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Trust and Envy: the Political Economy of Business Groups in Developing Countries

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Abstract
Diversified business groups play a major role in the economies of many developing countries. Business group members, often from the same communal, ethnic, or tribal group, have or develop interpersonal relations that make it easier to obtain information and monitor compliance related to transactions that require a strong measure of trust. This in-group cohesion facilitates profitable and productive economic activity. However, it can create resentment among other members of society who are barred from membership in a group that is, of necessity, exclusive. This envy can fuel a self-reinforcing cycle of societal hostility and group protectiveness that can deprive society of the economic benefits the groups can provide. There are several possible reactions such as "affirmative action" programs that can slow or stop the cycle of envy and group vulnerability.

Keywords Diversified business groups · Business groups · Property rights · Affirmative action · Minority trading groups

Introduction

Business groups are ubiquitous in the economies of many countries in Africa, Asia, and Latin America (Khanna and Yafeh 2007). They help mitigate informational and other contractual problems in an environment in which accurate information is often scarce, and contracts are often difficult to enforce. These entities — often made up

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of people from the same communal or ethnic group — have developed a relationship of trust among their members that is central to their success. Although these business groups are economically important in many developing societies, they often become the focus of controversy and hostility. This paper analyzes the political-economy dynamic of these business groups and proposes an explanation of their varied experience of success and hostility.

As business groups expand and their control of relevant information grows, they can tend to be more exclusive. Faced with growth, business groups may attempt to ensure that only people from their communities are part of the group, on the principle that for these individuals, both the payoffs of being honest and the costs of cheating are high. The attempt to ensure high levels of trust among group members, however, can cause envy among those who are not members of the group. Envy may turn into open hostility on the part of those with little or no hope of ever joining the privileged group.

The envy provoked by group exclusivity can heighten the political vulnerability of business groups. In response, business groups and their members can try to attenuate their risk by sending profits overseas, hiding assets, or keeping them in forms that are easily liquidated. However, these responses themselves are often seen as socially undesirable and may further erode the groups' status in society. The result can be a vicious "envy cycle" in which exclusive trust-based groups provoke social envy, which in turn stimulates more exclusionary or unpopular behavior, and futher envy, and so on. We go on to point out that several strategies can slow this cycle.

We begin by defining diverse business groups and clarifying aspects of interpersonal trust in economic life, discussing the role of trust within business groups, and explaining why these groups are more common in developing than developed countries. Next, we explain the causes of outsider envy toward group members. We then discuss business group political influence, looking at the nature of the business groups and regime of the country within which they operate. We then examine the consequences of the unique political-economic status of groups and present a cycle that can explain why these groups face high levels of political risk. Next, we discuss how public relations and affirmative action policies may slow the cycle. We then present case studies of ethnically Chinese business groups in Indonesia and Malaysia to illustrate our theory. In Indonesia, the cases show how outsider business groups were blamed for the countries' economic problems. In some instances, groups' aboveboard practices, such as philanthropy, mitigated animosity, while in another case, a group tried to buy political protection, which backfired. In Malaysia, we show how a state-led affirmative action policy slowed the cycle of envy and political insecurity for ethnically Chinese business groups.

Business Groups and Interpersonal Trust

Business Groups

Business groups are collections of private firms that produce in several sectors of a developing country's economy (Leff 1976, 1978). Business groups are simply one form the organization of the firm can take. For instance, multinational firms, small business firms, and state-owned firms form very differently to business groups. The groups are owned, and their senior management is supplied, by a few individuals who are linked by relations of interpersonal trust. These people are often from the same (broadly defined) family but frequently include non-family members of the same communal, ethnic, or regional group. Business groups, in Khanna and Yafeh's terms, "typically consist of legally independent firms, operating in multiple (often unrelated) industries, which are bound together by persistent formal (e.g., equity) and informal (e.g., family) ties. Varying degrees of participation by outside investors characterize many business groups around the world" (2007).

Diversified business groups are more common in developing than developed countries (Khanna and Yafeh 2007; Kali 2003). The reasons include weak contract enforcement institutions and poor rule of law, and a lower diversification discount when markets are less developed, as we discuss below (Khanna and Yafeh 2007, pp. 336 and 229).[1] Specific aspects of contract enforcement may hold more or less explanatory power when trying to understand the number and nature of business groups that exist in a country or sector. For example, it can be especially difficult to enforce intellectual property rights, and thus one might expect to see business groups having a comparative advantage in industries where intellectual property rights matter (Kali 1999, p. 633). Additionally, business groups are more common in developing countries because they serve as a private response to political risk (Kali 2003, p. 672).

A business group generally has its beginning in the successful entrepreneurial activity of a single individual, although we note that business groups certainly can be encouraged by state tax laws, policies, and so forth. Their success in an original activity makes it possible to attract additional capital from other people whose shared communal origin and experience enable them to trust each other. Because of these interpersonal ties, the group is able to bring together the capital for new investments whose requirements exceeded the assets that a single individual could mobilize. Similar patterns, in which trust enables people to mobilize economic resources from beyond the immediate family, have also appeared in early-development contexts as diverse as eighteenth-century Britain, nineteenth-century Japan and France, and the eleventh-century Mediterranean region (Greif 2006).

Initial entrepreneurial success, given scope by resources made available through relations of interpersonal trust, is essential for founding a business group. Over time, managers gain experience and greater technical competence, often as group members (perhaps children of the founders) get a technical education. As its capital and managerial resources grow, the group generally directs much of its expansion toward new activities in the economy's advanced sector, typically in industry. Expanding with high reinvestment rates over decades, groups develop large capital assets and diversified productive activities.

In emerging markets with no or weak equities markets, business groups can facilitate modernization and their own expansion. However, eventually, the emergence of

[1] See Montgomery (1994) for an overview of the determinants of firm diversification.

a functioning stock market may render business groups obsolete (Kali 2003, pp. 671 and 690–691). This is because stock markets facilitate risk sharing, thus eliminating the comparative advantage of business groups. Yet vested interests and political patronage can help business groups survive even after the emergence of a stock market (Kali 2003, p. 690). Domestic diversified business groups may have advantages in managing government contracts in a given sector, as they will be patient in negotiating with the government due to interests in securing government contracts in other sectors (Post 2014).

Trust in Business Groups

Trust is crucial to economic exchange. This paper argues that trust specifically benefits diversified business groups which otherwise face weak and corrupt institutions. Zucker (1986), for instance, discusses how as societies develop economically, trust based on personal and communal relationships is less commonly used to facilitate economic exchange, and more formal institutions like contracts take its place. Trust is more likely to the extent that people have relatively accurate information about each other and can therefore more easily identify individuals for whom honesty is an operational value. In local markets, like in small business associations, there are reputational incentives that encourage trustful behavior (see Klein and Leffler 1981; Kreps et al. 1982). Relatedly, trust is promoted if participants in these markets are engaged in a continuing relationship (or a repeated game), where they take into account the expectation of continued interaction (see Abreu 1988; Dasgupta 2000; Fudenberg and Maskin 1986; Kreps et al. 1982). Consequently, communal group members are to some extent engaged in a repeated game in which, regardless of personal traits and values, participants' dominant strategy may be to honor commitments. Finally, trust can develop more easily in relationships that are multifaceted, such that non-performance of agreed behavior in one domain can be countered with sanctions in other areas of interaction. Business groups fit into the picture by taking advantage of high levels of trust among their members.

The logic of business groups in developing countries is similar to that of firms more generally: they serve to internalize transactions that might otherwise be costly or problematic (Coase 1937). Contracting in the market is more expensive in developing than developed countries largely due to institutional differences. When formal institutions such as property rights are weaker, informal institutions, such as private associations, play a greater role (Chamlee-Wright and Storr 2015; Glaeser et al. 2002). As an informal institution, trust can lower the transaction costs of forming a firm, when institutional barriers would otherwise prove insurmountable. Individuals are more likely to collaborate in business ventures with those they trust, especially in countries with insecure property rights, high levels of corruption, and weak contract enforcement. This increases the relative benefit of relational contracting, long-term contracts, and vertical integration. More generally, uncertainty is greater when relying on the price mechanism in developing countries, which increases the advantage of operating through a firm (Klein et al. 1978). This implies that the costs of firm expansion increase at a slower rate in developing countries than in developed countries.

Business groups often include participants from the same communal group (Backman 2001; Chan 2000; Douw et al. 1999; Redding 1995; Weidenbaum and Hughes 1996). Such communal groups typically involve overlapping linguistic, social, residential, religious, and cultural domains. Zucker (1986, p. 60) discusses “characteristic based trust” which argues that characteristics like family and ethnicity build greater trust. Tyler (2001, p. 289) argues that individuals in certain groups base their market exchanges more on identity concerns than on resource exchange. Participants in these communal groups have better information on the honesty and reliability of other members and can trust individuals of whom poorly informed outsiders would have to be wary. Finally, reciprocal relations in multiple domains increase the possibilities for enforcing sanctions in the event of duplicitous behavior.

Communal group members can share more than cultural or linguistic affinity and can have an incentive to engage in behavior that merits trust. This makes it understandable that capital and senior management for the business groups comes primarily or exclusively from within their communal milieu. In effect, in environments where the rule of law and contract enforcement are questionable, the groups provide an environment where commitments can be assumed to be credible.[2]

A Theory of Envy, Business Groups, and Political Instability

Envy and Business Groups

We employ McClendon’s (2018) definition of envy, as a “status motivation that is felt…in response to ‘upward comparisons’” (p. 12) to “indicate a feeling of hostility toward the greater success of others—a wish for those with more to have less, even if that would mean few benefits (or even negative consequences) for the envier” (pp. 12–13). Social capital, or the ties and bonds formed between individuals in a shared community (Coleman 1988), has what is referred to as a “dark side” (Chamlee-Wright and Storr 2011, p. 168; see also Rubio 1997; Woolcock 1998; Portes 2000; Putnam 2001). Oftentimes communities, especially those with weak institutional structures or those recovering from disasters, exclude outsiders from their relative success (see Aldrich 2012, p. 44; Storr et al. 2017). When applied to business groups, envy would lead to an outsider-insider envy, where those within the group, who likely have wealth and privilege, are envied by those outside of the group.

Khanna and Yafeh (2007) find that the net impact of business groups on a country’s economy is ambiguous. Business groups, especially in developing countries

[2] Platteau looks beyond this, examining the conditions under which limited-group morality can give way to generalized morality. He cites Kennedy, who argues that business networks can impede the emergence of a generalized morality by reducing the circle of people whom with one will engage in business transactions (1988, cited in Platteau 1994, p. 796). For Platteau, though, the prevalence of Islam in parts of West Africa can help, “build up trust within large transaction spaces and therefore mitigates [these] difficulties” (1994, 796).

with weak property rights and unstable institutions, may reduce social welfare via rent-seeking or other monopolistic behavior (Khanna and Yafeh 2007, p. 334; Baumol 1990; Chamlee-Wright and Storr 2011, p. 171). In addition, their tendency to select large numbers of trustworthy individuals can impose negative externalities on the rest of the economy inasmuch as it leaves a higher proportion of untrustworthy people to engage in anonymous market activities outside the group network (Kali 1999, p. 615). In Platteau's language, this might further inhibit the development of a generalized morality (1994).

Yet the groups' investment and production can help increase national output and income. This might lead others to value business groups for their contributions. Further, the business groups' expansion into new activities can drive desirable structural change and economic diversification; this too might lead us to expect that the groups would be considered very positively. However, that is often not the case.

Resentment toward business group enterprises has been reflected in hostile public policy and, in some cases, in violence. An example of this includes the expulsion from Uganda of Indians who led business groups, such as Sudhir Ruparelia of the Ruparelia Group,[3] and similar expulsions in Tanzania. The list of cases where hostility against the groups has led to violence would be even longer if the perspective was broadened from communal groups to include envy on the part of other economic classes as well.

Political Instability Resulting from Envy

We propose, then, that business group exclusivity can lead to hostility from those outside the business group. This hostility increases the vulnerability of business groups. However, we expect the groups to act to attempt to protect themselves. To this end, they may use a variety of means, both political and non-political. We advance two propositions around business group strategies to avoid or stave off envy and political instability that may backfire:

(1) Business groups faced with envy from outsiders can attempt to exert political influence, for example, by lobbying or rent-seeking. This is likely to increase envy and accusations of corruption.
(2) Business groups faced with envy can hide assets or move assets abroad. Similarly, this may only further exacerbate envy and resentment.

Our first proposition suggests that the wealth of business groups can sometimes translate into political influence. Under these conditions, business groups can exercise substantial political power, especially to obtain state protection. If the group, though exclusive, is seen as being a legitimate force within the host society, it can respond to vulnerability by investing in exerting political pressure on the government to provide protection. For example, where legal, it can make campaign

[3] https://www.bbc.com/news/world-africa-36132151

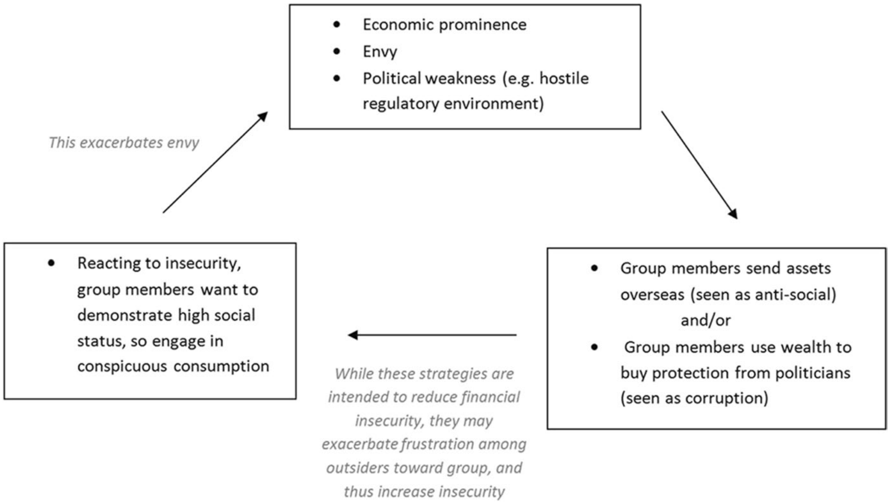

Fig. 1 The cycle of envy and political insecurity

contributions through formal channels without being concerned about the visibility of these efforts. It can also obtain special priveleges and licensing.

Proposition 2 argues that politically vulnerable business groups may react in ways that only worsen their position and that have a negative impact on the economic development of the countries concerned. Groups facing hostile regulations will reduce investment and production. Political weakness means that the groups face high levels of political risk, up to and including the concern that their assets may be confiscated. The responses of groups to this situation can further destabilize the country's political-economic equilibrium. In effect, the groups' successful achievements can endogenously increase the system's overall instability.

A group facing the possibility of confiscation might rationally invest a larger share of its portfolio in assets that are relatively liquid, concealable, and transportable, such as gold — assets with low social productivity. Further, inasmuch as groups cannot diversify domestic investment enough to substantially reduce the potential cost of confiscation, they have incentives to accumulate assets overseas. However, such "capital flight" is viewed as anti-social and unpatriotic and further weakens the groups' domestic political position. Another response may be to try to buy private protection. Where such payments are not legitimate, they can increase the perception of the group as corrupt, reduce the group's social and political acceptability, and increase medium-term vulnerability.[4] Finally, group members may seek to demonstrate high social status by conspicuous consumption, hoping that this status will

[4] Yet both of these strategies decrease vulnerability as well. The strategies have opposing effects, and it is not always clear in which direction the effect would be strongest.

protect them from potential attackers.[5] Such behavior is likely to incite additional envy and contribute to social and political instability. Any of these strategies pursued by individuals in a group may be individually rational but may impose a negative externality on the group by increasing outsider envy and hostility toward the group as a whole.

Figure 1 shows the negative feedback loop of the "envy cycle" discussed above.

These responses also have negative consequences for the country's economic development. High levels of conspicuous consumption diminish domestic savings and investment. Overseas asset accumulation lowers domestic investment and, at least initially, reduces the foreign exchange available for importing goods and services. Sociopolitical instability also lowers domestic savings. More generally, the risks and uncertainty inherent in a situation where property rights are insecure seriously hampers investment and production.

Slowing the Cycle: Affirmative Action Policies

Dire as this cycle may appear, it is not inevitable. Mass expulsions and expropriations do occur, but they are rare. Something must therefore be stopping or slowing this cycle. We introduce two propositions for activities that we expect to slow the cycle of envy:

(3) Business groups faced with envy can invest in public relations which can improve their public perception.
(4) Affirmative action policies, where business groups bring outsiders into senior positions, may similarly help to slow the cycle.

Proposition 1 argued that there are times when exerting political pressure openly would be likely only to increase their vulnerability. Whatever the formal citizenship status of the group members, non-group members could accuse them of inappropriately meddling in the country's affairs. Proposition 3 suggests that in instances where political involvement is seen as illegitimate, the business groups may instead use less observable and less inflammatory means to acquire protection: groups can make very public donations (Jha 2018), such as financing the construction of a maternity ward at a hospital or an annual scholarship fund, to garner good will from non-group members. Group members can participate in what Ashutosh Varshney calls inter-ethnic associational forms of engagement, belonging to inter-group business associations or sports clubs (2001). These forms of engagement can foster inter-group understanding and quell rumors that might exacerbate the cycle of envy and political insecurity.

Proposition 4 introduces another strategy that can contribute to slowing this cycle: affirmative action. Affirmative action can be externally imposed (e.g., a law

[5] Concerning the rationality of such behavior at the individual level, see Frank (1985, especially pp. 103–106).

in the country where a business group operates) or internally imposed (e.g., a policy the business group develops).

The net effect of affirmative action policies may be positive. Bringing non-group members into senior management positions can reduce envy, and thus the group's vulnerability. Certainly, affirmative action policies may impose costs on the group, the largest of which may be a decrease in within-business group trust and thus an increase in the cost of doing business. Affirmative action policies counteract, in essence, the reason these groups formed in the first place, which was to use trust as an informal mechanism to lower the cost of doing business. Moreover, if the traits that make for the groups' entrepreneurial success are not universal or easily imparted to newcomers who are outsiders, affirmative action policies may erode group firms' advantage in the local economy.

In addition, there is no guarantee that affirmative action policies will overcome the distributional patterns that breed hostility to the groups. Even with political will, successful affirmative action programs are hard to design and implement, due to knowledge problems facing planners (Hayek 1945). That is, planners are unable to gather all relevant information regarding informal norms and internal feelings of hostility toward others and successfully implement a plan to counteract the issues. There will likely be large unintended consequences of such a plan. It remains to be seen whether policies of income redistribution between communal groups in developing countries will actually achieve the objective of socioeconomic stability, or whether they will cause more harm than good.

That said, affirmative action policies, and strategies such as publicized charitable giving, can be considered profitable for a business group in the sense that they reduce antagonism to the group, helping to ensure the group's long-term security in a country. Irrespective of this consideration, under what conditions will business groups find it more directly profitable to bring individuals from outside the original communal milieu into senior management positions? Such inclusion is significant for its political-economic effects, as visible evidence of outside participation and broader social integration, but here we address conditions under which this is not the primary motivation for opening to outsiders.

Groups will not easily accept outsiders as members of their senior management team. Their willingness to make the changes (see below) that would enable institutional trusting of newcomers will vary with the returns that can be expected from making such a transition. Of particular importance are the following: (a) the net gains that accrue from larger firm size and (b) the enlargement of the senior management team that goes with increased firm size. If we assume linearity in both functions, the returns to the groups from opening their senior management ranks to outsiders depend on whether the internal supply of personnel who are both technically qualified and linked by interpersonal trust keeps pace with the groups' expanding demand for such people. If the demand for able, trustworthy personnel increases more rapidly than the supply, the returns to opening will rise, and group firms are more likely to attempt the transition.

It is difficult to make generalizations about how the demand for and supply of senior personnel in group firms will change over time. Demand for senior personnel will increase as a firm becomes more technically sophisticated in production, finance, and marketing. But conditions specific to individual industries will be crucial for determining the overall growth in demand within groups. The supply of able and trustworthy senior personnel will depend on fertility rates of group members, the degree to which marriage is used to increase the supply of trustworthy personnel from within a communal milieu, and whether constraints against the accession of female children to top management roles are dropped. Change across generations in employment preferences will also affect the supply of managers, and this in turn will depend on family socialization patterns and alternative opportunities within the country and abroad.

The supply and demand for these personnel is also a function of state business policy, and relatedly, structural conditions like the nature of the state's economy. Factors that would matter include hiring incentives and the ease with which a firm can hire and fire employees. If a business group is bound by ties related to a foreign identity, the degree to which group firms can acquire work visas to bring in more group members would matter. More broadly, a change in the strength of contract enforcement mechanisms would positively correlate with a group's willingness to hire outsiders. When there is a credible threat of external punishment for theft of property or ideas, a group can be more confident in the reliability of non-group employees and will be more likely to bring outsiders into more senior positions.

In some cases, the management supply and demand situation we have discussed may provide incentives sufficiently attractive for groups to recruit outsiders to their senior ranks. This is facilitated when an education system provides a shared language and set of values for group and non-group members, as this would reduce communication and monitoring costs. Firm policies that promote long-term managerial commitment to the firm can also facilitate bringing outsiders into senior management positions. These policies include a bias toward promotion from within the firm and compensation structures such as time profiles of salaries and pensions. Such measures induce long-term commitment to the firm, increasing the possibility of repeated interaction, vulnerability to sanctions, and hence inducements to trustworthy behavior.

Case Studies

Chinese Business Groups in Indonesia: the Salim and the Rodamas Business Groups

The case of Chinese business groups in Indonesia sheds light on minority business group-initiated strategies that either exacerbate or slow the cycle of envy, outlined in our theory. Some Chinese business groups in Indonesia, like the Salim Group, employed political connections and rent-seeking to stave off the cycle of envy. However, this eventually backfired and led to large local and international protests of their business practices, which were perceived as corrupt. Other groups, like the Rodamas Group, recognized that apolotical, aboveboard practices would likely lead to long-term success, rather than using political favors to get ahead. This section outlines how these groups attempted to prevent the cycle of envy and how successful their attempts were.

The Chinese in Indonesia are an economically dominant minority group, despite comprising around just over 1% of the overall population according to a 2010 census (Minority Rights Group 2021). Between 1910 and 1940, 23% of businesses in Indonesia were Chinese-owned and run (van der Eng 2020). During times of crisis, the Chinese become vulnerable scapegoats for Indonesian leaders (Coppel 1983; Mackie 1976; Purdey 2006; Shiraishi 1997; Somers 1965; Twang 1998). While most Chinese do small- or medium-scale business in Indonesia, there is a visible minority of Chinese affiliated with large, diverse business groups that have amassed great wealth.

One of those groups is the Salim Group. The group was founded in the 1940s by Liem Sioe Liong, who emigrated from China to Indonesia in 1937 (Dieleman 2010; Landler 1999). The business group included agribusiness, shipping, and financial service firms. From its start, the Salim Group formed close business ties with the Sukarno military. The Group originally began as a supplier to a division of the Indonesian army — the Diponegoro army division — and it was during this time (in the 1950s) that Liem met (and began forming a relationship with) future-president Suharto (Dieleman 2007, p. 175). In 1957, Sukarno nationalized all foreign businesses, including Chinese business groups. After nationalization, counterintuitively, this rent-seeking benefited the Salim Group, guaranteeing it steady business supplying the army with goods and services, in part because it was secured from outside competition (Dieleman 2007).

In October 1965, there was a coup in Indonesia against Sukarno. The now Suharto-led military blamed the country's communist party for the coup and leveraged the coup attempt as an opportunity to seize power and crack down on suspected communists. What resulted was the killing of half a million to one million people — ranging from those associated with farmer organizations to ethnic Chinese. Suharto exacerbated anti-Chinese sentiment to exclude Chinese from taking part in the military and other aspects of public life and made it difficult for Chinese to attend public universities. Yet Suharto also made use of Chinese business groups to help grow the economy,[6] and one of those business groups was the Salim Group. The Salim Group remained financially stable throughout the bloody transition due to its connections with the army and directly with Suharto.

Early in his presidency, in the mid to late 1960s, Suharto realized that financial growth and stability in Indonesia was one way to secure his rule. During this time, Liem and his Salim Group had been building ties with the government to maintain the Group's political backing and protection. Suharto's government supported the Salim Group by providing credit and issuing special licenses (Dieleman 2010, p. 210; Dieleman 2007, p. 109). As Landler (1999) described:

6 https://www.washingtonpost.com/world/asia_pacific/ethnic-chinese-still-grapple-with-discrimination-despite-generations-in-indonesia/2017/03/17/4abba780-0444-11e7-ad5b-d22680e18d10_story.html

> When Mr. Suharto wanted Indonesia to expand into new industries, Mr. Liem obliged by opening factories or planting fields. When Mr. Liem needed favors -- a waiver of securities law or of restrictions on satellite transmissions -- the president happily complied.[7]

Suharto and Liem became close business partners and friends (Borsuk 2014, p. 12). Liem was granted a monopoly license to import cloves, which at the time was the main ingredient in Indonesia's distinctive sweet-smelling cigarettes (Landler 1999). And this license was just the first of dozens of monopoly priveleges granted by Suharto — Liem became the monopoly provider in Indonesia of coffee, rubber, sugar, wheat, flour, noodles, rice, and cement (Landler 1999). In 1969, Suharto granted Liem a monopoly on the importation, milling, and distribution of flour, which eventually led to Liem's company becoming the world's largest flour mill (Landler 1999).

By the early 1990s, the Salim Group was considered the largest business group in Southeast Asia (Dieleman 2010, p. 211), and it accounted for 5% of Indonesia's economic output (Landler 1999). Throughout this same period, Liem's son, Anthony Salim, gradually took over leadership of the Salim Group. Leading up to the 1990s Asian financial crisis, the corruption in the Suharto government began receiving increasing publicity. As the financial crisis reached Indonesia, the IMF and the World Bank became outspoken on this issue and the IMF pushed Suharto to curb favoritist and protectionist policies (Dieleman 2010, p. 212). Not only did international financial institutions turn against Salim and Suharto, but local Indonesians also came to resent and envy the Salim Group (Borsuk 2014, p. 12). Liem's home was ransacked, burned down, and he was forced to flee to Singapore (Landler 1999). Suharto was eventually forced to resign after more corruption came to light.

The financial crisis was accompanied by violence against ethnic Chinese, and the Salim Group became a symbol of the old crony regime. There were both political and physical attacks against the group (Dieleman 2010). As Liem's corrupt dealings with the Suharto government came to light, Liem's personal chapter in Indonesia swiftly came to a close, and the Salim Group moved large parts of its business overseas:

> The close association that Liem had with Suharto came at a price — enmity. When the strongman fell, the knives came out for all those associated with him. Naturally, Liem was a prime target. During the frenzied May 1998 rioting, mobs (thought to be organized) broke into Liem's Jakarta residential compound, setting fire to his house and cars. Liem would never live in Indonesia again. (Borsuk 2014, p. 13)

Liem was forced to flee the country. His son, Anthony, watched internal unrest unfold following the uncovering of the Salim Group's cronyism. This led Anthony

[7] The relationship between Suharto and Liem and the Salim Group went further than just business deals. Two of Suharto's daughters owned stakes in Bank Central Asia, and one of Mr. Suharto's cousins, Sudwikatmono, is a member of a group of businessmen who invested in many of the Salim Group's ventures (Landler 1999).

to diversify his assets and move his capital abroad, acquiring businesses in Singapore and Hong Kong, among other places (Dieleman 2007). By the late 1990s, one-third of the Group's assets were outside of Indonesia. By the early 2000s, the Salim Group had moved half of its portfolio abroad (Dieleman 2010).

The Salim Group case shows how a business group made up of "outsiders" can politically ingratiate itself with government actors, which in the short-term may provide protection. But in the long-term, these activities can lead to local backlash.

We now turn to the Rodamas Group, which is similarly a diversified business group founded and managed by ethnic Chinese immigrants in Indonesia. The Group was founded in 1959 by Tan Siong Kie and is currently run by Mucki Tan, the second generation of its leadership. Today, it is involved in food, chemicals, and aluminum.

The Rodamas Group has employed different strategies than the Salim Group to stave off the cycle of envy. For example, they have leveraged philanthropy; today, their website shows their work in building houses and schools, and providing clean water to schools.[8]

Locals did not attack businesses linked to the Rodamas Group during the financial crisis. This is likely due to the strategies it chose to implement to reduce risk. Unlike the Salim Group, which formed connections and friendships with politicians, the Rodamas Group lacked ties to the Suharto regime (Dieleman 2010, p. 492). Tan's vision for the Rodamas Group was "to maintain a very low profile and steer clear of the type of rent-seeking behavior which many of his peers displayed" (Dieleman and Kamal 2009). "[T]he fact that Rodamas was not very close to the Suharto rgime helped the Tan family cope better with the fallout of the Asian Crisis that started in 1997… While other groups suffered great losses and were put under a lot of political pressure…Rodamas survived the Asian Crisis relative unscathed" (Dieleman and Kamal 2009, p. 4).

Smaller Chinese business groups also worked to slow the cycle of envy through apolitical means. For instance, a Chinese business associations (which included members of business groups) in Surabaya, the second largest city in Indonesia, had earlier created an association that invested in forming a relationship with local Muslim leaders. During the 1998 crisis, the association provided food and drinks to the security forces. There were also strong ties between Chinese youth groups and local youth groups, who met several times during the crisis, explicitly discussing how to deter riots in Surabaya. Chinese and local youths also collaborated on night watch activities (Panggabean and Smith 2011). These policies all had the effect of presenting an apolitical, charitable image. Rather than using political ties to protect themselves — which likely would have led to greater unrest — some Chinese business groups in Indonesia were able to use apolitical methods such as charity and community activism to strengthen their bonds with country "insiders."

In short, ethnically Chinese business groups in Indonesia have taken varying approaches to reduce political risk. While the Salim Group invested in political connections and protection, over the long term, this strategy led to local backlash. This

[8] http://www.rodamas.com/en/csr

eventually led to large capital flight abroad and diversification in other assets. The Rodamas Group, on the other hand, focused on public relations strategies and distanced itself from political ties and risky business investments. This protected the group from local backlash during the financial crisis.

The New Economic Policy in Malaysia: Slowing the Cycle with Affirmative Action Policies

The New Economic Policy (NEP) in Malaysia, an affirmative action program that lasted from 1971 to 1991, shows how government policies can slow the cycle of envy and group vulnerability.

As in Indonesia, Malaysia has a large ethnic Chinese community — the descendants of nineteenth century Chinese immigrants. Chinese are a quarter of the Malaysian population.[9] Weidenbaum and Hughes (1996) estimated that 40–50% of Malaysia's corporate assets were controlled by ethnic Chinese businesses, and this was *after* the implementation of the New Economic Policy. Chinese businesses in Malaysia dominated the main Malay sectors — agriculture, mining, and manufacturing — owning 58%, 46%, and 53% of the firms in each of those industries respectively as of 1998 (Hing and Ping 2003).

Following independence in 1957, Malaysia saw intermittent anti-Chinese riots. Though maintaining a majority, the ruling Malay coalition lost seats in 1969 elections to opposition parties associated with the ethnic Chinese. These opposition parties celebrated their victories in the streets, which angered Malays. Three days after the election, anti-Chinese violence erupted, in some cases with help from the Malaysian military. Several hundred people died, including both Chinese and Malays. These riots spurred the 1971 National Economic Policy (NEP), a broad affirmative action program for Malays. The NEP aimed to eradicate poverty by raising income through increased employment opportunities — in particular urban employment opportunities — for ethnic Malays. NEP programs included university enrollment quotas, funded study abroad opportunities, and employment requirements. There were equity restructuring provisions as well that required certain firms to divest 30% equity to Malays. The Chinese had advisory opportunities in the NEP drafting, which they used to emphasize the importance of fair play and national unity, and to extend anti-poverty provisions to poor Chinese. But in general, the Chinese could not fight core NEP policies given their vulnerability following the riots.

In the mid-1970s, Chinese firms started to feel the impact of the NEP; many sectors previously dominated by Chinese began facing Malay competition, including construction and transportation. Chinese firms responded in different ways. Some allied with Malay politicians in an attempt to increase exemptions to equity restructuring. They had small victories; firms with less than $500,000 in fixed investments gained exemption from the equity quotas. Some Chinese firms leveraged the NEP's equity provisions to take advantage of financing opportunities Malays now had

[9] https://web.archive.org/web/20130205104835/http://www.statistics.gov.my/portal/download_Population/files/census2010/Taburan_Penduduk_dan_Ciri-ciri_Asas_Demografi.pdf

special access to, growing their businesses under NEP. Some Chinese firms benefited from partnering with Malay patrons, but this made their business interests vulnerable to political change (Koon 1997).

As might be expected, Sino-Malay joint ventures were initially superficial, with Malay partners accepting fees to secure business deals through their access to Malay politicians, while Chinese partners for all practical purposes controlled the firm. Over time, however, joint ventures became more genuine partnerships (Koon 1997).

By 1988, the percentage of architects, accountants, engineers, doctors, and other professionals who were Malay had increased dramatically — often more than doubling. Malay corporate wealth increased from 2.4% in 1970 to 27.2% in 1988 (Sowell 2004). These successes were in part due to Malaysia's economic growth, which averaged 6.7% from 1971 to 1990 (Sowell 2004). This growth may have made it easier for Chinese to accept Malay's preferential opportunities (Koon 1997).

Indeed, many ethnically Chinese business groups in Malaysia grew following the implementation of the NEP. One such group was the Kuok Group, founded in 1949 by Robert Kuok. The Group originally focused on the rice, sugar, and wheat flour trade (Koon 1997) and later expanded to palm oil and real estate (Hara 1991). The "dominant principle" of the Kuok Group was "family exclusivity, informed by patriachical notions of tight ownership control and a delimited, face-to-face understanding of trust" (Jesudason 1997, p. 123). Under NEP, the Group opened up in small but meaningful ways, bringing on ethnically Malay directors to various Group firms (Hara 1991). As of 2013, the Kuok Group was the world's largest producer of palm oil, the eighth largest sugar producer, and the operator of the Shangri-La hotel chain (Hing et al. 2013, p. 271).

In the mid-1980s, however, Malaysia began experiencing a recession. At the same time, Chinese discontent with certain aspects of NEP — including cultural policies, access to universities, and land redistribution — heightened. In 1985, the government issued new guidelines weakening equity requirements and succeeded in spurring foreign investment. In 1991, NEP's heavily liberalized replacement was announced: the National Development Policy. The changes stemmed from a combination of Chinese pressure, the recession, and drops in foreign investment. The new policy focused less on ensuring that Malay representation in businesses was proportional to their population size, and more on securing overall economic growth (Koon 1997). Though provisions providing preferential opportunities to Malays remained, educational opportunities for non-Malays increased.

It is difficult to assess the extent to which the NEP is responsible for changes in Malay economic standing or attitudes toward ethnically Chinese business groups like the Kuok Group, given the general economic growth and urbanization that coincided with its implementation. But from 1970 to 1991, overall poverty in Malaysia dropped substantially across all groups. Malay ownership of share capital increased from 2.4% in 1970 to 19.3% in 1990. Income inequality dropped; the income disparity ratio between Malays and Chinese was 1:2.29 in 1970, and 1:1.74 in 1989 (Tenth Malaysia Plan 2011–2015). During NEP, the likelihood of attending post-secondary education increased for all groups, but the rate of increase was highest for Malays — both compared to other ethnic groups, and compared to Malays who reached college age pre-NEP (Agadjanian and Liew 2005).

By most accounts, NEP was at least partly responsible for reducing antagonism toward Chinese business groups. Though a majority of poor Malaysians are still ethnically Malay, ethnic Chinese Malays capture large market shares, and there are still instances of politicians expressing anti-Chinese sentiment,[10] including vocal antagonism toward the Kuok Group,[11] but public discourse is increasingly focused on within-group inequality and anti-Chinese rhetoric has been replaced with language about equitable growth.[12]

Conclusion

This paper has discussed aspects of trust and envy in economic development. We note a common dialectic. The weak property rights and contracting environment in many developing societies gives an economic advantage to business groups drawn from religious, ethnic, or other communal groups that share some ascriptive characteristic. The very success of such business groups in facilitating economic progress can lead to envy on the part of non-members of the business group. Their resentment may be expressed in regulation, expulsion, or violence. We propose that this can create a vicious “envy cycle” for business groups. We examined possible causes of the political-economic status of these groups and posited some explanations of variation in the political outcome for groups.

We discussed strategies groups might use to break the envy cycle, such as opening the group to outsiders and engaging in charitable activities. While the Salim Group in Indonesia achieved short-term protection by allying with the Suharto regime, this strategy ultimately led to political backlash. The Rodamas Group in Indonesia, on the other hand, focused apolitical strategies — an approach that provided longer-term protection. For ethnic Chinese in Malaysia, the New Economic Policy, which included affirmative action policies, helped slow and reverse the vicious cycle of outsider resentment.

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[11] https://www.reuters.com/article/us-malaysia-politics-kuok-analysis/attack-on-chinese-billionaire-exposes-growing-racial-divide-in-malaysia-idUSKCN1GL0OM

[12] https://www.scmp.com/week-asia/society/article/3009804/malaysias-may-13-racial-riots-50-years-they-couldnt-happen-again

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