From the "Surat Sungai" to the world timber markets: the role of Malaysian Chinese transnational firms in the local, regional, and global integration.

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Introduction

Transnational companies, regional integration and globalization might be all but part of one process, where historical processes, sociological links, economic interests and geographical substrates mix-up in a giant whirl. In order to understand even tiny bits of this complexity, our approach scrutinizes how globalization reorganizes the world production systems through the lens of the natural resources and forest sector. This helps us to focus on the underlying causes of the tension between global public goods (i.e. forests), industries and needs of the developing or emerging countries. At stake is the fact that the growing interdependence of domestic demands by emerging countries favors new transnational industrial systems, which play with the global resources.

Here we will study the roots and the determinants of the role of some transnational firms in the local, regional, and global integration, with the case of the Malaysian Chinese networks of firms involved, among other sectors, in the regional and global timber trade. These networks act through different scales of time and space, starting from the local sultanate of Johor in the colonial British world of the XIXth century, to the todays integration of South East Asia and the global trade of tropical timbers.

Based on anthropological semi-structured interviews, as well as analysis of international trade data and historical records, the research links social analysis with the various economic and markets conditions of the local, regional and international levels. We analyze the evolution of the first local industries accompanying the gambier plantations initiated by the Sultan of Johor to the present day flexible networks. Nowadays, the Malaysian Chinese networks of timber industries have spread to all SEA, and tropical forests of America and Africa. Contrary to "multinationals" with subsidiaries, their industrial networks have segmented the production into several subcontracting and legally independent companies. Without legal contracts, the regulation is provided by a complex yet opportunistic implementation of trust, intergenerational reputation and finance, and optimization of the transaction costs. More or less cooperating with sister companies themselves, associated with other industrial sectors in order to optimize transport cost and to level down the economic cycles, the Malaysian Chinese transnational firms of the timber sector have become, throughout history, a factor of multiscale integration.

1. The origins of the Malaysian Chinese firm networks

The XIXth century "surat sungai"

The origins of the firm networks, which we study here, lie in the XIXth century processes of industrialization. The dynamics of new industrial systems and factories in Europe, accompanying the development of the steam machine, did trigger unprecedented industrial needs. Britain spearheaded this industrial development with its booming textile sector. New mill organization appeared, which with multiple line shafts, became a major consumer of leather belts in order to transmit the forces and movements of the weaving machines. This pushed up the need for industrial tanning, of which gambier, a natural tanning vegetable agent, became quickly a component needed in huge quantities. Closely following the model of the pepper plantation in this region, it was mainly operated by Chinese settlers and farmers, who where the first component of a lucrative value chain. The gambier plantation became quickly one of the major business operations in Singapore and participated to its fantastic economic success.

The ruler of the neighboring Malay State of Johor (at the tip of the Malay peninsula, see figure… of Nathalie Fau presentation p….), Temenggong Daeng Ibrahim witnessed with interest the development of Penang and Singapore Islands under the British rule. Soon, seeing the success of the pepper and gambier industrial plantations, he decided to promote a similar system in Johor in order to develop his State, which was largely covered by jungles, and to increase the revenues of his government (Tan, 2008). Called "kerajaan[1]" (Milner, 1995a, 1995b), the traditional Malay governance system of that time needed financial rents in order to maintain a proper status, composed of both wealth and "nama[2]" (Trocki, 2007)(Milner, 2008). Starting from 1840s, he invited Chinese workers from China and gave letters of authority ("surat kuasa") to various Chinese entrepreneurs called "kapitan cina", in order to develop different industrial activities, and among them, gambier plantations. Chinese associations ("kongsi") appeared and spread accordingly.

Succeeding his father, Ibrahim, Sultan Abu Bakar had an active policy of development of his State. In the 1860s, he encouraged the industry by giving to the Chinese entrepreneurs Letters of Rivers ("surat sungai"), which were official concession titles to clear the jungle and develop plantations along the only transportation ways in the thick equatorial forests at that time, the rivers. This policy encouraged the development of Chinese capitalist organizations managed by the entrepreneurs called "Kapitan Cina" or "kangchu"(literally meaning "lord of the river") at new heights (Tan, 2008)(Trocki, 2007). Basically, this industrial organization

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[1] Literally "being subject of the raja", meaning "government".

[2] A concept of reputation and charisma reinforced by an appropriate redistribution of the economic rents captured by the State, essential for the status and stability of the sultanate in the Malay world at that time.

consisted of licenses to develop a portion of the riverbank, by clearing the jungle and developing industrial plantations.

The plantations and associated business revenues (timber, opium, gambling, pawn broking, alcohol and pork farms) were shared between the Sultan, the "kapitan cina" and his other associated Chinese investors. These associations of investors were made under the form of a more or less formal trust networks called "kongsi". The whole organization, which we call the "surat sungai" system, was formed by the Sultanate, the associated Chinese entrepreneurs, their managers and their coolies, with a decision line coming from the Sultan down to the field, and a financial flow back to him through Chinese entrepreneurs who were collecting their share, is represented in figure 1.

In this system, the jungle clearing produced timber for the building and urbanization of developing Johor, while the gambier plantations created the main revenue. The Chinese entrepreneurs who began their activities with one specialization, usually as partners of some business (as they were increased their capital) were inclined to diversify their activities. The best way to reduce the financial risk was to diversify into various activities, and to share revenues and risks with partners. Kongsi associations were a way to institutionalize the trust and the regulation of risk and revenue sharing(Suryadinata, 2007)(Comber, 2009).

Today's traces of the XIXth "surat sungai" system

The present day location of timber industries in the Malaysian State of Johor, presents a few reminiscences of the XIXth "surat sungai" system. Indeed, when the location of these timber industries (Rohana, Norini, Nur Fadhilah, & Noor Hazmira, 2009)(Norini, Rohana, Ahmad Fauzi, & Mohd Parid, 2009) is plotted onto a map showing the main river network (figure 2), one can notice many occurrences of timber industries still situated along the rivers, being a few survivors of the timber activities created then. Since, Malaysian Chinese entrepreneurs still predominantly operate the timber business (Rohana et al., 2009). The business structure has diversified in many sectors. From a core activity centered on jungle clearing, timber production and gambier plantation, generations of entrepreneurs have since diversified their activities in sectors as different as tin mining, rubber and oil palm plantation, furniture, construction etc., following the evolution of markets and demand. The typical diversification embraces contra cyclic sectors, allowing to limit losses when one sector is suffering a crisis. The integration is also vertical, with different activities downstream and upstream. The transportation network which was determinant in structuring the industrial location in the XIXth century along the rivers, is still the major factor, but along today's major road infrastructure. With the same timber industry locations (Rohana et al., 2009)(Norini et al., 2009), the road determinism appears clearly through the alignment of the dots which are not along the rivers (figure 2).

Infrastructures are indeed the key factor of integration of industrial activities (began under the era of Prime Minister Mahathir). The exceptionally rapid development of the transportation network has created in Peninsular Malaysia today, a main North-South axis of roads and highways along the West Coast. It creates a strong corridor effect from Singapore to Penang, as can be seen from the direction and number of supply links between the timber industries in

figure 3. The trade relationships of the timber sector within Malaysia are essentially driven by this corridor, even though the main forests areas are located in the East of the Peninsula. But most of these Peninsula forests are now protected as national parks, and the forest resources which can be harvested are now in Sarawak and Sabah. Further analysis of the Malaysian timber trade shows that, outside the Peninsula, there are more trade links with distant Sarawak and Sabah, than with neighboring Sumatra and Thailand (Norini et al., 2009; J.-M. Roda, Norini, & Ahmad Fauzi, 2008). There was once an active timber trade across the Malacca Strait from Sumatra to Peninsular Malaysia, but the scarcity of timber in Sumatra is now too important. The flow has reversed, with the main items now being electronics and second-hand mobile phones from Peninsular Malaysia to Sumatra (Charras, 2009). Indeed, after the decolonization, with the rapid development of the timber Malaysian industries along the Malacca Strait, a flow of row timber from Sumatra to Malaysia, did appear when the lowland forests of Malaysia began to be over-harvested, triggering a relative scarcity of cheap logs. Nowadays, it is the relative scarcity of cheap mobiles phones and other electronic products, which triggers a flow of such second hand equipments across the Malacca Strait but from Malaysia to Sumatra. It is not the nature of the products that makes the link with the ancient flows, but the actors who are involved. Like in the past, today it is still the Chinese merchants of both sides, who are able to engage successful exchanges through their ability to conduct successful business without formal frameworks. This last fact suggests that it is neither the borders nor the sea distance, which constitute the limiting or critical factor of the exchanges, but the resource scarcity. Conversely, infrastructure development is the main factor of local and regional integration.

2. Integration beyond the Malacca Strait, by firm networks

From local to regional and global scales

In previous part we have seen that material scarcity was an important driver of the fluxes. Actually this phenomenon is true throughout all South East Asia with trade of various timber products to Malaysia from Thailand and Cambodia (rubberwood and eucalyptus) as well as from Borneo and Papua New Guinea (rainforest hardwoods). Java Island also lacks timber resources, and the main origins are from Sumatra, Kalimantan, Sulawesi, and Maluku (see Figure 4 derived from J.-M. Roda et al., 2008)(J. Roda & LANGBOUR, 2010)(J. Roda & LANGBOUR, 2010)).

In both cases, networks of ethnic Chinese companies operate this trade and industry. The trade from overseas to Peninsular Malaysia is controlled by Sarawakian Chinese, who belong to different ethnic groups than the Chinese involved in the peninsular trade. According to context, they choose to instrument their “Chinese ethnicity” in order to cooperate with the Peninsular Chinese, or they justify their apartenance to different Chinese groups (i.e. Hokkien, Hakka) in order to compete. This relates to the concept of coo-petition coined by Pamela Cawthorne, in describing the opportunistic and flexible mix of cooperation and competition observed in some networks of firms (Cawthorne, 1995). The same phenomenon is observed in Indonesia, although the Chinese ethnicity cannot been guessed by the patronyms, which have been “indonesianized” in most of the cases (J.-M. Roda, 2005).

The observed exchanges are interregional, and international. It is not rare to notice Chinese companies settled in different countries with the same name or acronym (i.e. WTK, KTS, Rimbunan Hijau…). But contrary to the appearances, legally, they do not own each other, and the financial links are mostly consisting of personal loans between the CEO's of each company, forming networks of companies which are not multinationals according to the UNIDO definition(*Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*, 2009). Following the same logic, these networks establish links all around the world (see figure 5), either by the instrumented overseas Chinese diaspora, or through the establishment of transnational links with sister companies in various supplying countries, such as in the case of WTK Papua vs WTK Sarawak(J.-M. Roda, 2005).

Structure of the international network: towards a definition of transnational firms

The network of Chinese firms sharing the franchised acronym "WTK" is a synthetic example of how many other Chinese networks are organized(J.-M. Roda, 2005). The systemic diagram of the WTK network (see figure 6) is similar to the diagram of the XIXth century of the Chinese networks of Johor (figure 1). In the XIXth century, one Chinese entrepreneur was recapturing the partner's money used to pay the salaries of the plantations coolies through personal side businesses (groceries, alcohol, pork, opium etc.).

Today, the Chinese entrepreneur operating a company in Vanimo, Papua, uses a very similar way to recapture the investment of the sister company in Sarawak, through retail shops and a supermarket offering various goods to the local Papuan workers (figure 8). These goods range from toothpaste to television sets, satellite dishes or agricultural tools, giving a flavor of globalization even to this remote part of the world. The fact that WTK Sarawak do not legally owns WTK Papua, despite a shared acronym, allows the group to absolve itself of any responsibility in case of problems. The owner of WTK Papua bears alone the legal consequences of his own behavior. At the same time, he shares the financial risk with the founder of WTK Sarawak who gave him a personal loan to start the business in Papua. In return, personal transfers of money will constitute the revenues from the investment, only secured by the trust and distrust institutionalized through the ethnic network, which can be transferred across generations (J.-M. Roda, 2011). The decision line comes from the group founder in Sarawak, and the financial flows go back to him. While the system is in no way close to an equitable distribution of the revenues, it brings economic development to the locality of Vanimo and integrates it to the global economy without doubt.

In summary, and in opposition to the UNIDO definition of a multinational, here a transnational firm has no legal or direct subsidiary structure. In the model of the Malaysian Chinese networks, transnational firms are factors of local, regional, and international integration. A theoretical representation of such integration is attempted in figure 7, where the Chinese network firms, are a vector of connection of the other classical firms, thus integrating the local scale with the global scale. The coherence of the network is assured through an instrumental ethnicity. Intermediation, institutionalized trust and distrust, and intergenerational relationships are the drivers of such a production system. What is fascinating in this model, is that there is no succession of spatial scales (i.e local, regional,

and international) which would structure the network with different successive nodes. In the contrary, there are basically two spatial levels. First is the local level, where the ethnicity is a feature of the locality (like the city of Sibu in Sarawak, which is the historical place of settlement of the Teochew community in Borneo, and which they still form the major ethnic component. Second is the extra-local level, be it in another state of the the same country (such as in Pahang in Peninsular Malaysia, where there are very few Teochew Chineses), or in another Country of the Asia Pacific Region (Such as Papua New Guinea), or very far across the globe (in Gabon or in Brazil, for example). Whether this extra-local place is spatially far or not, the network connects the non-Chinese companies of these different places (Gabon, Brazil, Pahang, or Papua New Guinea) in the same way, virtually annihilating the distances. In other words, the integration power of this kind of network directly results from its ability to "jump" over the spatial scales and the borders. The limitation of its extent (local, regional, international) comes from the existing infrastructure, transportation networks, and communication tools. As such, one can suppose that the unprecedented development of communication tools (mobile phones, internet) in the last 20 years has been a major factor in unleashing the development of these networks across the planet, and dramatically enlarging the scale of their integrative power.

Similar processes exist in cultures other than the Malaysian Chinese; at least in overseas Lebanese, Indian and Italian cultures (J.-M. Roda, 2005; 2011). It is a form of networked capitalism, which institutions are structured by common ethnic or social values. Such organization is a factor of multiscale integration. While Infrastructures and corridors seem to form the backbone of regional integration, borders, different law systems or resource limitations, still limit their integrative power by complicating the business and commercial exchanges. Conversely, the ethnic business networks are able to "jump" over the space, and are able to shortcut classical institutions such as national and international laws, by providing their own regulation space, for example in the regulation of the personal loans of the described networks.

Conclusion

Significant timber industries spread in the Malacca Strait from the XIXth century, essentially organized by local Chinese firm networks. With the decolonization and the economic development of Malaysia, these firm networks became major actors of the regional integration. This integration now covers the resources of components such as Peninsular Malaysia, Sabah, Sarawak, Indonesia, and other SEA countries, which had initially very different political, social, and industrial trajectories. The originally Malaysian Chinese industrial networks have developed into a very distinctive international pattern, which we define as "transnational". They not only integrate local and regional SEA economies, but also contribute to a global redefinition of American, African, and Asian timber resources, feeding the international market.

Contrary to "multinationals" with subsidiaries, their industrial networks have segmented the production into several subcontracting and legally independent companies. Without legal

contracts, the regulation is provided by a complex yet opportunistic implementation of trust, intergenerational reputation and finance, and optimization of the transaction costs. More or less cooperating with sister companies themselves, associated with other industrial sectors in order to optimize transport cost and to level down the economic cycles, the Malaysian Chinese transnational firms of the timber sector have become, throughout history, a factor of multiscale integration.

These business networks have a critical role in complementing the regional corridors and in transnational integration. Besides, they can appear at a higher level of integration, as tools for the great emerging countries such as China, India and Brazil, to take control of global resources for their own growth. For example, China, India and Brazil consume 50% of the tropical timber of the world, while with the rest of Asia, this consumption adds up to 83%. In the global game to control the production and supplies of natural resources, the transnational networks described in this paper have become an efficient relay to cross the borders and overcome the unequal distribution of resources. While the regional corridors form powerful mechanisms in order to unlock and integrate physical space, a global net of transnational firms interlocks increasing demands from emerging countries. As a result, a new set of global geopolitics of natural resources is emerging, powered by the increasing consumptions of resources by China and India. At the same time, South East Asia witnesses the development of new industrial organizations, connecting the Chinese and Indian demand to its agro-systems. At stake is the interdependence of growing demands and new transnational industrial systems.

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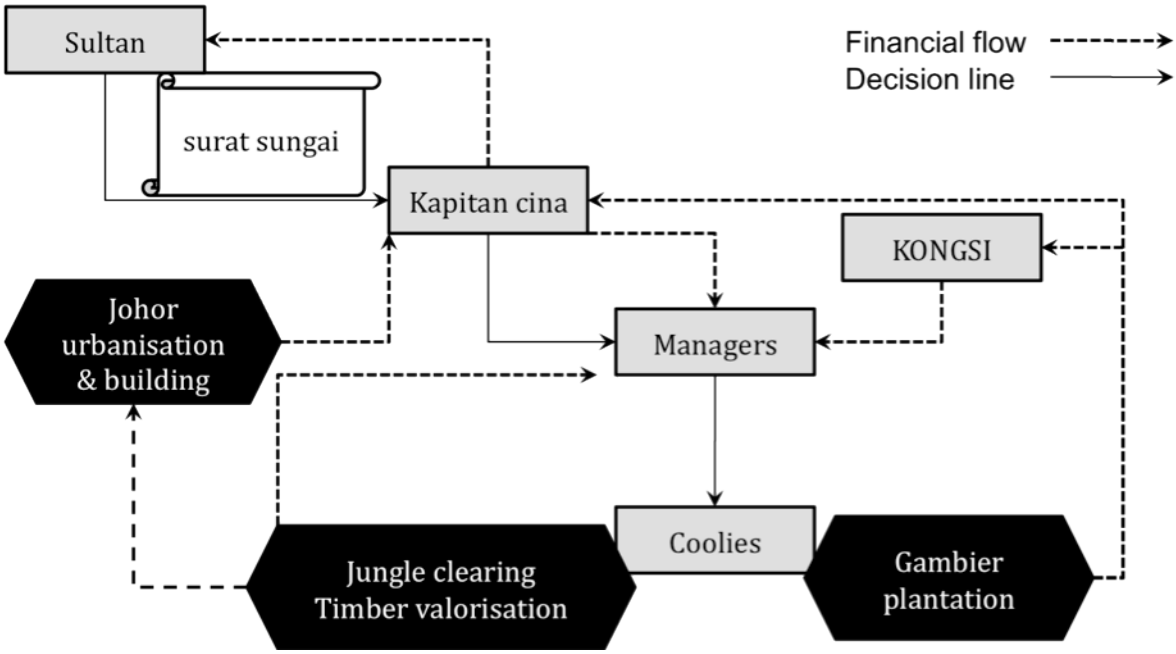

Figure 1: The "Surat Sungai" system, integrating the economy of timber and gambier plantations in the development of the State of Johor.

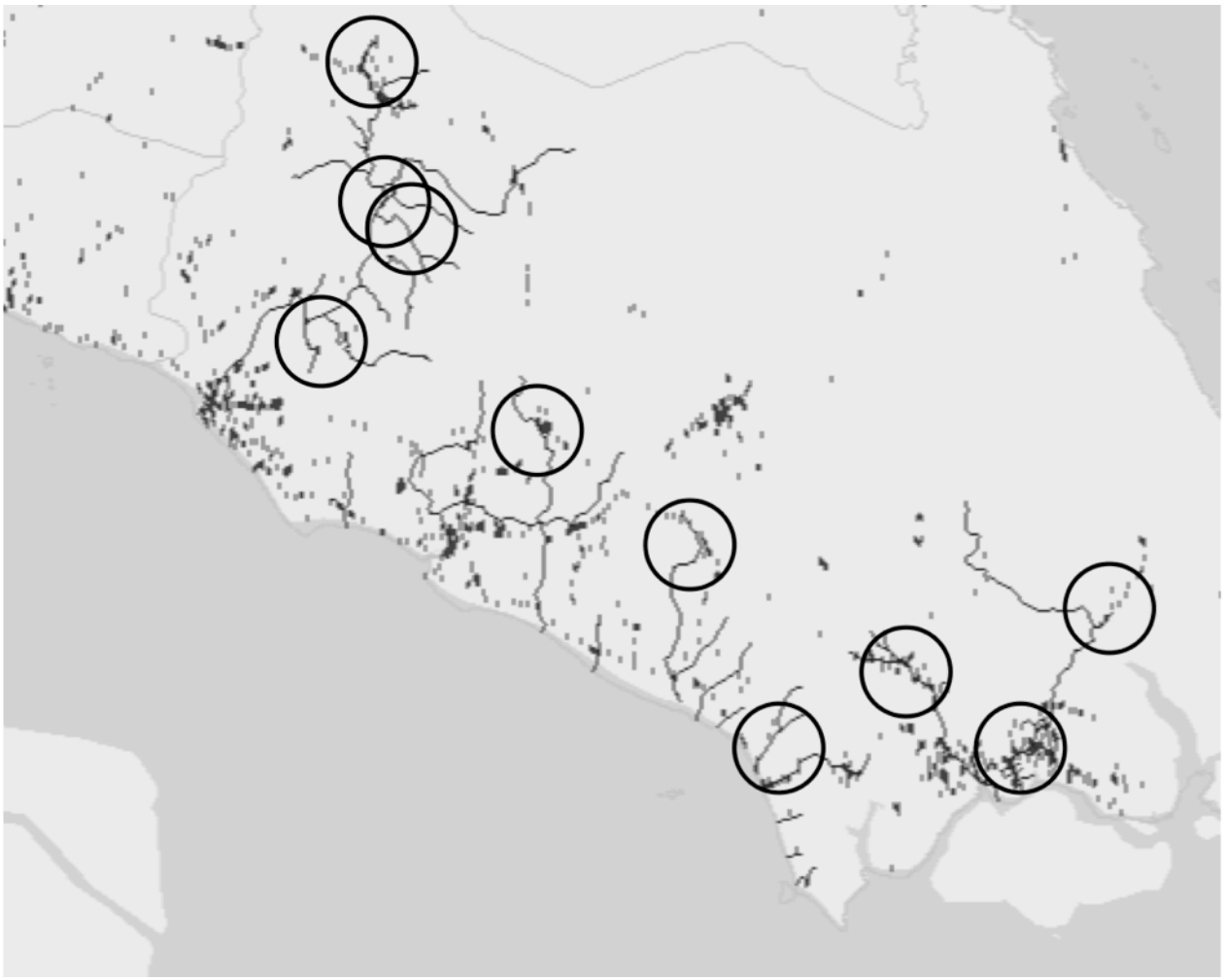

Figure 2: Location of timber industries (black dots) in present day Johor, a number of them being located along the rivers as a reminiscence of the "surat sungai" system. All the others industries are located along the modern road network and in the today's cities. The modern road network and cities are not represented, but is easy to guess through the alignment of the dots.

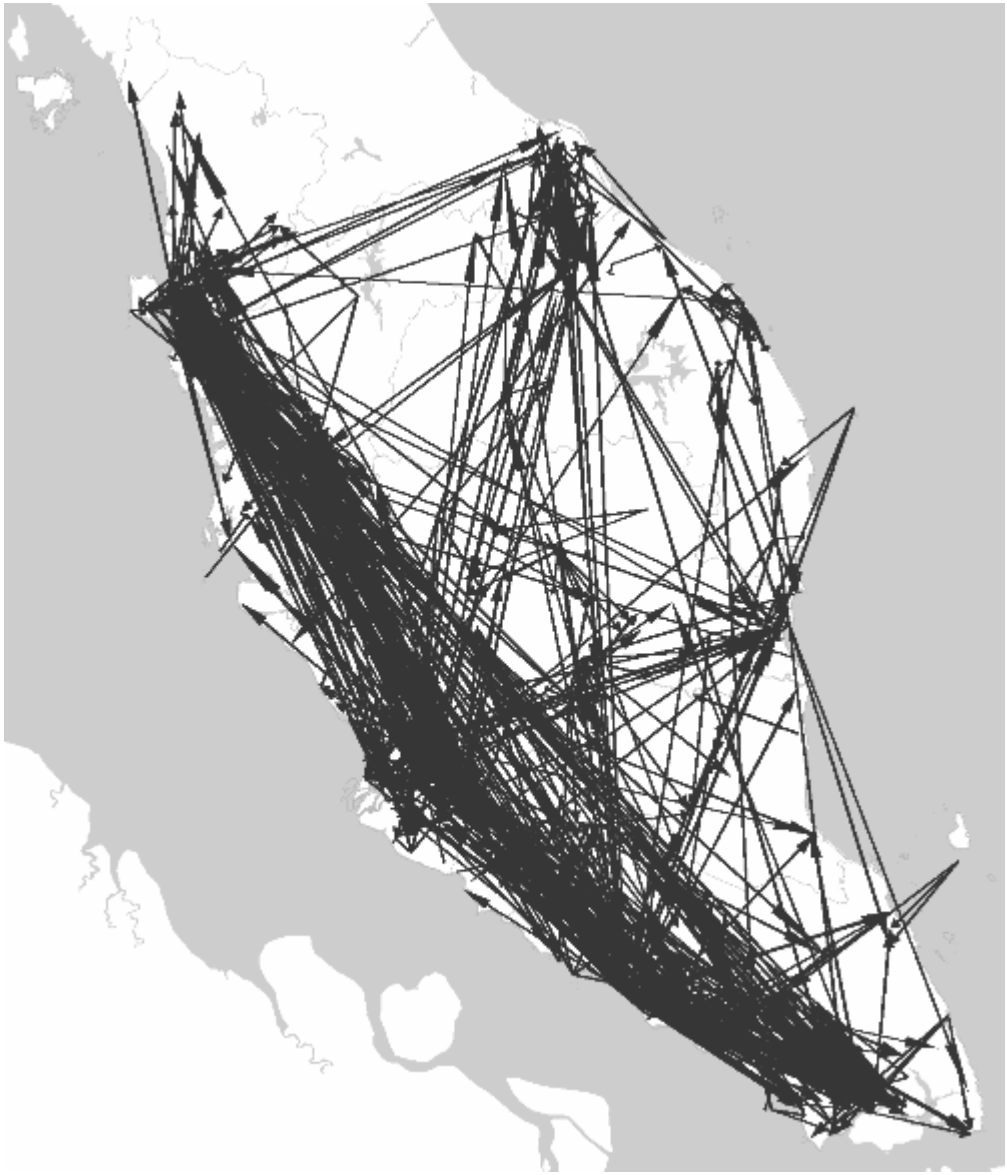

Figure 3: Directions and number of supply relationships within the Malaysian timber value chain.

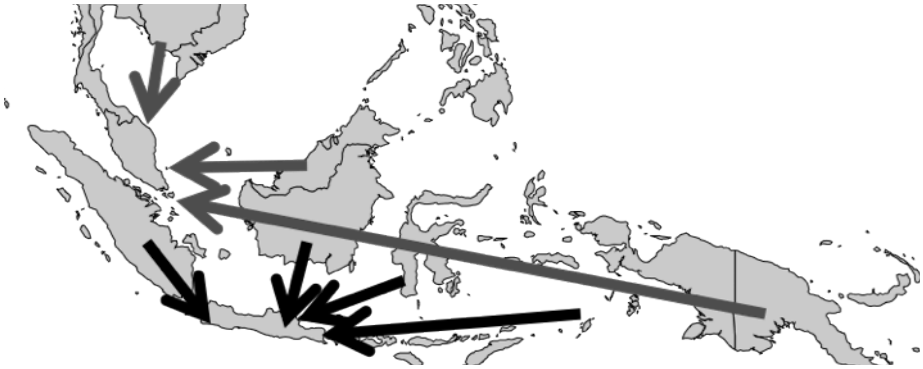

Figure 4: Main timber flows to Malaysia Peninsula and Java Island. Source: (J.-M. Roda et al., 2008)

Figure 5: Extension of the world supply of the network of Chinese timber companies based in Sarawak. Source: (J.-M. Roda, 2005).

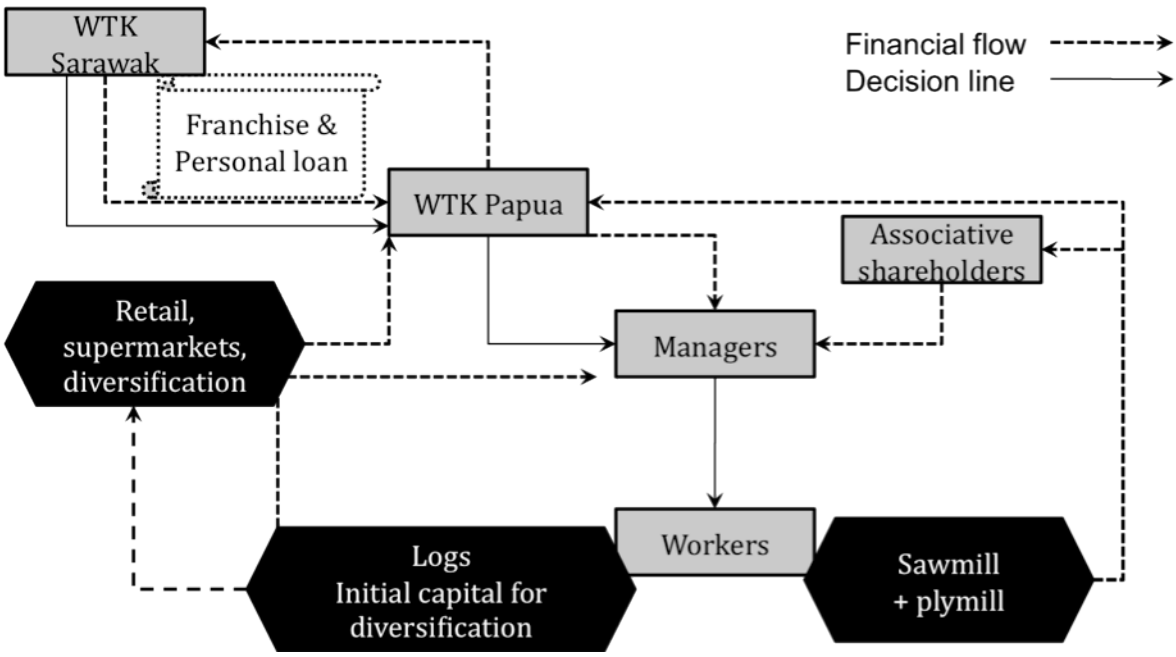

Figure 6: Pattern of the WTK international network, integrating the economy of timber and supermarkets in the development of Papua New Guinea

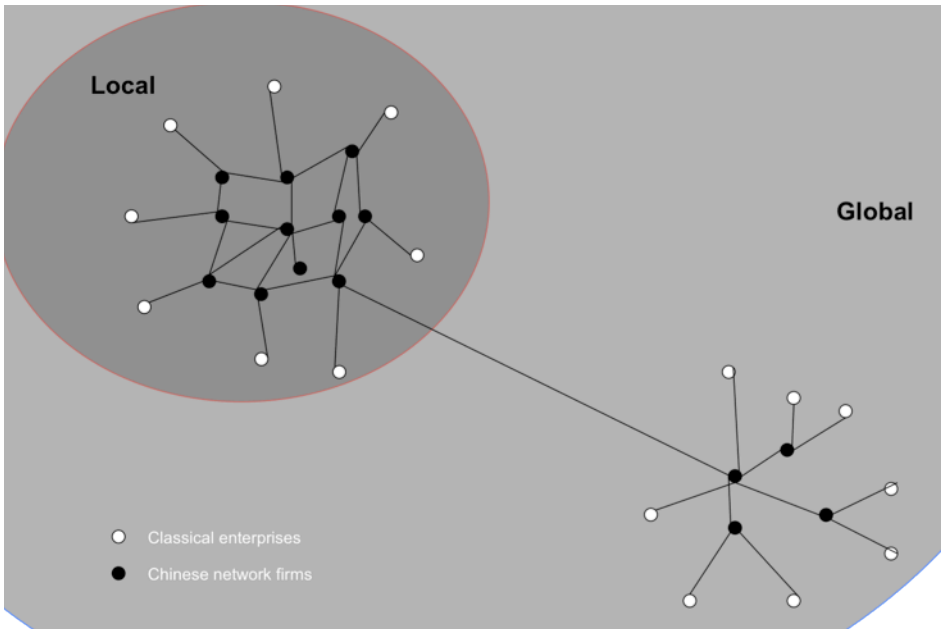

Figure 7: Local and global scales integration by the transnational firms