, see www.atimes.com 11 April 2008 and again on 23 January 2009.

subsidiaries that functions as each other's supplier. In this way their companies are bypassing federal requirements on investment practices and thereby maintain full control over their companies. Third, those Malay entrepreneurs who managed to become part-owners of those non-Malay owned companies have become a minority among the ethnic Malays. The latter *ethnie* has thus been divided into a small corporate linked wealthy group, and into a majority group that continue to constitute a low income, mainly agricultural based, group thereby further aggravating the societal positioning of the Malays in relation to especially the ethnic Chinese. An intra-ethnic issue has thus turned into a class issue!

Several major Chinese owned SMEs and PLCs do, however, have Malays on their board of directors. This they have due to investment plans thus tapping into the political advantages that such a partnership might entail. To have or not have Malays on the board of directors thus depends on a given business strategy! The main rationale behind such strategies is thus based on how to control company assets and how to get more capital and government contracts (especially within the construction sector) so as to be able to implement new and capital intensive investment plans.

SMEs/PLCs and the Impact of Governmental Initiated Economic Facilitators

The Chinese SME community does not exist in a vacuum but relates to and depends on a variety of external institutions for their technological and managerial upgrading and thus ultimately their very existence. Here I will focus on investPenang as a representative of a governmental initiated economic facilitator. When discussing these facilitators with the Chinese SME community in general one has to divide it into two major halves: one that caters for the service sector and one that concentrates on the electronic and electrical manufacturing sector. The former has the impression of being left out of the Penang State Government's economic polices, as it is putting more emphasis on the high-tech sectors, which they are not engaged in or do not have the capacity to do so. They are of the opinion that the government is especially catering for the other kinds of SMEs, as they are in a better position to attract FDI so that the government can fund and thus further its own economic development scheme(s). This division of the SME community has over time the potential of creating negative economic fault-lines within this community, as it is quite expensive in terms of knowledge, man power and technology for the non-high tech SMEs to expand into the more specialised field of manufacturing within the electronic and electrical sector.

From the perspective of the Penang State Government this scenario is not the case. The state has initiated a SME bank so as to support and further the economic development of all sections of the SME community. It has furthermore introduced various governmental institutions such as PDC, investPenang and SERI so as to help the SMEs to grow and prosper. Focusing on investPenang, its main centre of attention is to sustain, rejuvenate and promote the business environment in Penang through encouraging to continued investments in especially the electronic and electrical manufacturing sector. investPenang envisions itself as the main driver of a three-pronged strategy that is based on combining technological development, industrial infrastructure and private business so as to attain a sustainable economic growth and development for Penang and Malaysia in general.

In relation to the SME community in general, investPenang recognises that SMEs are very important for the economic development of Penang, as they constitute about 90% of the industrial setup. The SMEs, however, are not, according to investPenang, that easy to work with due a particular mindset that dominates many of them. First of all, quite a few are content by maintaining the size they have achieved by now. They generally have a negative attitude towards reinvesting their surplus capital in their businesses in order to push them up the value chain. Instead, they concentrate on profit maximisation that results in a seemingly contradictory planning, namely exhibiting rather high saving rates of about 30% to 40%, and at the same time wanting to show off their wealth and therefore not necessarily reinvest the profit they have generated in new technology and/or management practices.[16] This has resulted in what has been defined as having a localised mindset that works against those developmental initiatives that investPenang are suggesting for this particular section of the industrial setup. As a consequence a rather negative attitude towards the SME community has developed within investPenang, as it does not see it as its responsibility to nurture the

[16] Personal communication March 2008.

SMEs toward higher growth and greater market integration. According to investPenang their mission in this connection is to prepare the ground for the development of for them the most pertinent SMEs. Basically, the rest must help themselves to develop further![17]

Interestingly, there is a contradiction in what investPenang is saying it is doing and what they are supposed to be doing. According to investPenang's statutes, it is to groom the SME and PLC environment to prepare them for pushing themselves and Penang up the value chain, especially in the electronic and electrical manufacturing sector. This means that these companies will face increasing global competition, as the market opens up the higher up one move along the value chain. On the basis of this, investPenang seems to be reluctant in helping SMEs in the service sector to prepare for this increasing competition. Instead, the strategy seems to be on upgrading only those SEMs within the manufactory sector so that they can support pertinent PLCs in their respective internationalisation strategies as well as already established MNCs. In this sense investPenang relates to the theories of Michael Porter, especially that section in his 'Determinants of National Advantages' that caters for related and supporting national industries in order to prepare for global competition.[18]

The present author is sceptical towards such an approach, as making a distinction between local and global markets is rather problematic. Arguably, being competitive globally and having a solid position in ones domestic market is not a contradiction but a complementary state of being thus reinforcing a company's capabilities to compete in both areas. As it is now it seems as if investPenang is tying the SMEs in the service sector to a specific section of the market thus leaving it to the mercy of global competition. If this is the case, then it is a counterproductive approach, as it reduces the individual company's competitive edge thus jeopardizing its long term survival. Instead, investPenang must help or at least prepare all local SMEs in the domestic market to go global, as otherwise they will not be able to withstand global competition within their respective sectors. It is a well-known fact that the global market is currently penetrating even the most remote sections of a given domestic

[17] Personal communication March 2008.
[18] Porter 1990: 33-129.

market. It seems that this is a weak spot in investPenang's business strategy with regards to the SME community and the latter's position in an increasing globalising domestic industrial development.

The SME/PLC community and Vision 2020, MSC and NCER

According to a top state executive councillor Vision 2020 and the MSC was and still is a kind of wishful thinking. As such the Penang State Government accepts it. However, the vision is gradually loosing it attractiveness, as a split between ideology and reality begins to emerge. As previously mentioned there are many tensions in Malaysia in terms of ethnic and religious cleavages that hinder a realisation of the vision and its latest successor '1Malaysia'. When relating Vision 2020 and MSC to the industrial sector, and in particular to the SME community, the latter is becoming more sceptical towards it, and is beginning to term it (political) 'hot air', meaning that both the vision and the MSC is more rhetoric than action, implementation and development. The main problem for the industrial sector, and especially for the biggest SMEs, PLCs and MNCs, is human resources. This is a problem that, according to the state executive councillor, is not taken probably care of by the political establishment in terms of fund, education and training programmes. The quality of the current level of labour power is not high enough compared to international standards. This has a negative impact on industrial performance, as the different industries, representing both local as well as transnational companies in the Penang industrial setup, are losing their competitive edge in the global competition.

When asked whether Vision 2020 or the MSC fits into the state economic planning scheme the state executive councillor said that there were no deliberate attempts of incorporating the two. Penang is dominated by low end manufacturing industries and cannot as such move up the value chain just by incorporating the two. There are simply not enough skilled labours to do that. In order to move up the value chain in a more concrete and coherent manner, pertinent and realistic R&D initiatives are needed, not visions! As already mentioned there is a major lack within the area of human resources. This is currently being sought solved by simultaneously importing technicians from abroad and by upgrading PSDC, which plays a key role in this connection. Unfortunately, Universiti Sains Malaysia in Penang is currently not capable of contributing effectively towards solving this problem due to a lack of qualified staff and funding. Finally, further but perhaps more indirectly aggravating this situation is the increasing competition from China and India as well as competition from other ASEAN countries such as Thailand, The Philippines, Indonesia and not the least Vietnam, as they attract both low level manufacturing and high-tech MNCs. This is why more R&D and a continuing upgrading of human resources are urgently needed in Penang if it is to maintain and further develop its position as a high-tech hub[19].

Some of the things that the Penang State Government can do to leverage this situation is to re-orientate the current dominant position of the low end manufacturing sector towards more focus on R&D, upgrading both PDC and investPenang's role as industrial facilitators as well as adding further financial resources to the tertiary institutions in order to make them capable of working more closely together with the industrial sectors. Furthermore, the Penang State Government should through SERI take a more serious approach towards the SME community by upgrading and integrating it into an overall industrial master plan so as to create a more holistic industrial policy for Penang per se. Finally, the state government should, as an economic facilitator *par excellence,* focus even more on upgrading the physical infrastructure and stage more aggressive international investment promotion tours so as to make more foreign companies and investors aware of the possibilities in Penang thus encouraging them to establish themselves in the pertinent industrial sectors. All these initiatives, however, will be of no avail if the current affirmative action policy is not dismantled or abolished all together. Equal opportunities for all the three main ethnic groups in Penang and in Malaysia in general are a *sine qua non* if the industrial setup is to move up the value chain as mentioned earlier on. Interestingly, there problems seem to be recognised by the federal government according to newspaper articles in the New Straits Times on 3 August 2009. Here the current Prime Minister Najib Razak is quoted as saying that the affirmative action equity shareholding since the inception of the NEP in 1971 appears to be stuck at 18% or 19% in 2009. He continues: '*It*

[19] Personal communication February 2008.

*is madness if we continue with these policies (*affirmative action policies (MJ)) *even after they had failed for up to 19 years!*' (NST Aug. 3, 2009). The important question is, however, whether it is possible to implement such a major policy change due to the fact that the federal government, based as it is on UMNO and its coalition partners in the BA, is in need of especially the Malay votes if it wants to regain an absolute majority in parliament, as it had before the March 2008 national election, or just to stay in power!

Now, how does, for example, the SME community in general relate to Vision 2020, the MSC and NCER? The Chinese Chamber of Commerce that is catering for a majority of the Chinese owned SMEs in Penang does not see major benefits coming out of the Northern Corridor Economic Region (NCER) initiatives launched on 30 July 2007, as it mostly focuses on agricultural developments, logistics and so-called medically related recreational tourism. In relation to the question of sub-contracting in this connection the Chamber is of the opinion that most of it would probably go to Malay companies, as they have better access to government contacts especially within the construction sector. What, according to the Chamber, their members could expect from the NCER would mostly be small contracts that probably will not have a great impact on the SME community as a whole. In relation to Vision 2020 and SMC this was also of little interests for the Chinese Chamber, as its members would not be able to draw much benefit from it due to different industrial specialisation. Furthermore, the localised and thus parochial focus that permeates many SMEs within the service sector does not fit into these two dynamic developmental schemes thereby reinforcing the before mentioned budding fault-lines between them and SMEs in the high-tech sector.

In relation to Vision 2020 and the MSC a representative from Pentamaster said that it was an interesting vision but poorly implemented. This has something to do with the ability of the public administration that is to implement these schemes. As for now it do not have the right educational background for executing the vision and the more concrete initiatives in a professional and correct way. The level of professionalism has to be raised considerably if Vision 2020 and MSC should become a reality and not only a national political ideological construction. Like several other informants, the representative from Pentamaster did not have high thoughts about the general abilities of the public administration when discussing actual implementation and functionality of various government policies.

I think it is important to point towards a lack of sensitivity on behalf of the federal developmental state, when introducing new directions for how Malaysia as a whole should develop. Vision 2020 and especially MSC is a case in point. Vision 2020 is in a sense harmless as it does not have direct impact on the industrial setup in Penang nor does it have a major impact on the political realm, as the latter is far more pragmatic oriented in Penang. MSC, on the other hand, has a direct impact on state economic policies, as it highlights certain sectors within the industrial set up thus neglecting other. This means that the latter ones, and here we are talking about SMEs and PLCs that are not engaged in the high-tech sector, find it more difficult to attract support from the various governmental initiated economic facilitators, as they are, so to speak, out of focus.

Conclusion

This article has identified sets of emerging political and economic fault-lines within the SME community as well as between this community, the PLCs and the MNCs based on especially governmental political economic initiatives. In order to create more synergy between the three of them it is essential for initiating a more holistic industrial development policy in Penang. Second, the question of developing an increasing pool of qualified labour was identified as a crucial one, as this is a *sine qua non* for Penang's industrial establishment's ability to change its current state from a low level manufacturing site towards a more R&D dominated industrial setup. Finally, it is not enough to focus on the PLCs and the MNCs and their respective needs. The SME sector is of crucial importance here, as it first of all constitutes about 90% of the industrial setup, and second, it constitutes an important service sector and a pool of more or less specialised suppliers and sub-contractors for the PLCs and MNCs. Upgrading the SMEs in terms of technological know-how as well as management skills is very important if the overall industrial setup is to be lifted further up the value chain.

Furthermore, this article has also shown that the Chinese owned SMEs in the electronic and electrical manufacturing sector do not constitute a homogeneous entity thus indicating that it is not notions of Chineseness that binds this group together. On the contrary, a diversification among these firms points towards other forces that introduce different economic fault-lines between the various sections within the SME community. The major fault-lines were identified as consisting of, first, those which divided the SME community into those that catered for the global market and those that were mainly directed towards the domestic market, and second, those SMEs that were working within the electronic and electrical manufacturing sector and those working in the trade and service sectors. A more subtle emerging fault-line that is indirectly conditioned by the two other sections was a change in which the Chinese owned SMEs were managed in terms of technological and managerial practices. This depended on where on a developmental continuum a SME could be positioned. The smaller the more traditionally oriented the SMEs were managed, and the higher up the value chain a SME could be identified a more arms-length structure of management practices began to emerge. Arguably, identifying the forces that lay behind these emerging fault-lines shows that intra-ethnic relation are not the driving forces behind the diversification of the Chinese SME business community, but rather an encroaching global market economy that pushes though structural changes within the individual firm thus producing the above mentioned fault-lines in the process.

These developments thus highlight a situation in which external forces in relation to a given market reinforces inter- and intra-ethnic diversification thus confirming the explanatory power of the triangular approach taken in this study. For example, how the Chinese in Penang do business do not depend on the stereotypical definitions that some academics have promoted as being the ultimate truth behind the driving forces of Chinese entrepreneurship in Malaysia, or for that matter in Southeast Asia in general, namely culturally determined and intra-ethnic based modes of doing business.[20] Instead we are talking about nationally political engineered notions of ethnicity that is to maintain Malays as the indigenous and thus legitimate dominating ethnic group thereby indirectly defining the Chinese and Indians as immigrant

[20] Gesteland (2005), Nisbett et al. (2001), Bolt (2000), Weidenbaum and Hughes (1996), Redding (1993).

groups. We thus have a situation in which, on the one hand, engagement in the global market economy produces inter-ethnic co-opetition thus opening up the domestic market to global competition, and on the other hand a nationally political engineered notion of inter-ethnic relations that might indirectly have a negative impact on domestic economic development due to the latter's global reach. Inter- and intra-ethnic relations are thus pushed from a back-stage to a front-stage position and vice versa depending on where one wants to put ones perspective as an observer. These insights would be rather difficult to detect if an observer had taken a decoupling instead of a triangulation approach. For a decoupler the policy initiatives in relation to inter-ethnic relation and its ramification on the industrial setup would be perceived as mainly domestic processes detached from a global context. The more subtle global inroads into the national economic in the form of structural changes would most likely have gone unnoticed due to the focus on domestic politicking.

Arguably, the affirmative action policy has never posed a constraint to Chinese entrepreneurs. It has, however, a significant impact on the growth potentials of the Chinese owned enterprises. The entrepreneurial spirit of the Chinese and other ethnic groups in Penang and Malaysia per se will continue to thrive despite such political initiatives. This is evident from the increasing number of, in this particular case, Chinese owned petty traders and hawkers, small over medium to big business units currently operating in Penang. Indeed, the pro-affirmative action policies have deprived Chinese and Indian youths of job opportunities in the government sector as well as entry into the public tertiary institutions even though they are qualified. However, these "drop-outs" have an enterprising drive that is motivated exactly because of the affirmative action policy thus making them fend for themselves by either studying or seeking jobs overseas or by venturing into private business.[21] Talking specifically about the Chinese these kinds of challenges were interpreted by representatives from the Chinese Chamber of Commerce as an inherent aspect of Chinese entrepreneurship, namely openness towards change. As has been discussed in this article it is not possible to make a distinction between the past and the future of Chinese entrepreneurship. In Penang the two will always be conflated in the present.

[21] Personal communication February 2008.

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