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**‘REGIONAL VARIETIES OF CAPITALISM’:
Inter-Firm Relations and Access to Finance in Satun
(Thailand) and Perlis (Malaysia)**

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ABSTRACT

The Varieties of Capitalism approach, relatively new in comparative political economy, has generated a number of studies investigating national capitalist systems and economic performances of developed countries. This approach offers a useful analytical model as it enables to study the institutional relations of firms and relations between these institutions, the so-called institutional complementarities. The most common result of the approach is the dichotomy between Liberal Market Economies, notably the United States and the United Kingdom, and Coordinated Market Economies, notably Germany, France and Japan.

In this paper an attempt is made to apply the Varieties of Capitalism approach to the *regional* level of scale in *developing* countries. The province of Satun in Southern Thailand and the state of Perlis in Northern Malaysia, two bordering and peripheral regions within their respective national space economies, have been chosen as research areas. Using a modified analytical model of the Varieties of Capitalism approach, this paper tries to reveal whether and how firms cooperate with each other and how firms find access to finance. Moreover, it is investigated what institutional complementarities can be identified. It should be noted that this paper does not address institutional relations between the private and public sector.

The analysis of the inter-firm relations and access to finance leads to two different institutional complementarities. 1. In Satun firms maintain informal, personal, cooperative and networked based relations with clients and competitors *and* banks are important for the financial needs of firms. Coupled with an ethnic Chinese way of doing business, this complementarity provides opportunities to survive in a relatively isolated economic environment. 2. In Perlis firms maintain formal, relatively impersonal, contractual relations with suppliers and clients (and a limited role for associations) *and* firms rely on owners for the access to finance. Thus firms seem to operate rather isolated. This complementarity could be explained by active governmental involvement.

‘REGIONAL VARIETIES OF CAPITALISM’: Inter-Firm Relations and Access to Finance in Satun (Thailand) and Perlis (Malaysia)

INTRODUCTION

The Varieties of Capitalism (VoC) approach, as reintroduced and interpreted by Hall and Soskice (2001), has generated a number of studies investigating national capitalist systems and economic performances of developed countries (Ahrweiler et al. 2005, Armingeon et al. 2004, Schmidt 2003, Regini 2003). These studies have focused on national capitalist systems in general and specific spheres of the capitalist systems, for example sector approaches and focuses on different welfare systems. As will be argued in the next section the VoC approach offers a useful analytical model. It enables to study rather abstract institutional relations and relations between these institutions, the so-called institutional complementarities, by taking the firm as a practical starting point. Whereas the institutional turn in examining regional development in developed countries has proved to be valid and useful, regions in developing countries have been relatively neglected.

In this paper an attempt is made to apply the VoC approach to the study of regional development in developing countries. The province of Satun in Southern Thailand and the state of Perlis in Northern Malaysia, two bordering and peripheral regions within their respective national space economies, have been chosen as research areas. But the application of the VoC approach at the regional level in developing countries requires four analytical modifications. This paper does not focus on all the spheres of a variety of capitalism, but concentrates on the two spheres that have much in common with development geography and economic geography, namely inter-firm relations and access to finance. It tries to reveal whether and how firms cooperate with each other and how firms find access to finance. Moreover, it investigates what institutional complementarities can be identified.

The paper starts with an outline of the Varieties of Capitalism approach and a modification for analysis at the regional level in developing countries. This is followed by a short introduction of the economic geography of Satun and Perlis. The next section starts with a brief outline of the methods used to gather the research data before presenting the results regarding inter-firm relations. Similarly, a section is devoted to access to finance. Obviously, the paper ends with some concluding remarks.

THE APPLICATION OF THE VoC APPROACH TO THE STUDY OF REGIONAL ECONOMIES

The outline of the VoC approach is based on Hall & Soskice (2001). For an adequate understanding of a specific capitalist system they consider the *firm* as the central organization. In order to develop and coordinate core competencies, firms must maintain many relationships in five spheres.

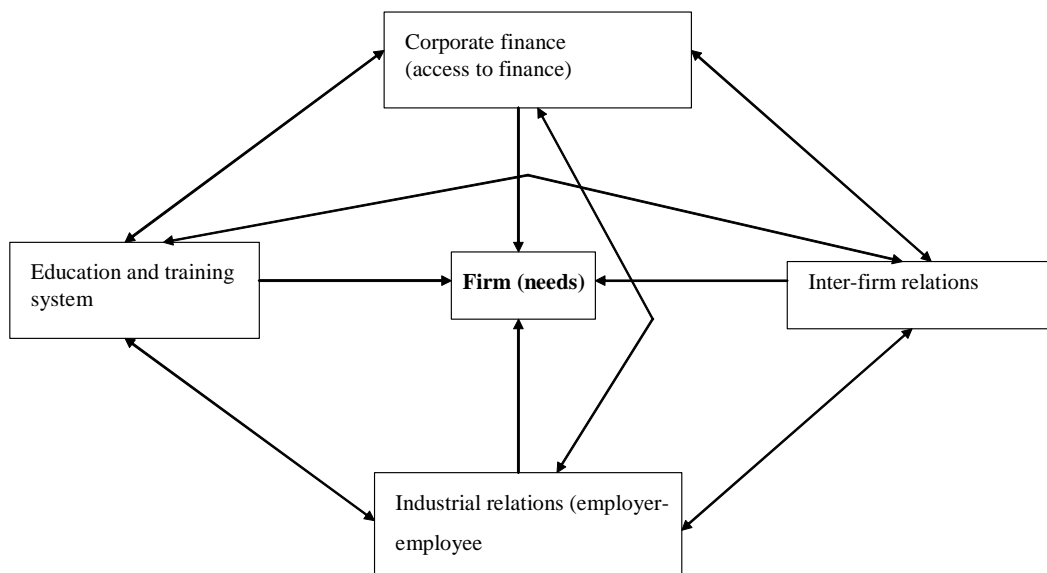
1. *Industrial relations*. Actually these are relations between the employer and the employees regarding working conditions. Arrangements and contracts related to the work sphere (wages, wage bargaining and working conditions) continuously have to be settled and reviewed to enhance productivity levels of the firm.
2. *Vocational training and education*. The higher the education levels of the employees and the more eager employees are to learn all kinds of skills, the higher the quality of the core competencies of the firm.
3. *Corporate governance*. Corporate governance refers to the efforts of generating sufficient financial assets for the firm. Without money a firm cannot develop and coordinate its core competencies. Note that investors try to obtain high rates of return, so generally there are different interests between investors and firms.
4. *Inter-firm relations*. Firms need to maintain good relations with other firms. Likely, the two most important are suppliers in order to secure a stable supply of inputs and clients as they generate the revenues for the firm. Moreover, firms could cooperate with competitors.
5. *Firm needs*. Each firm has to have stimulating policies in order to ensure that employees are truly working in the interest of the firm. This sphere relates more towards the working mentality of the employees rather than the working conditions such as wages, but obviously these two overlap.

So every firm operates in a highly complex environment with many institutional relationships, either formal or informal.¹ Furthermore, relations exist between the five spheres, so between particular sets of institutional relationships. Hall & Soskice (2001) have termed these sets *institutional complementarities*. For example, flexible employee contracts enabling employees to easily switch to other employers might improve inter-firm relations as employees could work temporarily at the supplier's or client's firm. Figure 1 presents a model for comparing varieties of capitalism. Note that Hall & Soskice (2001) regard the *national* institutional framework as the most important level of scale. So for every country one can analyse what institutional relationships exist within the five spheres, what the quality of these relationships is and whether there are institutional complementarities. Ultimately, the total set of institutional relations and complementarities leads to a specific variety of capitalism. Researchers of the VoC approach mainly concentrate on developed nations. The most common result of the approach is the dichotomy between Liberal Market Economies (LME's), notably the United States and the United Kingdom, and Coordinated Market Economies (CME's), notably Germany, France and Japan. Although it is recognised that

¹ In this paper the definition of North (1991) is followed. 'Institutions are the rules of the game in society or, more formally, the humanly devised constraints that shape human interaction. Institutions are generally divided into formal and informal institutions. Formal institutions are economic, political (and judicial) rules and contracts; informal institutions are informal codes of conduct, norms of behaviour and conventions'. Thus North clearly separates institutions from organizations.

especially within CME's huge differences persist regarding institutional relationships and institutional complementarities, the dichotomy between CME's and LME's remains strong. Schmidt (2003) is one of the few authors who argues that there are at least three varieties of capitalism in the European context namely *market* capitalism in the UK, *managed* capitalism in Germany and *state* capitalism in France. Although it has not been explicitly studied the literature about the capitalists system of Thailand and Malaysia suggest that the former incorporates features typical of market capitalism (or LME's) and the latter incorporates features typical of state capitalism (Gomez 2002, Wingfield 2002, Rodan et al. 1997, Case 2005, Hewison 2005)

FIGURE 1
Institutional relations and institutional complementarities



Source: Hall & Soskice, 2001.

In order to make the VoC approach suitable for the research areas the approach has to be modified in three ways. Firstly, The VoC approach has to be made suitable for *economic geographical* analysis. Instead of the conventional focus on *national* varieties of capitalism this paper aims to investigate *regional* varieties of capitalism. According to Schamp (2003) are 'die Arbeiten der komparativen Kapitalismusdebatte für wirtschaftsgeographische Analysen äußerst anregend'. Moreover, 'Die hier angelegte territoriale Begrenzung der beobachteten institutionellen Arrangements ist jedoch eine Frage der Empirie, nicht des institutionenökonomischen Ansatzes'. This paper focuses on the spheres of *inter-firm relations* and *corporate governance*, because of two reasons. The first reason is that these two spheres, in particular *inter-firm relations*, have also been investigated as well by economic geographers focusing on regional

economies. A wide range of concepts have been proposed. Known concepts are embeddedness, institutional thickness and collective learning. However, in recent years some authors increasingly argue that these concepts are used too easily, randomly mixed and too vague to apply for empirical research (Markussen 2003 and Taylor 2005). In contrast, the VoC approach is likely to offer empirical applicability because it clearly distinguishes institutions from organizations and because the powerful notion of *institutional complementarities* might be very useful to eventually explain differences in economic performances. The second reason is that empirically investigating all spheres would require too much time, but in future research inclusion of the spheres *industrial relations* and *education and training* is necessary to generate a comprehensive understanding of regional varieties of capitalism. The sphere *Firm needs* is less interesting from an economic geographical point of view, since it does not deal with institutional relationships *between* organizations.²

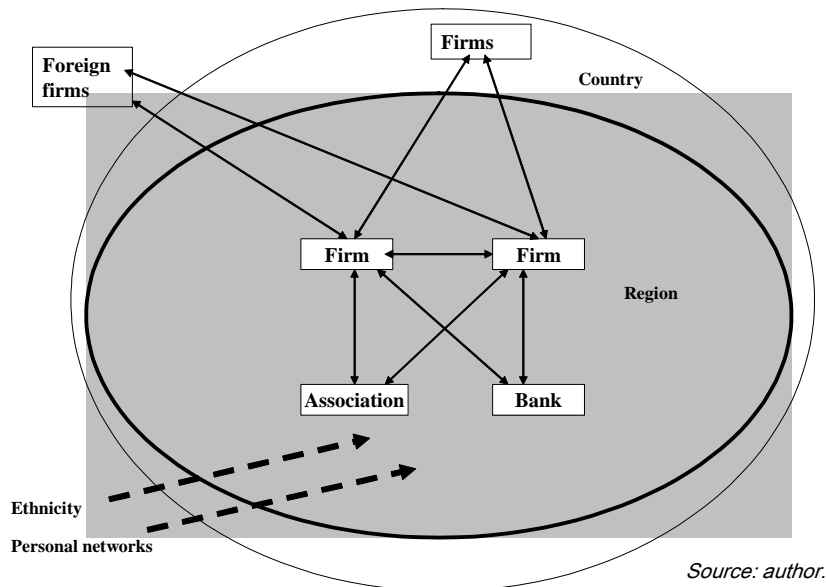
Secondly, regarding *inter-firm* relations it should be noted that associations, especially business associations, could be important. Often firms tend to institutionalize relations with firms via business associations, for example for smoothening supply and demand relations or for lobbying at governmental organizations. *Corporate governance* also needs a comment as it is often associated with large (multinational) firms that seek finance at complex (international) capital markets. For Satun and Perlis the simpler *access to finance* seems to be a better phrase. For rural and peripheral areas much has been written on rural financial markets. Most of these studies pay attention to the access to finance for farmers (Findlay et al. 2003, ADB 2000, Moll et al. 2000, Nagy & Adams 1996). This paper focuses on the access to finance for firms instead of farmers. Besides financial markets the owners of firms are likely to play a role for the access to finance. Therefore (historical) features of the owners will be investigated as well. Regarding *inter-firm relations* no changes are necessary, but it is relevant to comment on this sphere.

Thirdly, it is relevant to pay attention to ethnicity, as it could influence institutional relationships and economic performance to a large extent (see for example Bardhan 2005: 169-200). With respect to Southeast Asian economic development the role of ethnic Chinese has often be highlighted. Their specific way of doing business has had many impacts (Wang 2003 and Gomez & Hsiao 2003). Fourthly, personal networks are often determining inter-firm relations and access to finance in developing countries. These networks can be based on relatives, friends, ethnicity or a mix of these characteristics (Rutten, 2003). McVey et al. (2000), for example, convincingly presents evidence of economic and political power based on elite groups in provincial Thailand. In increasingly sophisticated and internationalized economies ethnicity and personal networks might become less important, but in peripheral regions these factors are expected to play a significant role.

² Instead the sphere of firm needs is more relevant for business studies and organizational studies.

Based on the above-mentioned modifications figure 2 shows the analytical model for the empirical part of this paper. The model distinguishes organizations (firms, banks and associations) and institutional relations between these organizations (the arrows). The grey area represents a particular region in which firms are located. A firm could have relations with firms located in the same region, via associations in the region and with firms located outside the region. Access to finance can be arranged with the bank, can come from the firm itself (owners) or from other firms. Finally, ethnicity and personal networks can influence inter-firm relations and access to finance.

FIGURE 2
Analytical model for inter-firm relations and access to finance
in a regional context

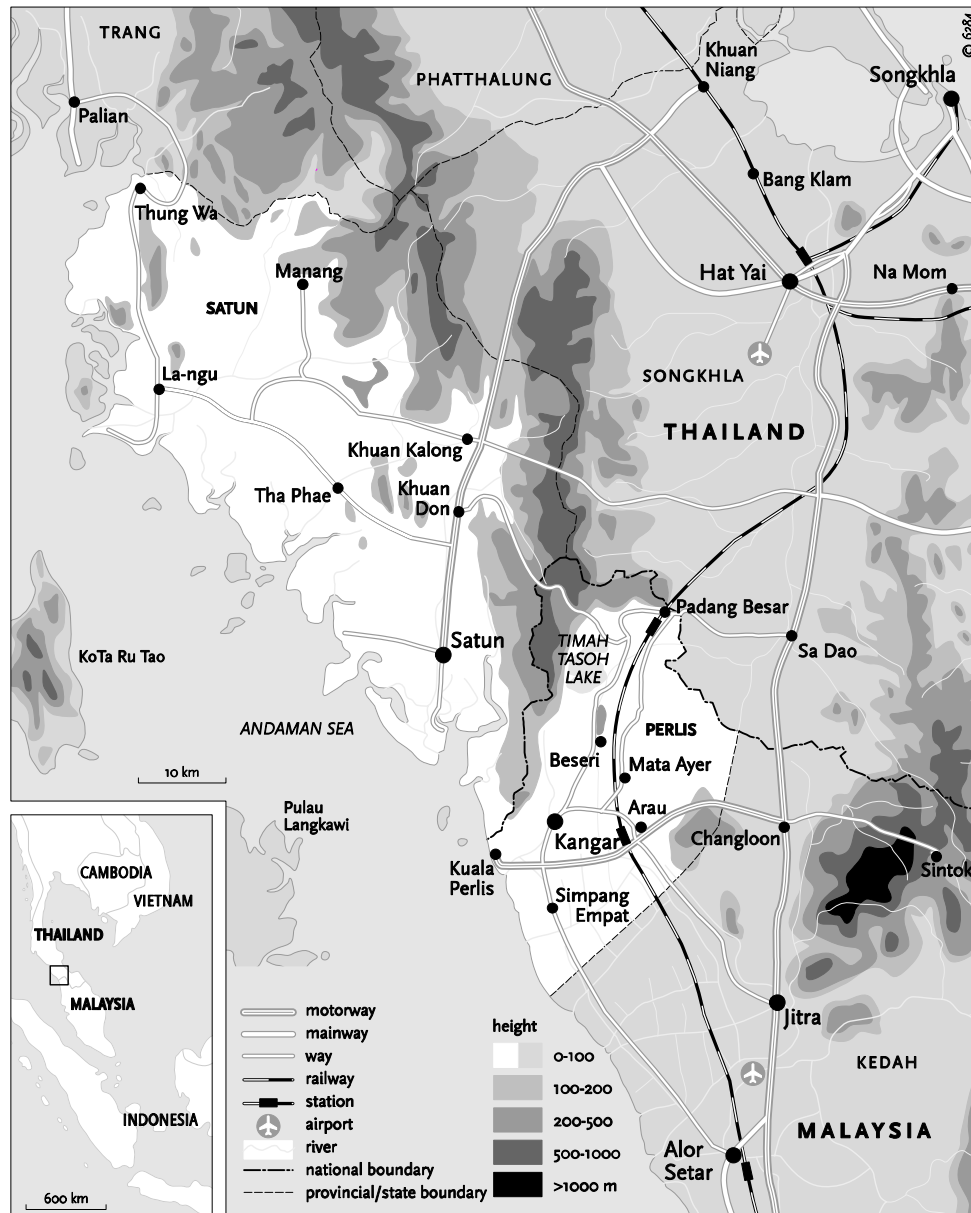


The analytical model should enable the investigation of a particular *Regional Variety of Capitalism (RVoC)*. Similar to the argument of Schmidt (2003), it can be argued that many RVoC's exist. In each region in a developing world firms could be differently involved in institutional relations with other firms, could display different arrangements to find access to finance and in each region ethnicity and personal networks could have different impacts on the institutional relations. In other words, a continuum of regional capitalist systems is likely to exist.

THE RESEARCH AREAS: SATUN AND PERLIS

As mentioned in the introduction the two research regions are the province of Satun in Southern Thailand and the state of Perlis in Northern peninsular Malaysia. Map 1 provides an overview of the two regions.

MAP 1
Satun and Perlis



The two regions are both situated in one of the peripheries of their countries and they are part of the Thai-Malaysian border. The capitals of the two regions, Satun City and Kangar, are rather small cities. Hat Yai and Alor Setar are important centres for Satun and Perlis respectively. As the two research regions have much in common, they are assumed to be suitable research areas, in particular for the possible influence of the national institutional framework on the RVoC. Below the three most important commonalities are summed up.

TABLE 1
Basic indicators of Satun and Perlis, 2003

	Satun	Perlis
Total population	270,000	218,000
Islam %	68	85
Structure of Gross Regional Product (GRP) %		
Agriculture	60	16
Manufacturing	8	17
Services	32	67
Employment in agriculture %	58	17
Per capita GRP in US\$	1,630	2,589
GRP in US\$	439,830,000	564,402,000

Sources: various.

Firstly, Satun and Perlis share similar physical geographical features: the coastal zone and a mix of paddy fields, forests and limestone hills. Secondly, they share a common history. For centuries the Siamese (Thai) have had considerable political influence in the northern parts of contemporary Peninsular Malaysia. Ahmat (1984, p.12) estimates that ‘Siamese control in Kedah was established in 1422’. At that time the Malay Sultanate of Kedah³ was relatively large and included Satun and Perlis. Between 1813 and 1909 political control of Satun and Perlis shifted several times between the Sultanate of Kedah⁴ and direct supervision by the Siamese. In 1909 The Anglo-Siamese treaty was signed, which led to the permanent separation of Satun and Perlis.⁵ Satun became a real Thai province in 1933 and Perlis a Malaysian state in 1957, the year of independence for Malaysia from Britain. Thirdly, Satun and Perlis have similar population characteristics. In both regions the majority of the inhabitants are Malay with the Islam religion. Like in many parts of Southeast Asia an ethnic Chinese⁶ minority is very active in the private economic sector.

³ Saiburi is the Thai word for Kedah.

⁴ Which has thus been under suzerainty of the Siamese.

⁵ Except during the second world war when the Siamese were briefly given control of Perlis by the Japanese

⁶ In Thailand they are generally called Sino-Thai.

The only difference is that a growing public sector has led to an increase in Thai civil servants in Satun.

Despite these commonalities Satun and Perlis have experienced a different path of economic development. Table 1 sheds some light on the socio-economic situation of the two research regions and appendix 1 shows an economic map.⁷ Both in terms of the economic structure and the level of prosperity, as measured by the per capita gross domestic product, Satun and Perlis differ considerably. By far the two most important industries in Satun are the rubber and fishery industry. A large part of the area of Satun is covered with rubber trees, owned by some big landlords and many smallholders. There is one rubber-processing factory in Satun (recently taken over by a Malaysian group of companies), but the majority of the latex is sold to factories in Songkhla province. The rubber farmers are generally Muslim.

The fishery industry comprises of fishermen, boat owners, cold storage firms and one big internationally oriented canning factory. A considerable part of the fishermen are migrants from Myanmar. The owners of the fishery processing firms are generally Sino-Thai. The economy of Perlis is more diversified compared to Satun. Farmers own small paddy fields and rubber areas and grow fruits. Perlis has a clearly more advanced and diversified economy. Rice and sugarcane are the main crops of Perlis, the state hosts a cement factory and a modern private power plant, but services, especially public services, are the main contributor to the GRP. The most important development strategy of the Perlis State Government is to become a 'negeri ilmu' (knowledge state). In recent years Perlis welcomed several new educational institutes, of which KUKUM, the Northern Malaysia University College of Engineering, is the most important.

INTER-FIRM RELATIONS

This and the next section try to reveal the institutional relations between firms and institutional relations arranging access to finance. Moreover, it is relevant to analyse whether there are any links between these relations and the commonalities identified in the previous section and between these relations and the national institutional framework. How do firms arrange supply, what do they do to maintain and expand their clientele and are (business) associations helpful? These questions are addressed in this section.

⁷ Malaysian statistical agencies do not publish GRP at the regional level. Fortunately, the manager of the Perlis State Economic Development Corporation was willing to give data for Perlis. Data for Thai provinces are available at www.nsd.org.

The research data

The research focuses on medium and larger firms,⁸ because it can be assumed that these firms have the largest impact on the specific RVoC. Moreover, a considerable part of the smallest firms could be situated in the informal economy, an area beyond the scope of this paper. Between July 2004 and December 2004 two firm surveys were carried out and additional interviews with relevant organizations.⁹ The two surveys include virtually all large firms in both regions. The medium sized firms have been sampled.¹⁰ The surveyed firms in Perlis are considerably larger than in Satun. In both regions there is one firm with more than 1000 employees. Finally, the total number of employees of all the surveyed firms is 2755 in Satun, 4767 in Perlis, a confirmation that the economy of Perlis is larger than the economy of Satun (see the previous section). Table 2 shows some ownership characteristics of the surveyed firms. As the business community in Perlis consists of ethnic Chinese and Malay entrepreneurs, firms have been sampled from both groups.

TABLE 2
Ownership of the surveyed firms

	Satun	Perlis
Total number of firms	38	39
Firms with Chinese background	36	20
Non-Chinese background	2	19
Domestic firms	38	37
Foreign firms	0	2
Independent firms	33	27
Branches	5	12
(Partly) government owned	0	6
Not government owned	38	33

Source: Firm surveys.

Figure 3 shows that the firm survey in Perlis is very diversified, similar to the general economic structure of Perlis, although the manufacturing sectors are somewhat overrepresented in the survey. The surveyed firms in Satun are

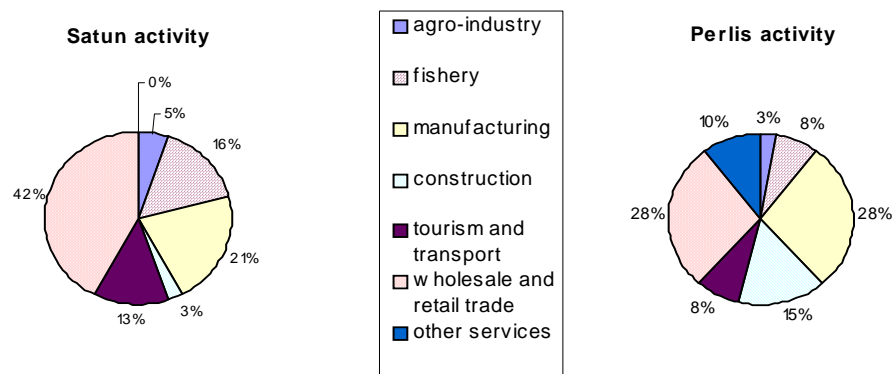
⁸ In Thailand firms with a registered capital below 1 million baht have been excluded; in Malaysia sampling has been based on various documents as registered capital was not available.

⁹ During this period interviews with governmental authorities have been conducted as well, but the interviews are not the subject of this paper.

¹⁰ In Satun 38 firms have been surveyed, in Perlis 39. Out of 185 medium and larger firms in Satun it means that 21% of the total population has been covered. In Perlis the estimated number of medium and larger firms is 275, leading to a coverage of 14%. These percentages are assumed to be sufficient for a representative sample of the medium and larger firms in the two regions.

mainly engaged in either wholesale and retail trade or fisheries, especially when it is taken into account that four ice manufactures solely sell to the fishery industry. Furthermore, the service sector is not as developed as in Perlis, because there seems to be no *other services* in Satun. Compared with Perlis, the firm survey is less compatible with the general economic structure, because of agriculture. As the survey is focused on firms, agriculture (mainly farmers) is automatically removed from the research population.

FIGURE 3
Composition of firms' activities in the firm surveys



Source: Firm surveys.

TABLE 3
Geography of supply and demand

Location of most important suppliers						
Satun	number		%	Perlis	number	
Satun	8	10		Perlis	19	27
Songkhla	32	38		Kedah	5	7
Bangkok	35	42		Penang	12	17
Other province	6	7		Kuala Lumpur	22	31
Outside Thailand	3	4		Other state	7	10
Total	84	100		Outside Malaysia	5	7
				Total	70	100

Location of most important clients						
Satun	number		%	Perlis	number	
Satun	42	56		Perlis	38	51
Songkhla	10	13		Kedah	12	16
Bangkok	6	8		Penang	1	1
Other province	13	17		Kuala Lumpur	10	14
Outside Thailand	4	5		Other state	4	5
Total	75	100		Outside Malaysia	9	12
				Total	74	100

Source: Firm surveys.

Geographical patterns of supply and demand

Before we can analyse characteristics regarding inter-firm relations within the two regions, it is necessary to identify where the most important suppliers and clients of the surveyed firms are located. The respondents were asked to name their three most important suppliers and clients. However, in the case of a retail firm the three most important clients could not be identified and suppliers are mostly absent in the case of firms in the services sector. Table 3 shows the geography of supply and demand. It is clear that the suppliers for the firms in Satun are mostly located in Bangkok and, as expected, Songkhla (see map 1). The province of Satun itself is not important as a source of supplies. Supplies for firms in Perlis come from more locations. It is striking that almost one third of the suppliers are located in the State of Perlis. Furthermore, Penang is more important than Kedah. For both regions international supply is very limited. Regarding the location of clients the patterns change significantly. Namely, more than 50% of the clients are located in the two regions themselves. Firms in Satun sell to firms in other provinces as well, but clients are seldom located in Bangkok and outside Thailand. Contrary, the national capital (Kuala Lumpur) and international sales do play a role of the firms located in Perlis. In Penang only suppliers are located.

TABLE 4
Use of formal business contracts, %

	Satun	Perlis
Suppliers located inside region	0	58
All suppliers	37	66
Clients located inside region	35	41
All clients	34	48

Source: Firm surveys.

Characteristics of inter-firm relations between firms and suppliers, clients and competitors

In both research areas the firms have been asked about their institutional relations with suppliers, clients and competitors. Obviously, the geographical focus is on Satun and Perlis, but where necessary the analysis goes beyond the research areas. The results regarding suppliers and clients are based on the three most important suppliers and clients.¹¹ A suitable starting point for analysis is formal contracts. To what extent do firms work with contracts to arrange supply and demand? Table 4 shows some results. The majority of the firms in Satun does not work with formal contracts. It is very striking that,

¹¹ The questionnaire was designed to obtain detailed information about three most important suppliers and clients. Furthermore, the results are based on firms who could identify their three most important suppliers and clients.

although few suppliers are located in Satun, none of the surveyed firms have signed a formal contract with suppliers in Satun. So firms in Satun mostly organise their business relations informally. Indeed, the respondents answered that ‘just give a call’ is the most common form to buy supplies or to try to sell products or services. Popular as well are oral arrangements, in which business deals continue over time until one actor feels the need to modify an arrangement. In contrast with Satun, formal contracts are a more common phenomenon for firms in Perlis, especially regarding supply. Furthermore, regional supply and sales seems to be slightly more informally organised than total supply and sales. The practise of the above-mentioned informal arrangements also holds for the firms in Perlis, in particular for arrangements with clients. Closely related to the organization of supply and demand are business meetings and possibly non-business meetings. The frequency and nature of meetings could reveal additional patterns of business deals.

TABLE 5
Business and non-business meetings, %

	Satun		Perlis	
	Suppliers	Clients	Suppliers	Clients
Business meetings				
never	4	16	61	46
regular	96	84	39	54
Non-business meetings				
never	32	29	37	32
regular	68	71	63	68
Non-business meetings important?				
no	37	27	25	11
yes	63	73	75	89

Source: Firm surveys.

Table 5 only presents the results of meetings with suppliers and clients located in the two research areas, as there are virtually no differences with total suppliers and clients. Business meetings occur far more often in Satun than in Perlis. Moreover, the average number of business meetings per year is higher as well: 24 in Satun and 12 in Perlis.¹² Another difference is that in Satun business meetings concerning suppliers are relatively more important than in Perlis. So the absence of formal contracts in Satun seems to be compensated by an important role for business meetings. Strikingly, regarding non-business meetings no significant differences exist, neither with respect to occurrence, nor importance for business, nor annual average (7 in Satun, 8 in Perlis). One would have expected a similar result to the business meetings. In both regions

¹² These numbers should be considered as indicative. Namely, respondents were often not able to give the exact averages.

non-business meetings are considered to be helpful for supply and demand. The respondents identified New Year dinners (especially Chinese New Year), family gatherings (mostly weddings) and occasionally playing golf as important contributors to good supply and demand relations, because ‘one can get more acquainted with each other’.

Besides institutional relations concerning the core business firms could cooperate with suppliers, clients and competitors for a number of reasons. To name a few examples: training of employees, looking for new markets or joint investments. Cooperation with suppliers and clients not seems be a major issue in two research areas. In addition to cooperation with suppliers and clients firms have the possibility to cooperate with competitors (see table 6). Compared with suppliers and clients cooperation with competitors in the two research areas is a quite widespread phenomenon, but both with respect to occurrence and with respect to the nature, firms in Satun have stronger linkages with competitors than firms in Perlis. Looking at the above-presented results it has become clear that inter-firm relations are stronger in Satun than in Perlis. The next sub-section focuses on the role of (business) associations for inter-firm relations.

TABLE 6
Cooperation with competitors inside region, %

Occurrence	Satun	Perlis
No	27	43
Yes	73	57
Nature		
Information	41	33
New ideas	4	10
Friends	7	24
Coordination	48	33
Total	100	100

Source: Firm surveys.

The role of (business) associations

Inter-firm relations could also take place within a more organised setting, namely business associations. And other associations without an explicit focus on business might also be a meeting point for managers and owners of firms. The role of associations in the two research areas has been investigated from two perspectives: the leaders of the associations and the firms.¹³ Table 7 provides an overview of the interviewed associations. All the chairmen of the associations have been asked to estimate the number of plenary meetings per year, both business meetings (only relevant for the business associations) and

¹³ Semi-structured interviews were conducted with leaders of associations.

social meetings. The Rotary Club of Satun seems to be the most active. Although the Club only has 17 members they meet each other frequently, at least two times per month. In Perlis the Malay Chamber of Commerce appears to be the most active with two business meetings per month. The Malay Chamber has around 200 members and many of these members participate in working groups. An important question is to what extent (business) associations are organizations that institutionalise cooperation and coordination among businesses. 73% of the owners of the surveyed firms are members of an association in Satun, whereas this percentage for Perlis is 68%. By far the most cited membership of an association is the Satun Chamber of Commerce, followed by the Satun Tourism Association and the Chong Hua. In Perlis the structure of membership differs somewhat from the Satun case. Memberships of the surveyed firms are equally divided between the Chinese Chamber of Commerce and the Malay Chamber of Commerce. The large Hokkien association does not play an important role for business. In Perlis industry specific associations, mainly based outside the state, seem to be more important than in Satun. This result is not a surprise when it is taken into account that a considerable number of firms are branches.¹⁴

TABLE 7
The interviewed associations

	Year of establishment	Number of members
Satun		
Satun Chamber of Commerce	1982	150
Chong Hua (for Sino-Thai)	1944	500
Rotary Club	1994	17
Federation of Thai Industries	1984	110
Islamic branch Satun	1942	195*
Fishery association	1966	83
Perlis		
Chinese Chamber of Commerce	1946	350
Malay Chamber of Commerce	1972	200
Hokkien association (for ethnic Chinese)	1935	1000
Fishery association	1988	105

*Mosques

Source: Interviews.

Obviously, membership alone does not necessarily imply a benefit for the surveyed firms. Benefits are possibly generated when owners and managers of firms attend meetings on a regularly basis. Firms in Satun attend more social meetings per year than in firms in Perlis (the average is 6 per year in Satun, 3 in Perlis) and 50% of the Satun's firms stated that attending both business and

¹⁴ Likely the managers of the headquarters are involved in the activities of the associations.

social meetings leads to easier access to suppliers and clients. Given the average frequency of social meetings, it can be assumed that informal contacts at the associations are as important as formal contacts for Satun. It has already been mentioned that the Rotary Club organises relatively many meetings. Table 8 illustrates the exclusive and powerful character of the club. The relative important role of associations can be observed as well in other parts of Thailand (Arghiros 2000 and Callahan 2002). The surveyed firms in Perlis tend to 'use' the associations more for learning purposes rather than expanding and maintaining their relations with other firms. The firm survey revealed that only 16 % of the firms stated that meetings lead to easier access to suppliers whereas the percentage regarding clients is 38%. Regarding both research areas it can be concluded that the industry-specific associations are relatively unimportant for the surveyed firms. Instead they are important for fishermen or farmers. Many fishermen are members of the fishery association and some rubber smallholders in Satun are member of the Rubber Association.

TABLE 8
Jobs and political functions of rotary club members

	Major job/owner of:	Political functions or other links
1	owner of fishing boats	currently president of Rotary Club, member of Satun municipality council, younger brother of former mayor
2	construction materials firm	former chairman of Satun municipality council
3	construction materials firm	
4	lawyer in Hat Yai	husband of member number 3
5	owner of many businesses	currently mayor, has been vice mayor
6	construction vehicles	has been president of Rotary Club
7	architect	member Satun municipality council
8	fuel station	
9	car repair firm	the only non Sino-Thai member
10	computer business, software, computer education	wife of member number 9
11	insurance firm	has been president of Rotary Club
12	jewellery firm	
13	assistant manager bank	
14	assistant manager bank	
15	teacher in primary school	
16	teacher in primary school	
17	ice factory firm	

Source: Interview with member number 2.

The previous and this subsection lead to striking results. According to Schmidt (2003) inter-firm relations in market capitalism are competitive and contractual, co-operative and networked based in managed capitalism and state led and state mediated in state capitalism. In Satun strong inter-firm relations and the important role of (business) associations seems to be incompatible with the notion of Thailand as a market capitalist country. Namely, the case of Satun indicates a managed RVoC. There are two possible explanations for this incompatibility. The first is ethnicity. Ethnic Chinese in Southeast Asia prefer

to maintain cooperative and networked based relations with other firms, even in competitive environments (Butler et al. 2003).¹⁵ The second possibility is limited competition. Namely, firms mainly sell to clients located inside Satun. It might be possible that the economy of Satun is much less competitive than the Thai economy in general. It is not clear whether the Perlis' RVoC resembles market or state capitalism. On the one hand the result that firms sell to clients located in Kuala Lumpur and outside Malaysia and the result that inter-firm relations are highly contractual, suggest market capitalism. On the other hand the existence of state-owned firms leads to state capitalism. Furthermore, the dual ethnic ownership structure of the surveyed firm might have a blurring impact.

ACCESS TO FINANCE

Access to start-up capital and daily operational capital

How are firms financed and what institutional arrangements determine the access to finance? The starting point is the distinction between start-up capital and daily operational capital. Sources of these two forms of capital might be different as the start of a firm could require large sums of money. Moreover, the major source of daily operational capital could be revenues. Figure 4 presents the most important sources of capital for the surveyed firms in the two research areas. In Satun three different sources are available to start a firm whereas owners/shareholders are by far the most important for Perlis.¹⁶ Three findings need elaboration. Firstly the relation of the firms in Satun with their most important source of capital: banks. Similar to the relations with suppliers, clients and competitors, the firms were asked about meetings and cooperation with banks.¹⁷ The average business meeting per year with banks is 4, social meetings 1. Note that these averages for meetings with suppliers and clients are respectively 24 and 7 (see previous section). Contrary to the inter-firm relations in Satun analysed in the previous paragraph, the relations with banks remain relatively formal and are limited to the core business, the financial transactions. Secondly, banks seem not to play an important role in Perlis. On the one hand this is compatible with the fact that 12 out of 27 firms are branches. It is likely that the headquarters (thus the owners/shareholders) have provided the necessary capital for the establishment of the firm. On the other hand firms in Perlis are generally larger than in Satun. Therefore, one would expect a more professional financial management with more involvement of the banks.

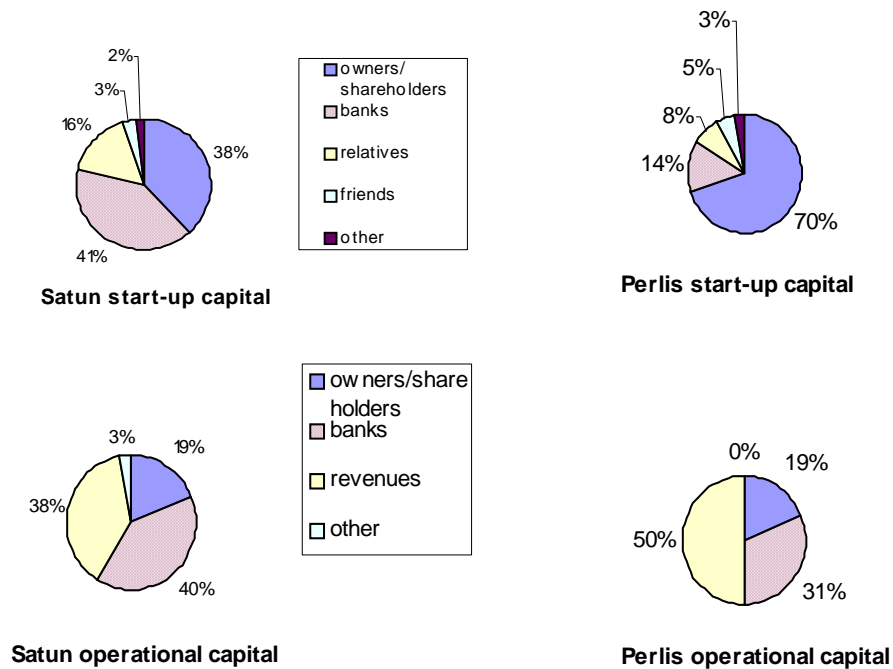
¹⁵ The specific way the Chinese do business has been termed *guanxi* (Park & Luo, 2001).

¹⁶ Shareholders and owners are put into one group because it does not make any difference. In most cases several family members possess the shares of private limited companies.

¹⁷ These questions were only asked to firms, which identified banks as their most important source of start-up and daily operational capital. So for Perlis these questions were seldom asked and relations with banks are not a relevant issue.

Thirdly, relatives of the owners of firms in Satun sometimes provide the initial capital. For example one owner responded that her father, who is an owner of a travel agency, provided the necessary capital to start a telecommunication shop and an insurance business.

FIGURE 4
Most important sources of capital



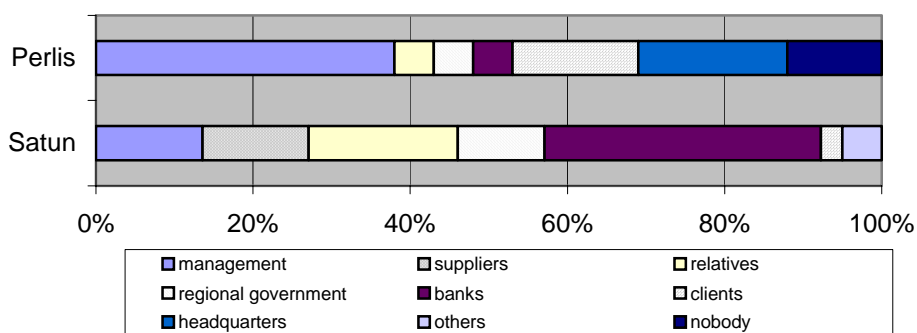
Source: Firm surveys.

Sources for daily operational capital show more similarities compared with start-up capital. The two most important sources are banks and revenues, but in Satun the percentage of respondents that identified banks as most important is almost the same as revenues while the surveyed firms in Perlis rely more on revenues. In both research areas none of the respondents are dependent on relatives. So it seems that they are only involved if large amounts of capital are required.

Furthermore, the respondents were asked who they generally 'called' first in case of a business problem. Of course a business problem does not always imply a financial problem as well, but it is assumed that they are indirectly related in many cases. In figure 5 considerable differences can be seen between Satun and Perlis. Moreover, these differences are to a large extent the same as in figure 4, especially regarding start-up capital: banks are the most important for the surveyed firms in Satun and owners (management and headquarters) in Perlis. And again relatives in Satun appear to be actively involved in the business life of Satun; they are the second most important problem solvers. Finally, associations are not important for access to capital, neither to establish

a firm. Overall, the financial reliance on owners in Perlis and the fact that a number of firms are state-owned confirms the suggestion of a state RVoC (in line with the state capitalism of Schmidt (2003)). But the ethnic Chinese firms are certainly not state-owned. These firms financially rely more on independent owners; a pattern which has been observed by Rutten (2003: 141) as well. The important role of banks in Satun reflects the general Thai situation (Hewison 2001 and Wingfield 2002). But coupled with relatives likely acting as a financial safety net, access to finance in Satun displays a *managed* character rather than solely depending on risky bank loans.

FIGURE 5
Most important organization to call in case of a business problem



Source: Firm surveys.

Ownership, access to finance and capital accumulation

This and the next section deal with the overall characteristics of capital accumulation in the two research regions. Based on the previous section it has become clear that access to finance is dependent on ownership and banks. The next section looks at banks and the setting of the regional financial markets in the two research areas; this section at ownership characteristics that influence access to finance and capital accumulation.

Important for the access to finance and capital accumulation in the two research areas seems to be the history and geographical origin of the owners of the firms. This can be illustrated by looking at the largest firms in the firm surveys. These firms have the easiest access to finance and have accumulated the largest amounts of capital. In Satun three different groups of important owners exist. The first group are owners born in Satun as children of important businessmen and political figures. A prominent example is the owner of Satun Transport. Satun Transport has the monopoly on public bus transport in the province. The father of the current managing director and largest shareholder has been mayor during two consecutive periods between 1975 and 1988. The second group are owners born outside Satun, who have come to Satun to start a firm. The largest firm in Satun, Siam Tin Food, is the

best example. Proximity to good seafood and cheap land and labour were the reasons to come to Satun. The third and smallest group are the owners of the branches located in Satun.

In Perlis there are far fewer owners from the state itself who have managed to build up a big business. All the largest firms are owned by two groups of owners. The first group is a mix of governmental authorities and large firms from outside Perlis. Again an example: the Kilang Gula sugarcane refinery was built in the beginning of the 1970's and is now jointly owned by Felda Authorities (the ministry of agriculture), and the Perlis Plantation Berhad Group (PPB Group), a large conglomerate in Malaysia established by the famous Robert Kuok. The second group of owners are international firms. At the time of the fieldwork, autumn 2004, 5 relatively large branches were operating in Perlis. Two of them have been surveyed: Shorubber is a Japanese glove firm and Dragon and Phoenix, producer of garments and owned by a businessman from Hong Kong.

The analysis of ownership characteristics indicate that access to finance and capital accumulation in Satun province is a twofold process: on the one hand accumulation of 'old' regional capital and on the other hand the increasing inflow of capital from other parts of Southern Thailand and even Malaysia. But in the last two decades 'old' regional capital has lost some of its share as recent investments have been more initiated by businessmen from outside. Furthermore the important role of banks and relatives can be explained by the fact that most firms are independent and family firms. In Perlis all the largest firms have been established with capital from outside, making owners (thus in many cases headquarters) and shareholders the most important actors regarding access to finance and capital accumulation.

Regional financial markets

Besides owners and shareholders banks are major providers of finance, notably in Satun. This sub-section seeks to shed some light on the characteristics of the regional financial markets, in most cases banks. Namely, it is likely that the firms' strategies for capital accumulation are influenced by the nature of these characteristics. The insights are mainly based on semi-structured interviews with bank managers.

Access to banks for the firms must be associated with corporate banking while financial transactions between individuals and families and banks are generally termed personal banking. The bank managers have been asked to estimate the importance of personal versus corporate banking. In Satun the average is 58% personal banking, 42% corporate banking whereas in Perlis the banks' activities are far more personal: 84% personal versus 16% corporate banking. Moreover, in Satun clients of banks relying relatively more on personal banking tend to save more and clients of banks relying relatively more on corporate banking tend to borrow more. In Perlis saving and borrowing seems to be equally important. These results perfectly match with the outcome that banks are more important for firms in Satun than in Perlis. Another characteristic is the fact the national government plays an important role in the financial markets. In both regions some banks are owned by the government,

which often leads to lower interest rates for loans. In Satun, for example, Krung Thai Bank and the Small and Medium Enterprise Bank offer attractive loans to firms. Moreover, in Perlis and Malaysia in general, the government supports Malay firms by offering soft loans via the Council of Trust for the Indigenous People¹⁸ and via the Malay Chamber of Commerce. As the most important religion in both regions is Islam, one would expect a longstanding presence of Islamic banks. But Islamic banking is a relatively recent phenomenon and the focus remains on personal banking. This is compatible with the Satun case with a non-Islamic Sino-Thai business community but it would not have been a surprise if corporate Islamic banking had become more popular in Perlis. So it can be expected that Malay firms will still rely relatively more on owners and shareholders rather than professional financial organizations in the near future.

Another modern development in the financial market is stock trading. Not many people in Satun and Perlis are currently involved in stock trading, but it might increase in the future. The chairman of the Satun Chamber of Commerce actively trades in stocks via the Internet and KLCS, a stockbroker, has a branch in Perlis since 2001. The investigation of the regional financial markets shows that the financial market of Satun and the business community are well aligned whereas the business community in Perlis tends to ignore the financial market, although (especially initiated by the national government) it provides opportunities for doing business.

CONCLUDING REMARKS

Not only geographically, but also economically the province of Satun is situated in the periphery. The majority of the supplies come from Bangkok and Hat Yai whereas the client base mainly lives in the province. As such the economy of the state of Perlis is a peripheral one, but it is clearly more advanced and more integrated with the national economy. Moreover, there seems to be considerable state involvement.

It has become clear that the commonalities between Satun and Perlis do not have a great impact on the institutional relationships shaping the specific RVoC's: the analysis of the inter-firm relations and access to finance leads to two different institutional complementarities.

1. In Satun firms maintain informal, personal, cooperative and networked based relations with clients and competitors (one to one and via associations) *and* banks are important for the financial needs of firms (see figure 6). Coupled with an ethnic Chinese way of doing business, this complementarity provides opportunities to survive in a relatively isolated economic environment. For example: in bad times firms could ask the help of other firms while simultaneously access to bank loans is likely to remain

¹⁸ In the Malay language Majlis Amanah Rakyat (MARA).

quite easy. The Satun's RVoC seems to resemble managed capitalism, contrasting to the Thai market capitalism.

2. In Perlis firms maintain formal, relatively impersonal, contractual relations with suppliers and clients (and a limited role for associations) *and* firms rely on owners for the access to finance (see figure 7). So firms seem to operate rather isolated. This complementarity could be explained by active governmental involvement: the analysis has suggested that the Perlis' RVoC resembles state capitalism.

In future research two issues should be investigated. Firstly, the outcomes as discussed in the two institutional complementarities. Why does Satun's RVoC not resemble market capitalism and is Perlis' RVoC indeed state capitalism or are there are two varieties: one similar to the Satun case composed of ethnic Chinese firms and the other one a state capitalist system composed of Malay and state-owned firms. Secondly, to what extent do the complementarities explain differences in economic performance? The likely stronger presence of institutional relationships between firms and governmental authorities in Perlis might provide an explanation for the fact that Perlis is more advanced than Satun. The Malaysian government together with the state government of Perlis might have initiated active regional development strategies. The lack of a strong government in Satun, coupled with a Sino-Thai business minority, which is maybe pre-occupied with its businesses rather than overall regional development, could have led to less prosperity compared with Perlis, but other non-institutional factors, for example migration patterns and remittances, might partly explain differences as well.

FIGURE 6
Inter-firm relations and access to finance in Satun

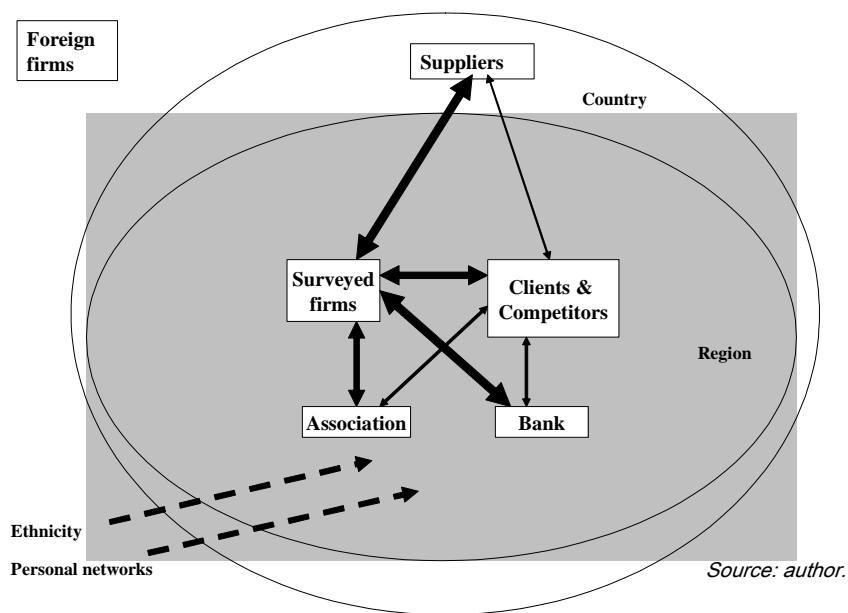
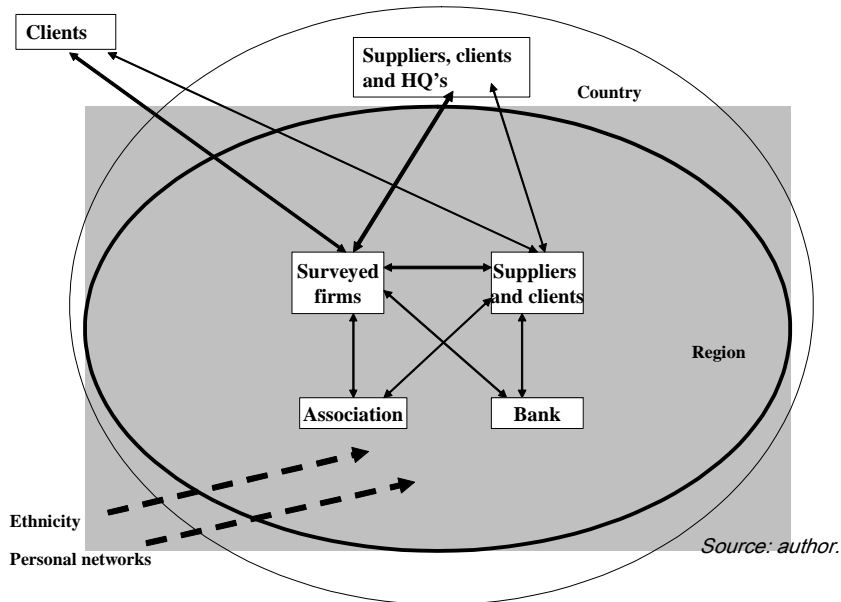


FIGURE 7



Inter-firm relations and access to finance in Perlis

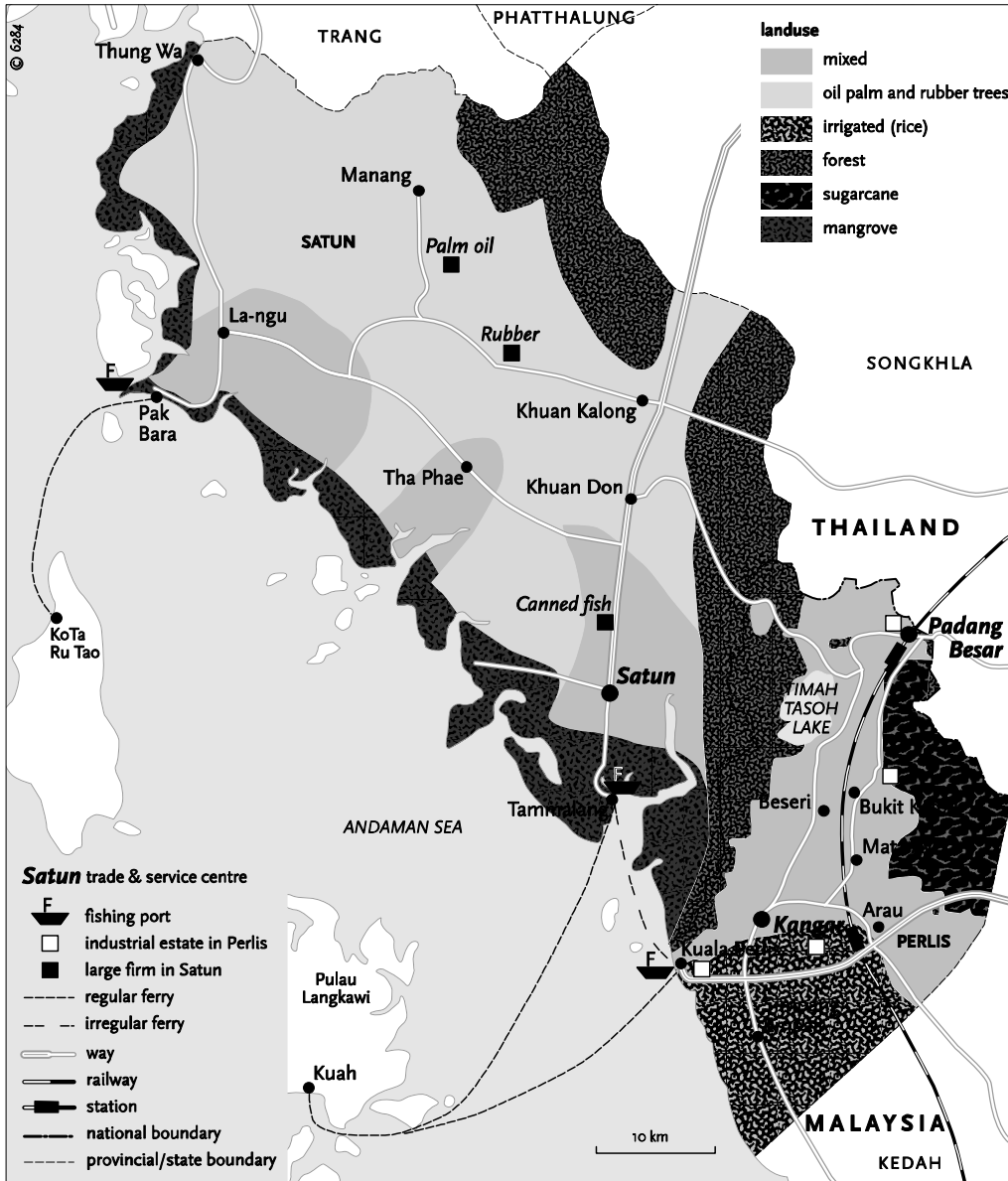
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APPENDIX 1: ECONOMIC MAP OF SATUN AND PERLIS



Map produced by GeoMedia UU, based on various sources.