H.W. DICK, CAPITALISING ON URBANISATION

The nexus between urban development and business development is a leitmotiv of the daily business press across Asia yet has attracted curiously little attention in academic literature. Instead, a vast development literature has focused on industrialisation and labour but had little regard to urbanisation or business; urban studies literature has concentrated on mega-cities, taken some account of economics but virtually ignored the role of business and smaller cities; and the international business literature recognises the rise of Asian business and Asian multinationals but has only tangentially acknowledged the importance of urbanisation (Fig. 7.1). The parable of the blind man and the elephant seems to be apt.

“Insert Figure 7.1 about here”

We seek to remedy the situation by examining the nexus between urban development and business development in the mega-cities of Southeast Asia. Their sustained expansion before the Asian Crisis of 1997 generated very rapid escalation of urban real estate values. Leading domestic business groups, typically conglomerates, were able to establish strong positions in urban property markets and to reap huge profits for re-investment in expansion and diversification. Some business groups started out as property developers and then diversified; others diversified into property development. These firms enjoyed privileged access to large-scale finance and various forms of government patronage. Although these firms by their very size and wealth have attracted a good deal of media attention, including their attempts to enter into international business, there has been a surprising lack of interest in the underlying relationship between urbanisation and corporate expansion.

This relationship has become all the more interesting as firms have modified their corporate strategy to take account of the opportunities flowing from the
information technology (IT) revolution (Collis and Montgomery, 1998). Domestic firms are applying IT to consolidate complexes of urban economic activities and to transform these home bases into platforms for globalisation. Firms that can gain control of global gateways with access to local networks stand to capture profits not only from property development but also from financial and business services, retailing and “info-tainment”. This leverage and the associated flow of funds in turn enable these leading domestic conglomerates to evolve through offshore expansion and alliances into regional or global corporations. Nowhere are these trends more apparent than in Hong Kong, Singapore and Kuala Lumpur (Chapter 3). Other Southeast Asian capitals lag well behind in terms of both IT infrastructure and corporate capabilities, but their leading domestic firms are also positioning themselves for a new era.

This chapter compares the positioning and strategy of the leading property developers in Hong Kong, Singapore, Manila and Jakarta. Though on the edge of Southeast Asia, Hong Kong is included because Li Ka-shing (Cheung Kong/Hutchison Group) has developed there from property magnate to a global player in infrastructure and telecommunications; the Group is briefly contrasted with Hong Kong’s leading property developer, Sun Hung Kai Properties. Singapore’s Hong Leong Group has progressed from building products and financial services into the Republic’s leading private sector property developer and used that platform to fund a global strategy in hotel ownership and operation. Manila’s Ayala Corporation, the principal business group in the Philippines, has formed numerous alliances with international firms and laid solid foundations for an IT capability but has yet to develop a strategic presence outside the Philippines. Jakarta’s Lippo Group, whose origins were in banking, diversified offshore in financial services, especially to Hong Kong and China but compromised this regional strategy by attempting to diversify back into local property. By contrast, the Ciputra Group has remained a local property developer with offshore investments but no global strategy.
These contrasting cases provide some insight into the arguments regarding the efficiency of Asian business conglomerates. Michael Backman (1999) argues forcefully, after Michael Porter (1987), that Asian conglomerates are an inefficient business form: they spread resources opportunistically across too many areas and rely on market power and rent-seeking connections instead of competitive advantage. The Asian crisis of the late-1990s seemed to vindicate this judgement and indeed persuaded many Asian conglomerates to rationalise both the scope of their operations and the structure of their internal organisations. Nevertheless, almost ten years on it is apparent that Asian conglomerates have remained conglomerates. Moreover, with the recovery in economic growth and urban property markets, real estate investment has retained its attraction. This chapter argues that broad-based business groups may well be dynamically efficient in fast-growing urban economies if they can internalise the externalities of large-scale investment in urban expansion, particularly backward, forward and income linkages. Whether domestic business groups can in fact obtain leverage from urbanisation depends on complex interactions between the competitive dynamics of urban land markets, the structure of domestic capital markets, the role of the state and the quality of management of each business group.

The first part of the chapter focuses on large property and financial conglomerates as the link between the literatures on mega-cities and transport and communications networks and those on international business. Part Two gives a brief overview of urban land markets within the main cities in Southeast Asia, including Hong Kong. Part Three presents corporate profiles for six case studies, which are compared in Part Four in respect to schemas of old-form and new-form conglomerates.

CITIES, NETWORKS AND INTERNATIONAL BUSINESS

The international business literature is probably the best point of entry for analysis of Asian business. Although international business is dominated by firms from the so-called triad economies of the United States (US), Europe and Japan
(Rugman, 2000), in recent years firms from Asian economies other than Japan have also become foreign investors. Hong Kong has become a gateway for foreign investment from China (Yeung and Olds, 2000, Mitchell and Olds, 2000). Association of Southeast Asian Nations (ASEAN) countries have also begun to generate flows of outward foreign direct investment, albeit mostly within the Asian region (UNCTAD, 2006). Nevertheless, the presumption from the business strategy literature is that Asian firms, being mostly conglomerates, will struggle to develop core competencies that will enable them to achieve competitive advantage beyond their domestic bulwarks of market power and political patronage. The conglomerate form of organisation so widely observed in Asia is regarded derisively outside the region as an immature and inefficient form. The vulnerability of such conglomerates was exposed by the Asian Crisis (Backman, 1999). The profits generated by the Asian boom were seen to have been invested opportunistically, often under the distorting influence of state patronage. There was no overall strategic management, poor financial control and ineffectual risk management.

The problem with such analysis is that the conglomerate is classified by negative definition as an inferior business type. It would be better to allow that the conglomerate may be an efficient and hence common configuration in certain business environments. Economic historian William Lockwood (1974) argued perceptively that in prewar Japan conglomerates (zaibatsu) played a vital role in taking over from the state the pioneering role in many manufacturing and service industries. The key was their ability to mobilise huge sums of capital and technical expertise to carry out investments which may not have been profitable in their own terms but yielded externalities for other industries in which they were involved. Zaibatsu such as Mitsui, Mitsubishi and Sumitomo combined economies of scale with economies of scope. More recent literature recognises that poorly developed capital markets and scarcity of skilled managers gives enormous advantages to incumbent firms, especially when associated with political connections and
patronage. The weakness of institutions widens the scope for firms to supplant the market. In short, after Coimbatore Prahalad and Gary Hamel (1990), business management and government-business relationships may constitute core competencies that create value from what might otherwise appear to be unrelated diversifications.

In order for conglomerates to internalise the externalities of growth, it is necessary that the economy as a whole be fairly small, that growth be fairly rapid and that a small number of firms hold a dominant position in the modern sector. These conditions appear to have been fulfilled in many of the economies of Southeast Asia, as they were in prewar Japan. The case can be represented even more strongly. Modern sector growth has not been diffused across countries as large geographically as Indonesia, the Philippines and Thailand but been concentrated in the main urban regions. The capital city-regions of Jakarta, Manila, Bangkok and Kuala Lumpur are in fact comparable with the island economies of Singapore and Hong Kong (chapters 1-4). The concentration can be measured in terms of economic activity, income, infrastructure and ownership of consumer durables such as motorcars. Large investments in capital city-regions tend to produce large multiplier effects in those same capital city-regions. Conglomerate firms, which hold a dominant position in those regions, stand to reap a share of the external benefits from their investments. They may diversify backwards in the supply of construction, building materials and services and forward in meeting the demand for finance, utilities, telecommunications, retailing, transport, health care and education. This is what makes these cities such good platforms for the precocious growth of a few large domestic companies.

Another perspective on the relationship between firm and city is that both are networks. The firm itself is a “nexus of contracts” which both mobilises and exploits a bundle of resources. In a large economy these contractual relationships are likely to be spatially diffuse. A conventionally specialised firm exploits firm-specific
advantages across national or international markets. By contrast, a conglomerate firm may concentrate its activities within a mega-city region in which it straddles multiple key industries. Such positioning is likely to be strengthened by political connections that facilitate rent-seeking and raise barriers to the entry of rival firms.

Firm and urban networks may correspond through physical (rail, road, water, power, gas, sewerage) or virtual (telecommunications) networks. In many countries these networks were once owned and managed by the state, but the recent trend towards privatisation has shifted ownership and control towards very large firms able to mobilise huge sums of capital. Such urban networks are very often monopolies and, if subject to weak regulation, confer tremendous powers of pre-emption and exclusion and provide leverage over urban land markets. Conglomerate leverage over the urban economy may be enhanced by control of urban gateways. Seaports, airports and teleports are also increasingly subject to privatisation. All traffic into and out of the urban region must pass through one or other of these forms of gateways, paying tolls in the process.

Hypothetically, a very large domestic conglomerate, which was able to combine a strong position in urban land markets with ownership and control of both distribution and reticulation networks and the gateways to those networks, would take on a role formerly reserved for the state itself. No conglomerate in Asia has yet been able to consolidate such dominance. In practice, economic and political rivalries fragment ownership and control into oligopolies. It is in the interests of state powerholders to ensure that no one firm does become hegemonic.

The urban economies in Southeast Asia have therefore become arenas for intense and interlinked economic and political competition. The resultant behaviour is now widely referred to as rent-seeking, which at the scale of the individual transaction points to the corrupt and exploitive nature of these relations. Property rights are allocated by patronage, typically in return for political funding. Rent-seeking is also linked to concepts of cronyism and the predatory state. However,
across the full set of transactions, the picture that emerges is one of mutual interdependence between big business and top power holders. Sometimes, as in Indonesia under Suharto, the ruling family and leading business conglomerates may be one and the same, but a symbiotic relationship is more typical. Leading political power holders may be as highly dependent upon big business as big business is upon political favour. The actual pattern can be charted through the exchange of information and property rights in return for political funding. The interdependent zaibatsu and political factions in pre-war Japan may be taken as an archetypal model (Lockwood, 1974). A process that begins as a form of “primitive accumulation” may thus become institutionalised as a stable polity.

<h2>MEGACITY LAND MARKETS</h2>

Urban growth has its most obvious manifestation in the construction of the built environment. Production of capitalist urban space includes high-rise office buildings, shopping malls, hotels, condominiums and industrial parks. Comparable figures on the construction of prime office space show that between 1984 and the eve of the Asian crisis in 1997 around 2.5 million square metres of new space was constructed in Hong Kong, Singapore, Jakarta and Kuala Lumpur respectively (Table 7.1). Hong Kong and Singapore were the more mature markets for the boom had begun there in the late 1960s. Kuala Lumpur’s first high-rise office boom occurred in the early-to-mid 1980s. Jakarta, Manila and Bangkok experienced their major boom after 1990. These transformations could be seen in the rapidly changing skylines of all these megacities (Chapter 5). This pattern of development was accompanied by the expansion in the infrastructure of ports, airports, tollroads, power stations and industrial parks.

“Insert Table 7.1 about here”

The process of megacity expansion was driven in the first instance by industrialisation and foreign investment. However, the demand for high-rise office space was derived as much from expansion of the financial sector and business
services which occurred at a time of increasing globalisation. Accompanying growth of a prosperous urban middle class generated demand for integrated new town development. Expatriates, tourists and business travellers boosted the demand for hotels and high-rise condominiums.

Although urban development was grounded in real economic trends, there was the inevitable tendency towards speculation and instability. The confidence that flowed from economic prosperity gave rise to temporary overdevelopment of office space and the familiar cycle of boom and bust. For example, in the mid-1980s the property markets in Singapore and Kuala Lumpur and, to a lesser extent, in Jakarta succumbed to brief recession. The subsequent long boom was punctured in 1997 by the Asian Crisis. Further blows from the terrorist attacks of 11 September 2001 attacks in the United States and then Severe Acute Respiratory Syndrome (SARS) delayed recovery until late 2003.

In all Southeast Asia’s megacities, property development displays an oligopolistic market structure (see below). The leading firms enjoy excellent access to finance, both locally and internationally, and have been able to use such funding and ploughback of profits to build up large landbanks. However, the extent of rivalry varies considerably between Hong Kong, which has been a rather cosy cartel, and Manila or Jakarta, which are more aggressively competitive. The main players in all of these markets form what are, essentially, clubs of principals with a common interest in keeping out new competitors.

Political connections have also assisted this accumulation. In both Hong Kong and Singapore the government controls the release of land, so that relations with government are extremely important and give some stability to the property cartel. In Singapore, this stability is enhanced because several of the leading developers are themselves government-linked companies (GLCs). In and around Manila and Jakarta the land market is only loosely regulated. Large tracts of land have been available for landbanking from former private estates and/or plantations.
Land conversion requires government approval but this has been granted fairly readily to groups with political connections. As almost everywhere, topography, such as mountains and harbours, and infrastructure, such as railways, tollroads, airports and seaports, make some tracts of land much more strategic than others and confer great advantages in acquisition cost and timeliness to early movers. Privileged access to information is therefore a precious resource.

In summary, a few characteristics may be seen as common to all these megacity land markets. First, demand has been growing rapidly. Second, economies of scale allow expansion by large increments as integrated projects around the urban fringe. Third, there are high barriers to entry, including political connections and upfront development costs that restrict the number of leading players. Finally, developers are able to landbank cheaply to generate huge potential profit streams.

**CORPORATE PROFILES**

Corporate profiles of Southeast Asia’s urban property developers are derived from a list of Asia’s 100 richest families to compare their business structure and strategy (Hiscock, 2000). In Hong Kong, Singapore, Manila, Jakarta and Kuala Lumpur, around half a dozen of these richest families dominate or control urban development (Table 7.2). The availability to the public of information on these principals varies widely: some are highly secretive while others disclose information in reports of listed companies and on company websites (Hiscock, 2000).

“Insert Table 7.2 about here”

This chapter selects six leading principals on which sufficient information has been obtained to construct a simple corporate profile: Cheung Kong/Hutchison International of Hong Kong (Li Ka-shing); Sun Hung Kai Properties (the Kwok brothers) of Hong Kong; Hong Leong/City Developments of Singapore (Kwek Leng Beng) and Kuala Lumpur; Ayala Group of Manila (Ayala Family) and Lippo of Jakarta (M. and J. Riady) (Table 7.3). To these is added Jakarta’s former leading property developer, the Ciputra Group. The following brief profiles of these firms
include information on date of foundation, company structure, main offshore investments and fields of activities.

“Insert Table 7.3 about here”

<h3>Cheung Kong/Hutchison International (Li Ka-shing)</h3>

Until the mid-1970s, banking, property and infrastructure in Hong Kong was dominated by a few British conglomerates known as *hong*. Li Ka-shing, one of the first to challenge this colonial supremacy, began his business career in 1940 as a manufacturer of plastic flowers (Chan, 1996). In the 1960s, he was involved in Hong Kong’s first big property boom. Cheung Kong (Holdings) Ltd became a public company in 1972 and subsequently became a party in major redevelopment projects including the Admiralty Centre (WDS, 1997a, b). In 1979 Cheung Kong took up a 25 per cent stake in the local manufacturer, Green Island Cement Co. Ltd. In 1979-80, with the support of the Hong Kong and Shanghai Bank, he boldly acquired a 22 per cent stake in the bankrupt local *hong* Hutchison Whampoa Ltd (HWL) (HWL, 1994-8). HWL was itself a recent merger between the trading house and retailer Hutchison International Ltd and Hong Kong & Whampoa Dock Co. Ltd, whose shipyards, especially those at Kowloon, were prime urban sites. Cheung Kong took control of HWL’s property portfolio and over the 1980s redeveloped the former shipyards for residential housing. In 1985 HWL diversified into infrastructure by acquiring a 35 per cent stake in the utility Hong Kong Electric Holdings Ltd. In 1983 HWL was also an early mover into telecommunications with the formation of Hutchison Telecommunications Ltd to develop local paging and mobile telephone services (HWL, 1994-8). In 1990 the Group took up a 33 per cent stake in AsiaSat, Asia’s first domestic communications satellite, and in 1991 set up the Star TV network, sold three years later to Rupert Murdoch’s News Corporation.

After the 1984 Sino-British agreement for the return of Hong Kong, Li Ka-shing deployed the vast profits from property development not only to broaden his base in Hong Kong but also to expand internationally. HWL became Li Ka-shing’s
vehicle for internationalisation (CKHL, 1994-8). The takeover in 1979 of HWL had brought with it a substantial interest in the local container port operator, Hong Kong International Terminals Ltd (HITL). As the Hong Kong container terminals were extended, HWL sought to become an international container port operator. Its first foreign move was into the British port Felixstowe (1991), followed by Yantian and Shekou in south China, Thamesport and Harwich in the United Kingdom, Grand Bahama, Balboa and Cristobal in Panama, Jakarta and Thilawa, Rangoon, in Burma (Comtois and Rimmer, 1996; HWL, 1998). During 2000 and 2001 the Group extended its interests in China (Shanghai, Ningbo), South Korea (Kwangyang and Pusan), Malaysia (Port Klang), Indonesia (Jakarta) and Europe (Antwerp and Rotterdam); took over the world’s fourth largest specialist operator International Container Terminal Services Inc. (ICTSI) based in Manila; and bought interests in Manila, Thailand (Laem Chabang), Saudi Arabia, Pakistan, Mexico, Brazil and Argentina. By 2004 HWL had become the world’s largest specialist container port operator with global turnover of 48 million twenty-foot equivalent units (TEUs), well ahead of rivals Port of Singapore Authority (PSA) (33 million) and P&O Ports (22 million) (PSA 2006; HWL 2006; P&O 2005) (Figure 7.2). Of course it helped HWL that Hong Kong was then still the world’s busiest container port, though HWL, having competitors, handled less local traffic than monopolist PSA in Singapore (20.6 million TEUs).

“Insert Figure 7.2 about here”

In the mid-1990s the Group’s telecommunications interests also went global with the joint venture “Orange” personal communication network (Orange Public Limited Company (Plc)) to serve UK/Europe. The Group’s interests in Europe were later diluted to raise funds but other ventures continued to serve China and, in a modest way, Australia. The China-related news media portal Tom.com was floated on the Hong Kong Stock Exchange in January 2000 (Quak, 2000). Meanwhile, HWL was developing a new business-to-business web portal in Hong Kong and also with
Oracle a global Internet portal for the transport industry to integrate IT and electronic data interchange (EDI) with its container logistics (Business Times, 28/3/00; Shipping Times, 27/4/00). HWL’s biggest gamble, however, was with third-generation (3G) mobile telephony with video capability. Billions of dollars were spent to pioneer roll-out in UK/Europe, Australia and Hong Kong in 2003/04. Then in October 2004 Hutchison Telecommunications International Ltd was floated in Hong Kong and New York to roll out and manage mobile networks in the developing economies of Hong Kong and Macau, India, Israel, Sri Lanka, Indonesia, Thailand, Vietnam and Ghana (HWL, 2006).

After 1999 Li Ka-shing’s son Richard, also moved aggressively into IT, albeit not formally as an initiative of the Cheung Kong/HWL group. While Deputy-chairman and Executive-director of HWL (until 2000), Richard Li had established his own firm Pacific Century CyberWorks (PCCW) Ltd with the aim of becoming Asia’s leading Internet business outside Japan (Business Times, 17/8/00). In August 2000 he mobilised US$28 billion to acquire the local fixed network interests of HWL’s main rival, Cable & Wireless Hong Kong Telecom. However, the mid-2000 collapse of the dot.com boom cut 80 per cent from PCCW’s share value and undermined its ability to finance the debts contracted in the takeover of Cable & Wireless Hong Kong Telecom (The Australian, 25 Oct. 2000). In March 2001 PCCW reported a massive US$885 million loss, resulting in negative equity and forcing substantial reduction in the workforce (FT, 29/3/01; Business Times, 6/6/01, 5/7/01). It renegotiated its mobile venture Reach with Australia’s Telstra, which in 2003 wrote A$1 million off the value of its equity and in the following year with PCCW persuaded lenders to accept A$460 million for Reach’s $1.7 billion loans (ABC, 18/6/04). In 2002 PCCW returned to profitability and subsequently diversified into Broadband TV in Hong Kong and the United Kingdom, technical services (Cascade) in Hong Kong, China and Brunei, and other add-on services. The company’s global strategy is to develop a regional information and communications technology (ICT) presence but also serving
the network needs of multinationals from footholds in UK/Europe, the United States and across Asia (PCCW, 2006). In 2005 a 20 per cent stake was sold to China MNetwork Communications Group. Then in July 2006 Richard Li sold all but a privately held 3 per cent interest to Hong Kong financier Francis Leung (Business Times, 10/7/06).

In sheer size, the Cheung Kong/HWL Group dominates Hong Kong. At the end of 1999 the combined market capitalisation of Cheung Kong and Hutchison and linked companies accounted for 21 per cent of the Hang Seng Index (Cheng and Chung, 2000). As of March 2000 at the height of the dot.com frenzy, the Group accounted for 33 per cent of the capitalisation of the Hong Kong Stock Exchange (AFR, 1/3/00). The Group was so dominant that the charge was made Hong Kong was turning into “Li Land” (SCMP, 29/2/00). By 2004 HWL had a group turnover of over US$23 billion and employed 180,000 people across 45 countries (HWL, 2004). However, since 2000 Hong Kong’s share of group turnover has halved from 52 to 26 per cent while the share of Hong Kong and China combined fell from 61 to 38 per cent (Table 7.4). Meanwhile Europe’s share of turnover increased from less than one-tenth to over one-third. This was a very rapid globalisation of the company’s activities.

“Insert Table 7.4 about here”

A conglomerate writ large, HWL is now structured around five core businesses: ports and related services, telecommunications, property and hotels, retail and manufacturing, and energy and infrastructure. As discussed, the first two are already established as global businesses but the other three also have global reach (HWL, 2006). Property and hotels involves a very large portfolio across China (Figure 7.3) but also some holdings in United Kingdom, Japan, Singapore and the Bahamas. Retail and manufacturing is represented by the A.S. Watson & Co. Ltd (ASW) group, originally a Hong Kong manufacturer of mineral waters diversified into pharmacies; ASW now employs 88,000 people in 34 markets, focused on the
region but becoming more prominent in Europe as a “health and beauty” specialist.

Energy and infrastructure (Cheung Kong Infrastructure Holdings) claims to be “a leading player in the global arena” with investments held mainly through two minority stakeholdings, the first the 39 per cent holding in Hong Kong Electric with interests in China, Australia and the United Kingdom, the other a 35 per cent holding since 1987 in Canadian-based Husky Energy Inc. with interests in the South China Sea and Indonesia. Cheung Kong has also recently acquired investments in water and gas distribution in the United Kingdom and Australia.

“Insert Figure 7.3 about here”

<h3>Sun Hung Kai Properties Ltd</h3>

The trajectory of fellow Hong Kong property developer Sun Hung Kai Properties has been markedly different from Cheung Kong/HWL. Listed in 1972 with market capitalisation of around $70 million, by 2005 the firm had net assets of around $20 billion and 23,000 employees (SHKP, 2006). After the death of founder Kwok Tak Seng, at age 79 in October 1990, control passed to his three sons Walter, Thomas and Raymond. The western-educated brothers took a more aggressive approach to diversification with new ventures into traffic management (Wilson Parking, Hong Kong 1991), mobile telephony (SmarTone, 1993), IT (SUNeVision, 2000) and 3G telecommunications (SmarTone-Vodafone, 2004). The group is also involved in construction and engineering, financial services, insurance, public transport (Kowloon Motor Bus Co.), tollroads, ports (Hong Kong’s River Trade Terminal), air freight forwarding and logistics and waste management (Webb-site.com, 2005).

Nevertheless, most of these ventures are closely related to the core business of property and urban development. The most significant diversification since the mid-1990s has been geographic expansion into China, specifically Guangzhou and the Pearl River Delta, Greater Shanghai and Beijing. As of 31 December 2005, the Group had property investments in China of 2.6 million square feet with another 9 million square feet under development. To fund acquisition of land in Shanghai, in May 2006
the Group raised a $1 billion share issue (Business Times, 11/5/06). However, the China holdings are still less than a third of the Group’s 42 million square feet of property and development in Hong Kong, about equally divided between property investments and land bank. Sun Hung Kai is therefore not only less diversified but also much less internationalised than Cheung Kong/HWL (Table 7.4). Nonetheless, the personal wealth of the Kwok brothers is equivalent to that of Li Ka-shing, ranking 24 and 23 respectively in Forbes 2004 listing (Table 7.3).

<h3>Hong Leong/City Development</h3>

Based in Singapore and Malaysia, the Hong Leong Group traces back to the 1940s as a modest company trading in basic building products (HLGS, 1996; HLA, 1997; Gomez and Jomo, 1999: 66-72; Gomez, 1999, 2000). In 1956 its patriarch in Singapore, the late Kwek Hong Png, acquired the exclusive agency for Onoda Cement which led in the 1960s to local production in joint ventures with both Onoda and Mitsui. Other industrial activities were pre-cast concrete and ready-mix concrete. In 1966 Hong Leong Finance Ltd was established to provide financial services for business people and individual householders and by the 1990s had grown into Singapore’s largest non-bank financial institution.

Diversification into property began in 1968 when incidental property interests were consolidated into Hong Leong Holdings. Between 1969 and 1972 the emerging Group also took over the distressed property firm of City Developments Ltd (CDL), founded in 1963 (CDL, 2006). These moves positioned the Group to take advantage of Singapore’s quickening property boom, which began in the late 1960s. By the end of 1995 the Group’s City Developments Ltd alone had a market capitalisation of US$6 billion and with HL Holdings was the largest private residential property developer and private office landlord (HLGS, 1996).

In the 1990s the Group sought to globalise in two very different directions. First there was opportunistic industrial investment in Hong Kong, China and Burma, most notably in diesel engines and refrigerators, to take advantage of low labour
costs. These investments were carried out through Hong Leong (Asia) Ltd (formerly Hong Leong Industries, formerly Hume Far East) and China Yuchai International (New York). By 2005 Hong Leong Asia had 80 per cent of its manufacturing business in China in the fields of home appliances, diesel engines and packaging; the balance included a huge quarry in Indonesia adjacent to Singapore (HLGS, 2006).

Second, the Group targeted markets in developed countries by rapid expansion into international hotels since 1993, mainly through CDL Hotels International Ltd (Hong Kong). By 2000 the Group owned 117 hotels; by 2005 the subsidiary Millennium and Copthorne (London) alone had 88 hotels with 25,000 rooms in 16 countries and ranked 40th among international hotel operators (HLGS, 2006, Figure 7.4). In December 2000 Millennium and Copthorne together with the group’s e-business subsidiary City e-Solutions Ltd (CES) acquired 85 per cent of Swan Inc. (renamed Richfield Hospitality Inc.) to develop hotel management, reservation, risk management and procurement systems, in which the United States was seen as the largest potential market (CES, 2006).

“Insert Figure 7.4 about here”

By 2005 the Hong Leong Group as a whole held gross assets of S$20 billion with turnover of $4.55 billion and worldwide staff of 30,000 (HLGS, 2006). Its core businesses were identified as property (HL Holdings and CDL), hotels (CDL), financial services and trade and industry (HL Asia) with an infant venture into technology and e-business (CDL). Of these only hotels could be identified as a successful global business and brand; manufacturing was a successful regional business. Nevertheless, albeit on a more modest scale than Cheung Kong/Hutchison, the Hong Leong group does seem to have used its strong domestic base to become arguably Singapore’s largest private sector conglomerate.

<h3>Ayala</h3>

Ayala Corporation is the oldest business group in the Philippines, tracing its origin back seven generations to the 1834 partnership of Casa Roxas between Don...
Domingo Rosa and Don Antonio de Ayala (Lachica, 1984). It is also the country’s largest business group. As of mid-2006 its five listed companies accounted for just under one-third of the Philippines Stock Exchange. In the late 1940s it diversified from banking (Bank of the Philippine Islands) and insurance into real estate with the development of the 1,000-hectare Makati estate on the then southern outskirts of war-ravaged Manila. Using American techniques of master planning, Makati was developed first as middle-to-upper-class residential suburbs and then in the 1960s as Manila’s new high-rise central business district (CBD) and retail precinct. Ayala’s dominance of the prestige property market yielded fabulous profits. In the mid-1960s Ayala began to deploy these profits to diversify into the highly protected manufacturing sector. Its first venture was the takeover of Pure Foods Inc. with interests in flour milling; in 1977 Ayala extended its interests into garments, in 1980 into electronics (Integrated Microelectronics Inc. (IMI)) and in 1991 through Ayala Automotive Holdings Corp. into vehicle assembly and dealerships (Honda and Isuzu) (Lachica, 1984; Zobel de Ayala, 1995). In 2005 IMI took over Saturn Electronics and Engineering with operations in California, Singapore and Cebu, then merged with Singapore-based Speedy-Tech Electronics Ltd (Ayala, 2005; BWO, 2005a).

By 1980 Makati was fully developed and Ayala was looking to acquire further large tracts of land to maintain leadership in the property market. A modest area of 67 hectares at Quezon City was launched in 1984 as Ayala Heights. The more important project was the 660-hectares at Ayala Alabang to the south of Makati. This was extended by another 141 hectares at Las Pinãs. Alabang/Las Pinãs was developed as a middle-class housing estate with a local commercial centre, shopping mall and business park. Ayala’s southward thrust continued in 1990 with the acquisition of 189 hectares at Santa Rosa (Laguna) for cheaper housing and an adjacent 223 hectares for development as the Laguna Technopark. In 1993 the 1,300-hectare Canlubang sugar estate was purchased and became part of the huge 2,500-hectare Ayala South project. Meanwhile Ayala had begun building high-rise condominiums as well as, in the
1990s, investing heavily in the redevelopment of Makati with modern high-rise office buildings, shopping complexes and hotels.

Ayala Land Inc. (ALI) was formed in 1988 to incorporate the Group’s property interests and listed three years later (Zobel de Ayala, 1995). In the 1990s ALI diversified its property base into urban infrastructure. In 1996 it became a minority shareholder in the Metro Rail Transit-3 (MRT-3) Consortium — to link Makati into an orbital light-rail system — and has pursued interests in other light rail and rail projects to provide public transport along the southern corridor. As part of the government’s drive for privatisation, in 1997 Ayala acquired the Manila Water Company, whose profitability was much improved before listing in March 2005 (BWO, 2005b). In November 2002 ALI achieved a coup by finalising the purchase from Indonesia’s Salim families First Pacific Company of a 50 per cent equity in Bonifacio Land Corporation which since 1995 had been developing the 150-hectare former army base, Fort Bonifacio (Business Times, 25/11/02). This site, which Ayala had sought to acquire in 1995, allows for the natural extension of the Makati CBD and is being marketed as Bonifacio Global City (BGC, 2006).

In the 1990s Ayala sought to build up its expertise in IT. It had been a shareholder in the local telex, facsimile and radiotelephony franchise, Clavecilla, which in 1991 merged with the local interests of America’s International Telephone and Telegraph (ITT) Corporation’s Globe-Mackay Cable & Radio Corporation to become Globe Telecom (GTI, 1998). A year later Singapore Telecom (SingTel) acquired the ITT shareholding and Globe became a local joint venture with Ayala offering all types of telecommunications services. In 1994 Ayala combined with Singapore Network Systems to take up a 40 per cent holding in EDINet Philippines Inc. to offer electronic data interchange and e-mail services (Zobel de Ayala, 1995). Through Integrated Microelectronics Inc. (1980) and Ayala Systems Technology Inc (1989) the Group also manages a supply chain from manufacture of electronics to software solutions (BW, 21/2/05).
By 2000 Ayala Corporation had therefore built a very strong domestic base with market leadership in IT, finance, property and insurance and subsidiary activities in manufacturing and retailing (Ayala, 2000). These interests were focused on the Manila city-region but extended to the second city of Cebu and other regional centres. Ayala has been the partner of choice for foreign multinationals seeking access to the Philippine market. Mitsubishi Corporation has been a strategic shareholder since 1973. Microsoft, AT&T, Baynetworks, Cisco, HP, IBM, Yamaha and Toshiba are alliance partners in electronics and IT; Honda and Isuzu in automobile assembly; Kawasaki Steel, Bechtel and United Utilities UK in infrastructure; Makro in retailing; and SingTel in telecommunications.

Despite its strong domestic base and many international alliances, Ayala has until recently been cautious in offshore diversification. As of 2006 its offshore vehicle, Singapore-listed Ayala International Pte Ltd, managed a $100 million property portfolio in Singapore, Hong Kong, Japan, Australia and the US, with another $40 million planned for the next three years (*Business Times*, 11/4/06). These investments are nevertheless modest compared with other Asian conglomerates. The Group has lacked the cash flow to be able to fund billions of dollars of investment like Li Ka-shing or Hong Leong. Ayala’s strength in the domestic market has also been its Achilles heel. Although the IT sector, and especially Globe Telecommunications, has continued to deliver strong growth in earnings, the ongoing weakness of the Philippine economy has held back other sectors. The Group has therefore restricted its offshore moves to modest investments in international property. Such investments give the Group an edge but do not establish a base for international competitiveness and leadership in any field. Through sound strategic management Ayala has built the platform but had the misfortune to find itself in the wrong economy.

<h3>Lippo</h3>
China-born Mochtar Riady (Lee Mo Tie), founder of the Lippo Group, began his career as a banker in the mid-1950s and emerged into prominence in the 1970s, first as Chief Executive Officer (CEO) of Panin Bank, then from 1975 of the leading private bank Bank Central Asia (BCA) with a 17.5 per cent shareholding (Backman 1999: 335-7; Trust, 2005). In 1981, while still CEO, he bought a controlling stake in Bank Perniagaan, which he restored to profitability and in 1989 merged with Bank Umum Asia. Having listed the new entity as Lippo Bank, in the following year he resigned from BCA to concentrate on his own banking and insurance (Lippo Life) interests.

During the 1980s the Riady family began to diversity from its profitable core business of banking and financial services into property by developing strategic land holdings around Jakarta. Lippo Land Development was established in 1983 and taken over by the Lippo Group as its development vehicle in 1988 (LLD, 1998). The new town developments Lippo Karawaci (2,630 hectares) and Lippo Cikarang (5,500 hectares) were launched in 1992 and floated as listed companies in 1997 and 1998 (Lippo Karawaci, 1998; LC, 1998). Lippo was also involved in the development of the Carita Beach Resort and along with Bambang Suharto’s Bimantara Group launched the 2,456-hectare Royal Sentul Highlands country club estate (RSH, 1997).

Lippo’s strategy, unique in Indonesia, was to draw on its enormous financial resources to invest up-front in estate infrastructure, not only roads, drains and sewers but also malls, offices, hospitals, schools, even its own private university, and of course golf course and country club. The business strategy was that a full-set new town would hold a large a marketing advantage over rival estates where most facilities were just a promise for the future.

By the mid-1990s the Lippo Group ranked as Indonesia’s fifth largest business group by sales and seventh largest by assets (Sato, 2003). Mochtar Riady gained personal recognition in Forbes’ billionaire listing. Ironically, in the same year concerns about Lippobank’s heavy exposure to property gave rise to a run on the
bank, necessitating a bail-out by Bank Indonesia and an injection of friendly equity, reportedly by Hong Kong magnate Li Ka-shing but apparently on behalf of Chinese state enterprises China Resources (LaFraniere, 1997; Backman, 1999). The bank emerged in a sounder position without serious damage to the Group. Having opened Jakarta’s largest shopping malls at Karawaci and smaller one at Cikarang, in 1997 the Lippo Group diversified further into retailing by taking up a controlling shareholding in the anchor tenant and market leader in department stores, Matahari Putra Prima.

The rise of the Lippo Group was accompanied by an international strategy that combined foreign direct investment with astute networking at the highest level (Friedland, 1990: 80-1). Mochtar Riady already had good contacts with Indonesia’s President Suharto, having worked for many years as the right-hand man to his prime business crony, Liem Sioe Liong. Riady’s long-term strategy was to extend his banking network into the two key countries of the United States and China and to position his two sons, James and Stephen, near the centre of power. As early as 1977 Mochtar had made a failed attempt to gain control of the National Bank of Georgia. In February 1984, while still CEO of Bank Central Asia, he succeeded with American partner, investment banker Jack Stephens, in gaining control of the struggling Worthein Bank and Trust of Arkansas. James Riady became President and brought banker John Huang from Hong Kong as Vice-President for the Far East. In November of the same year the Riadys and Stephens, through Worthein, took control of the Hong Kong Chinese Bank (HKCB) and the Overseas Trust Bank. By 1986, however, poor management at Worthein Bank had resulted in large bad debts and multiple breaches of banking laws, including $40 million in insider loans to Riady businesses (Duffy, 1997). When the international division was closed, Lippo sold out and transferred operations to the Bank of Trade (renamed Lippo Bank) of California. James Riady and John Huang moved to Los Angeles as Chairman and Vice-Chairman.

When Indonesia belatedly recognised the People’s Republic of China in 1989, the Riadys were well-positioned to take advantage of the opportunities.
Mochtar had been born in Fukien in 1929 and been to school in China. Notwithstanding uncertainties over the forthcoming transfer of sovereignty in 1997, he viewed Hong Kong as the ideal base to develop interests in the “golden triangle” of Taiwan and southern China (Zuckerman, 1991). Stephen Riady was sent to Hong Kong to manage the task. In April 1991 the deposit-taking company Public Finance (HK) Ltd was taken over, renamed Lippo Ltd and listed on the Hong Kong stock exchange (Reuters, 1992). Through Lippo Asia Ltd, Riady also moved into merchant banking, into insurance and into property. Nine floors of the 44-story futuristic Bond Centre office towers in the prestigious downtown Admiralty district were acquired and the whole rebadged as Lippo Centre Tower (Zuckerman, 1991; GSS, 2006).

Then, towards the end of 1991, HKCB bid successfully for the Bank of Credit and Commerce Hong Kong Ltd, the local unit of the failed Bank of Commerce and Industry (BCCI). Significantly, 30 per cent of the equity was taken up by China Resources (Holdings) Co. Ltd, the Hong Kong subsidiary of the Chinese state enterprise China Resources (Zuckerman, 1991; LCRL, 1998; LL, 1998).iii The Riady’s struck gold when Bill Clinton ran for President. James Riady had come to know him personally as well as his associates while Clinton was Attorney-General and later Governor of Arkanas. In 1992 the Lippo group was the largest donor to his presidential campaign. Eighteen months later Fukienese born, Taiwanese-schooled, US-citizen John Huang, who had previously hosted the Clintons, Senator Al Gore and others on trade missions to Asia, was rewarded by appointment as Deputy Assistant Secretary for International Economic Policy in the Department of Commerce, giving the group direct policy access (Duffy, 1997). Huang’s star rose to the point where, on President Clinton’s insistence, he was appointed as Deputy-Chairman of the Democratic National Committee to raise funds for the successful 1996 re-election campaign, bringing in some $3.4 million. Lippo’s access to the White House conferred enormous prestige in Jakarta and Beijing. Subsequently it became a national scandal that a good deal of these funds had been
raised illegally from non-residents. Huang was dismissed. In 2000 Lippo Bank in the United States was sold to Bank of America. Then in January 2001 James Riady himself also pleaded guilty to multiple charges of using foreign funds to unlawfully reimburse campaign donors and to using such donations to corporate advantage (DOJ, 2001). He agreed to pay a personal fine of $10,000 and to perform 400 hours of community service while the Lippo Bank of California, which the group no longer owned, would pay a fine of $8.6 million (claimed back under insurance) (Tempo, 28/1/01). James Riady also surrendered access to the United States for two years.

A controversial aspect of the investigations centred on circumstantial evidence that John Huang had been a key link between the White House and the People’s Republic of China (PRC). State-owned China Resources was joint owner with Lippo of the Hong Kong Chinese Bank and Huang and Lippo had been involved in various infrastructure deals in China. It was asserted that PRC funds had flowed through Lippo Bank of California to finance Clinton’s election campaigns, while intelligence had flowed in the other direction (Duffy, 1997). Whatever the truth of it, there was no question that the Riadys had created a very effective network of money and top-level political connections stretching from Jakarta through Hong Kong and China to the United States. The “Lippo-gate” scandal among others that surrounded the end of the Clinton presidency was more damaging for the group than the downfall of Suharto in May 1998. In fact James Riady actually boosted the Group’s Indonesian profile by becoming President Habibie’s Special Economic Ambassador for Australia and Oceania (Backman, 1999).

The most serious blow, however, was the Asian crisis, which halted the Lippo Group’s momentum and forced it to concentrate upon survival. By then the group was large and extraordinarily complex. Besides the original and core activities of banking and financial services, the group had developed integrated new-town property interests extending into retailing, education, hospitals, hotels and recreation, plus a diverse collection of manufacturing plants, in all employing perhaps 50,000
people. Offshore there were the previous mentioned financial interests in the United States and China, plus property and infrastructure projects in China, including the Group’s property arm Hong Kong China Ltd (formerly EIE Development (Int’l) Ltd) (WDS, 1997c; Ishikawa, 1998). However, the Asian crisis brought about a combination of a rising debt service burden and a diminished cash flow which was almost fatal. Although the Lippo Bank was financially sound after its 1995 recapitalisation, the financial panic was so great that the entire banking system was affected. Lippo Bank was the first to be recapitalised but in exchange 75 per cent of the shares were taken over by the government, diluting the Riady holding to less than 10 per cent. In February 2004 the government sold a 52 per cent controlling interest to the Swissasia Global consortium controlled by Austrian bank Raiffeisen Zentralbank Oesterreich (IHT, 2005). With another 40 per cent sold off to the general public, the Lippo Group was left with just a 5.6 per cent stake (Jakarta Post, 5/3/05). At the end of the year, after the bank had returned to profitability, Mochtar Riady stepped down as chairman. Meanwhile, Swissasia had sold its controlling interest to Malaysia’s state investment holding company Khazanah Nasional (Jakarta Post, 18/7/05).

The rest of the group sought to compensate for the loss of its financial engine by repositioning itself during the IT boom. The insurance company Lippo Life was renamed Lippo E-Net and its life insurance portfolio was transferred to the unlisted firm Asuransi Jiwa Lippo Utama (Jakarta Post, 25/2/00). Indonesia’s Capital Market Supervisory Agency BAPEPAM — invariably known by the acronym — claimed that the market was being misled to boost share value (Jakarta Post, 15/3/00, 30/3/00, 3/5/00). Other initiatives were the on-line shopping venture Lipposhop, the portal Lippostar.com and network integrator Multipolar, all attempts to create synergies between the Group’s technology, retailing and financial interests (The Australian, 25/10/00). This belated diversification into IT struggled to achieve market credibility, if anything reinforcing a market perception that the group was acting
opportunistically (*Jakarta Post*, 25/2/00; *Tempo*, 28/1/01). The group’s mobile phone business also failed to blossom. In 1998 subsidiary Natrindo Telepon Seluler had won a $60 million tender to establish a mobile phone network in East Java but by 2005 there were only 10,000 subscribers and, after five years’ of operation, a $20 million loss: the solution was to sell a 51 per cent interest to Ananda Krishnan’s Maxis Communications Berhad, Malaysia’s largest mobile operator (*Trust*, 2005: 13). A separate joint venture with Ananda Krishnan, announced in March 2005, is the satellite television venture Astro projected to invest $1 billion between 2005 and 2010 (*Kabelvision*, 2005).

In 2004 the group’s property and associated services interests were consolidated in Lippo Kawaraci to form “the largest listed property company in Indonesia by market capitalisation” (Lippo Kawaraci, 2006). The new firm has four divisions: Property consists of only three large projects, namely the new towns of Kawaraci and Cikarang in West and East Jakarta and a 1,000-hectare new town in Makassar, South Sulawesi; Commercial and retail centres consists of six trade centres and malls, several in Greater Jakarta and the others in Malang (East Java), Medan (North Sumatra) and Makassar; Infrastructure includes road construction and maintenance and four hotels; Health care comprises four hospitals, three in Jakarta and one in Surabaya, East Java. Although Jakarta is still the main focus of activity, there is a gradual diversification to other main Indonesian cities.

In February 2005 Lippo’s China connection extended to home ground when state-owned China Resources Group (CRG) acquired a 15.44 per cent strategic stake in Lippo Kawaraci (Xinhua, 2005). CRG’s holding is the largest after the Lippo Group itself (27 per cent) with public investors holding just below 50 percent (*Jakarta Post*, 25/2/05). CRG’s former CEO Ning Gaoning became Chairman and current CEO Charley Song became commissioner of Lippo Kawaraci (Lippo Kawaraci, 2006). In 2006 the firm’s assets were reportedly $1.3 billion in Indonesia and $1 billion offshore (*Business Times*, 8/6/06).
Since the collapse of the rupiah in the Asian crisis, the Group has been actively developing Singapore as a second offshore base and reducing its equity exposure to the troubled Indonesian economy. In 1999 the group gained control of the Auric Pacific Group Ltd, formerly well known as Cold Storage Holdings Plc. James Riady became Executive Chairman and Stephen Riady became Group Managing Director (Auric, 2006). Auric retains its traditional interests in wholesale food distribution and manufacturing, now extended to a wider range of branded supermarket goods along with “investment trading and holding”. In 2004 the group moved from its base in Singapore and Malaysia into China by acquisition of a dairy business Foshan Ausoon. In April 2006 Auric bought from Overseas Chinese Banking Corporation (OCBC) a 30 per cent stake in leading local retailer Robinson. In the following month Lippo Group, in a 60/40 joint venture with Ananda Krishnan, bought from OCBC a 55 per cent stake in Overseas Union Enterprise with three prime commercial properties in Singapore, also intending to use it as a platform for expansion offshore into property and hotels (Business Times, 27/5/06). On the same day plans were announced to float a real estate investment trust in Singapore that would incorporate Indonesian hospital and hotel assets presently held by Lippo Kawaraci (Business Times, 27/5/06). These deals followed upon group investments in an apartment building and a joint venture with local investors in a 43-storey condominium, both in Singapore (Business Times, 23/5/05; Jakarta Post, 17/11/05).

With substantial investments in Indonesia, Singapore and Hong Kong/China, the Lippo Group remains a force in the region. There is no reliable valuation of the Group’s overall worth but it would seem to be at least $5 billion, with the important proviso that group borrowings are unfathomable. In 2006 the group’s property, infrastructure and financial services in Hong Kong and China were valued at $1.7 billion (Lippo Securities, 2006), recent investments in Singapore at $1.2 billion, Lippo Kawaraci $0.6 million plus cash reserves of $1.4 billion (Business Times, 8/6/06), to which may be added around $0.1 billion of net equity in Indonesian
retailer Matahari (Matahari, 2006). Other recent offshore investments are $57 million in the Exportbank of the Philippines and a large integrated development at Incheon with Korean conglomerate Goldstar/LG (The Daily Tribune, 20/1/06, Business Times, 27/5/06). Thus the Group’s net assets and interests are now predominantly outside Indonesia, even though property, retail and telecommunications remain significant domestic interests. In 2006 CEO James Riady was reported as saying that the Group’s headquarters will become Singapore and Shanghai, where the 38-floor Lippo Plaza tower opened in 1998 (Business Times, 8/6/06). This downgrades both Indonesia and Hong Kong, suggesting that the Group believes it is now strong enough to venture outside its home region into northeast Asia. What remains unclear is corporate strategy. According to James Riady, the emphasis is now on property and retail. Without its financial core, however, Lippo has become a loose business empire still relying on personal connections rather than capabilities and competitive advantage.

<h3>Ciputra</h3>

The Ciputra Group headed by Ir. Ciputra and family had good claims to have been the leading property developer in the Jakarta city-region before the Asian Crisis. A graduate in architecture, he first went into the property business in 1961 with Pembangunan Jaya, a joint venture with the capital city-province of Jakarta, to build markets and other infrastructure — in 1994 the firm listed as Jaya Real Property (CF, ca.1996). In 1970 Ciputra combined with other leading firms, including the principals of the Salim Group, to form the Metropolitan consortium to develop Pondok Indah, a 500-hectare prestige housing estate with golf course and other facilities. Three years later he consolidated his family interests in the Ciputra Group, which in 1994 listed as Ciputra Development. In 1984 he led another consortium to develop the 2,500-hectare Bumi Serpong Damai new town to the southwest of Jakarta. In the early 1990s the Group began to invest in redevelopment of inner city Jakarta, first with the Ciputra Mall, Hotel and condominiums in West Jakarta, followed in the late 1990s by the Superblock Satrio in the new Casablanca CBD. Meanwhile the Group’s interests
had extended beyond Jakarta to Java’s other main port cities of Surabaya and Semarang.

The Ciputra Group diversified around its core business of property development and construction. This has involved horizontal integration into shopping malls, hotels tourism and recreation and vertical integration into quarrying and the manufacture of building materials (concrete) and ancillary services, including brokering, marketing and trading (CF, ca.1996). The Group set up its own onshore and offshore financing operations, including Bank Ciputra, but this was a Group facility that never matured as a public bank. In 1991 Ciptakomunindo Pradipta was set up as a joint venture with the Udinda Group, with a background in telecommunications, to contract for installation of ICT services in group and independent projects (Ciputra, 2007). The Group made offshore investments including the Marina Square development and several apartment blocks in Singapore, a new town development (Citra Westlake City) and an international hotel in Hanoi and apartment blocks in Hawaii, but these did not represent a deliberate multinational strategy.

The Group’s Achilles heel was to fund its property development by borrowing US$280 million dollars without proper hedging (Ciputra, 1998). When the Asian Crisis and political uncertainty caused the rupiah to collapse and the property market imploded, the Ciputra Group’s projects temporarily became almost worthless. By selling off assets and restructuring loans, however, the group was able to carry on with a reduced portfolio and ride the gradual recovery in the property market. However, the bank became a casualty of the crisis.

As of 2006 the Ciputra Group remains a leading developer and property holder in both residential and commercial projects in the Jakarta city-region and other main cities around the country (Ciputra, 2007). However, the group’s strong position in property development has not given rise to a diversified firm able to use its home base to leverage a multinational strategy. Despite continued ownership of the
international hotel in Hanoi and, since 2004, a 400-hectare satellite town in Kolkata, the Ciputra group remains essentially a domestic operation. Had Ciputra’s property portfolio been combined with the Lippo Group’s financial capability, Indonesia might have had a property/financial/infrastructure conglomerate able both to dominate the Jakarta city-region market and to provide a strong platform to launch into a regional or global strategy that incorporates an IT capability.

<h2>BUSINESS STRUCTURE AND STRATEGY</h2>

The above six cases spread across four cities are too few to allow strong generalisations but they suggest patterns to business structure and strategy. All six groups are conglomerate in form and tend to engage in similar activities, though some are larger, more diversified or more globalised than others. In terms of what differentiates them from each other, it is tempting to distinguish between a typical old-style and an emerging new-style of property and infrastructure conglomerate (Figures 7.5 and 7.6). The key difference is that the old-style structure relies on banking and finance to mobilise resources and create opportunities for international expansion, while the new style seeks to mobilise resources and create opportunities for global expansion through information flows, so that banking and finance thereby becomes a subsidiary activity. Five of the cases — Ciputra, Lippo, Ayala, Hong Leong and Sun Hung Kai — approximate the old style and only one, Cheung Kong/Hutchison International, as yet approximates the new one, although Lippo is attempting to do so, having lost control of its domestic bank. Nevertheless, banking and finance also relies heavily on privileged access to information and it may be that what is driving the apparent shift away from that sector is heightened competition and the consequent erosion of profits. In Hong Kong, where the capital market was always open to global competition, neither Cheung Kong nor Sun Hung Kai ever established a banking presence.

“Insert Figures 7.5 and 7.6 about here”
Ciputra is the least sophisticated, least diversified and least globalised of the property conglomerates. It has remained focused upon its core competency of property development with some integration into the manufacture of building materials and into retailing and financial services. The Group has not invested much in infrastructure or utilities, though it does have a contracting role in the installation of ICT services. Ciputra Bank was established as an internal banking arm but did not become prominent in domestic private sector banking and succumbed to the Asian crisis. Offshore investment is still incidental.

The Ayala Group, the leading Philippines conglomerate, is a classic old-form, domestic conglomerate. It combines a very strong position in domestic banking and finance with market leadership in property and infrastructure, and extensive interests in manufacturing, insurance and retailing. Since the 1990s the Group has been seeking to evolve into a new-form conglomerate by building up domestic market strength in telecommunications and high-tech manufacturing and including smart buildings in its property development portfolio. As yet, however, its globalisation strategy relies on alliances and joint ventures with international partners to exploit the domestic market. Offshore activities are minimal.

Before the Asian Crisis, the Hong Leong Group/City Developments fitted the old form of a property group leveraging off financial services. Since the late 1990s, however, the Group has built up a large portfolio of international hotels and is successfully translating this into a global chain of high quality hotels. This well-targeted, global expansion is only loosely articulated with the Group’s domestic property and finance and regional manufacturing activities. The group is developing an IT capability but in conjunction with its international hotel business, not with its domestic property base.

The Lippo Group in its first incarnation was a classic banking and financial conglomerate with insurance, property, retailing and manufacturing interests. It fitted the pattern of an old-style conglomerate, albeit with more weight in financial services
than in property and infrastructure. In the 1980s the group made an early move into offshore banking and financial services in ASEAN, Hong Kong/China, the United States and elsewhere around the Asia-Pacific. However, instead of forging capabilities in international banking, the Riadys were seduced by the lure of the booming Jakarta property market. This corporate strategy failed comprehensively, not for want of vision but through lack of attention to execution combined with the hammer blow of the Asian crisis. The attempt to ride the Jakarta property boom on a grand scale was predicated on sustained cash flow from financial services. In the face of competition from the established Ciputra Group and the aggressive intrusion of the Suharto family and other new entrants, Lippo struggled to translate its financial strength into a dominant position in urban property. Lax financial management caused Lippo Bank to suffer a liquidity crisis in 1995, which was repeated in 1998 during the Asian crisis. In consequence the group had twice to be rescued by Chinese associates and lost control of its bank. The twin crises of Lippo Bank not only broke the nexus with property at the worst possible time but also weakened the venture into international finance in the form of an Asia-Pacific network of financial services. In short, good ideas have not been translated into sound strategy, which has been a series of flip-flops from finance to property to IT to eclecticism. Having lost domestic competitive advantage in banking, the group is struggling to develop new capabilities, although it may achieve regional competitive advantage in retailing.

Lippo therefore shows both the strengths and weaknesses of the conglomerate form. It was able quickly to build up a strong position in domestic private banking and from there to diversify both internationally and into other domestic sectors. However, its domestic strategy foundered on local political and economic rivalries. Because the Ciputra group was already well established across the market spectrum and at strategic sites around Greater Jakarta, Lippo’s entry strategy to property in the 1990s was an attempt to leapfrog by using financial leverage to invest heavily in upfront amenities. In city-wide infrastructure, Lippo was thwarted by the Suharto
family and cronies who used political leverage to capture many of the highly lucrative infrastructure projects such as freeways, power, water, telecom, airport and port services. Hence the Group could not internalise the spillovers from real estate development, even in retailing. The outcome was liquidity crises which crippled the Group’s banking and financial core. Recent joint ventures in IT and telecommunications seem to have been opportunistic moves rather than strategic attempts to reconfigure the Group in a new form. By siphoning funds from Indonesia the group has certainly internationalised but so far on a portfolio basis without any consistent long-run strategy.

The *Sun Hung Kai Group* in Hong Kong has probably most successfully internalised the profits from urbanisation and been least seduced into siphoning off into unrelated diversification. Given the slowdown in Hong Kong’s property market after the opening up of China, geographic expansion into the main cities of China is a logical transfer of capabilities. The firm is conservatively managed by the three western educated brothers and has won a series of awards for property development and good corporate governance.

*Cheung Kong/HIL Group* is the only one of the six groups which may be judged to have completed a successful transition to a new-form conglomerate with competitive global businesses. However, the Group was never a typical old-form conglomerate. Because the Group had such good collateral in its property holdings and Li Ka-shing personally was able to build up the trust of the Hong Kong and Shanghai Banking Corporation, it had no need for vertical integration into banking and finance. As late as 2000, three years after the Asian Crisis, property-backed lending still accounted for more than half of total lending in Hong Kong (Mitchell, 2000). Access to funds in China and on international capital markets extended the Group’s sources of cash. However, until about 1990, the Group remained primarily a property and infrastructure group with associated interests in retailing and manufacturing.
In the 1990s the Group sought to develop dual global capabilities. First, from a base in container terminal operations in Hong Kong, it built up a global network of ports and quickly become the leading international operator. Secondly, in mobile phones and IT the Group consolidated a dominant position in Hong Kong and China and through strategic investments and alliances has become a significant force in Europe, Asia and Australia, leading the industry in 3G and confounding sceptics who had predicted that HWL would struggle. Whereas most of the conglomerates studied here have struggled to establish viable global businesses, Cheung Kong/HWL has established two and has significant international presence in its other three core businesses. It would be hard to argue that Cheung Kong/HWL has been handicapped through being a conglomerate because the cash flow from property has been essential to the establishment and consolidation of its other businesses. Nevertheless, the group is a most atypical case, distinguished not only by the extraordinary entrepreneurial dynamism of Li Ka-shing but also by its commanding position in the booming Hong Kong property market and, arguably, longstanding support and protection from the governments of both Hong Kong and China. By keeping a very low political profile, selling off minority stakes and astute choice of joint venture partners, Li Ka-shing made sure that his continued success was in the best interests of his patrons.

<h2>CONCLUSION</h2>

For some of Asia’s largest corporations, rapidly increasing real land values have been a major source of capitalist accumulation and a platform for globalisation. This can be seen on both a micro- and a macro-scale. On a micro-scale, corporations have been able to capture the externalities from ownership and development of strategic sites in national capitals. The outstanding example is Ayala Corporation in the Philippines with monopoly ownership of the CBD of Manila and its new extension into Bonifacio; a modest example is Lippo’s new town of Kawaraci (3,000 hectares; population 25,000: Lippo Kawaraci, 2006) on the outskirts of Jakarta. On a macro-scale corporations have been able partially to internalise the externalities of an
entire city. Here the outstanding examples are the Cheung Kong/Hutchison and Sun Hung Kai groups in the enclave of Hong Kong. Nevertheless, very high urban concentration may also be observed in more dispersed economies. The Ayala Group of the Philippines, though a national firm, estimates that 80-90 per cent of its business in conducted within the Greater Manila region. This is a much higher percentage than the 57 per cent share of Greater Manila in national product, reflecting Ayala’s focus on the urban middle class. Unfortunately comparable figures are not available for the Lippo or Ciputra groups in Indonesia.

Once stated, the link between urbanisation and accumulation seems to be self-evident. However, in order for this potential to be realised on a macro-scale, very stringent conditions have had to be met. Firstly, land development had to be concentrated in the hands of a small number of developers. In Hong Kong, the government restricts the supply of land and allowed a few large developers to operate as an informal cartel. In Jakarta, by contrast, supply ran well ahead of demand and competition between developers tended to compete away the gain in betterment values through higher costs of development and lower prices to end users. Second, the leading developers needed to be able to diversify into associated activities that allowed them to internalise the gains from investment in development. In Jakarta, the presidential family was able to secure such contracts through political leverage. The uniqueness of the Hong Kong property market and the close relations between government, developers and banks therefore stands out as an extreme case of the concentration of capital.

Nevertheless, one general trend nevertheless is obvious across all three cities: at the turn of the century the leading property developers have realised that the nexus of the future is not finance-land but a triangle of finance-land-ICT. Hutchison, PCCW and Sun Hung Kai in Hong Kong, Hong Leong in Singapore, Ayala in the Philippines and Lippo and Ciputra in Indonesia are all investing to varying degrees in ICT. This trend is more than coincidence or opportunism. The expected growth and profitability
of ICT makes it an attractive sector for any firm able to acquire the technology and to mobilise the large amounts of capital needed to develop a network. Leading property firms enjoy a potential competitive advantage because as landlords, developers and landbankers they already control large blocks of end users, often also sections of telecommunications as well as overlapping urban networks. This applies to office buildings or “superblocks”, industrial estates, residential suburbs and even entire new towns. Property firms also enjoy the best information on development of the customer base. There is also the logic of aggressive defence: becoming a major local player with connections into global alliances is a strategy not only to defend shares of existing markets but also to consolidate a new competitive “high-tech” advantage.

ICT is an industry in which there are unlikely to be many major players in the long run. Much higher barriers to entry than in conventional property development will protect firms that are capital-intensive, technically sophisticated and tied into global alliances.

The logic of the finance-land-ICT nexus is even more compelling than this partial analysis suggests. Asia’s mega-cities with their concentration of economic activity and purchasing power and their links into the global economy are the most lucrative sub-economies in each country — in Singapore the whole economy. Firms that control the urban networks and entry points, whether seaports, airports or teleports, may gain tremendous leverage over those economies. Ports, like mail, telephone, power, water and sewerage networks, used to be passive utilities, whether owned by the state or private shareholders. The classic regulatory dilemma was fairly simple: to ensure that they were reasonably efficient and did not abuse their monopoly to extract excess profits. It is now much more complex. Utilities have or are being privatised and incorporated into local conglomerates. Technological change and globalisation both reinforce and undermine these new bastions of market power. They are reinforced insofar as specific business groups can build up a dominance of the local economy across several sectors, as encapsulated by the concern that Hong
Kong is turning into “Li Land” (SCMP, 29/2/00; Business Times, 2/3/00). They are undermined insofar as global alliances restore an uneasy oligopolistic status quo. Conglomerates that fail to make the transition are likely to lose their competitive advantage.

<i>ENDNOTES</i>

i Kwek Leng Beng is Executive Chairman of the Singapore operation (hotels); his relative Quek Leng Chan is Executive Chairman of the Malaysia operation (banking).

ii Bank of the Philippine Islands 10.1%, Ayala Land 8.4%, Ayala Corporation 6.6%, Globe Telecom 4.6% and Manila Water 2% (Zobel de Ayala, 2006).

iii In 1997 the 74% of HKCB then owned by Lippo (56%) and China Resources (18%) was vested in Lippo CRE (China Resources Enterprise) (Financial Services) Ltd, a private company registered in the Cayman Islands (Web-site.com, 2001). The deal later gave rise to a judgement of insider trading (IDT, 2005). In 2001 the bank was sold to CITIC Ka Wah Bank Ltd, a subsidiary of China Investment Trust and Investment Company (CITIC) International Financial Holdings, a state-owned investment company of PRC.