

Singapore Management University

Institutional Knowledge at Singapore Management University

Research Collection Lee Kong Chian School Of
Business

Lee Kong Chian School of Business

4-1996

Trading Networks of Chinese Entrepreneurs in Singapore

Thomas MENKHOFF

Singapore Management University, thomasm@smu.edu.sg

Chalmers E. LABIG

Follow this and additional works at: https://ink.library.smu.edu.sg/lkcsb_research



Part of the [Asian Studies Commons](#), [Entrepreneurial and Small Business Operations Commons](#), [Organizational Behavior and Theory Commons](#), and the [Race and Ethnicity Commons](#)

Citation

MENKHOFF, Thomas and LABIG, Chalmers E.. Trading Networks of Chinese Entrepreneurs in Singapore. (1996). *SOJOURN: Journal of Social Issues in Southeast Asia*. 11, (1), 128-151. Research Collection Lee Kong Chian School Of Business.

Available at: https://ink.library.smu.edu.sg/lkcsb_research/1345

This Journal Article is brought to you for free and open access by the Lee Kong Chian School of Business at Institutional Knowledge at Singapore Management University. It has been accepted for inclusion in Research Collection Lee Kong Chian School Of Business by an authorized administrator of Institutional Knowledge at Singapore Management University. For more information, please email cherylds@smu.edu.sg.

Trading Networks of Chinese Entrepreneurs in Singapore

Thomas MENKHOFF and Chalmer E. LABIG

The entrenchment of entrepreneurs in local, regional, or global business networks based on kinship, clanship, territorial, or ethnic ties has often been cited as characteristic of Chinese business communities in Southeast Asia. Qualitative interviews with Singaporean Chinese merchant-exporters were conducted in order to examine this thesis. The findings reveal that there is a strong tendency among Chinese entrepreneurs in Singapore to rely on external commercial relationships with "outsiders" and "friends" rather with those related by blood or marriage. It is suggested that kinship reciprocity may under some circumstances curb the autonomy and freedom of the transacting actors, thus limiting their abilities to make decisions in the regional and international market-places.

Introduction

The formation and extensive use of regional and global networks based on kinship, clanship, territorial, and ethnic solidarities for business purposes have often been cited as reasons for the success of Chinese merchants in Southeast Asia (Landa 1983; Lim 1983; Goldberg 1985; Yoshihara 1988, pp. 53, 67). These networks, based on blood or locality ties, are also commonly found among Chinese business communities in other parts of Asia and beyond (Lim and Teoh 1986). Writers have variously described such networks as family-centred personal networks, kin, or other ethnically defined networks, supra-family marriage networks, and close-knit communal tie-ups and connections (cf. Greenhalgh 1984; Landa 1983; Mahathir 1970). The terms network and networking¹ have a certain analytical merit. They are convenient labels for describing in abstract complex business strategies and choices

the nature of which are often difficult to verify empirically. In spite of their cultural importance, the conceptual clarification of the notion of network relations is lacking in the literature on Overseas Chinese entrepreneurship.² The result is a tendency to imbue Overseas Chinese business communities with a conventional image of their all-powerful economic positions in the societies in which they find themselves. Indeed, speculations about Chinese networks, often without the support of empirical evidence, have helped to perpetuate prejudices about the social exclusiveness of ethnic Chinese in Southeast Asia.

This study is based on a survey of twenty-three small family-based trading firms in Singapore dealing in Chinese foodstuffs, dried seafood products, timber, rubber, religious paraphernalia, and other items. The purpose of the paper is to illustrate and analyse the structural features of international trading networks of these entrepreneurs (Menkhoff 1993). In the history of Southeast Asia, trading networks had been conduits for the exchange and transfer of goods and other resources over large areas in the region (Evers and Schiel 1987, p. 468). Ng (1983), for example, singles out the seventeenth century Hokkien trading network extending from the coastal city of Amoy in southern China to the South Seas as an important part of these connections. Yet little is known about contemporary Chinese trading networks, their structural organization and how they are affected by modernization.

The survey was conducted using semi-structured interviews with Chinese entrepreneurs in Singapore, supplemented by secondary sources and field observations. Drawing on results of the survey, the study will focus on the social organization of these trading networks, particularly in relation to the entrepreneurs' connections with trading partners abroad. In addition, the paper identifies and examines significant actors who may facilitate the exchange of goods and information; these actors include personal friends, acquaintances in trade or clan associations, and relatives living abroad. The nodal points of the trading networks under investigation consist of twenty-three Chinese businessmen in Singapore who have extensive economic linkages with overseas buyers and suppliers of the goods being traded.

The thesis that Chinese traders tend to do business with kinsmen

serves as a starting point for discussing the *guanxi* (relationship) bases of their business transactions (Landa 1983). The paper will first describe the export marketing strategies of the Chinese entrepreneurs interviewed. It will then examine the expanse of their trading networks and the influence of kinship connections on maintaining external trade relationships. Finally, the impact of modernization and social change on Chinese trading behaviour will be analysed. Two case-studies are presented to illustrate the social complexity of trading networks and to explore the hypothesis about the extent to which kinship obligations may restrict the making of the economic decision in a situation of rapidly changing market-places.

Guanxi and Overseas Chinese Trading Networks: A Typology

As in large-scale enterprises, small trading firms entering foreign markets encounter unique problems of cultural differences, diverse trading laws, and limited information. It is essential for these firms that their overseas agents, sales representatives, and trading partners are reliable, trustworthy, and co-operative (Menkhoff 1992). To minimize risks, transaction costs, and uncertainties of external economic dealings, merchant exporters try to establish long-lasting social and business relationships with their trading partners. Burns (1985, pp. 1-44) refers to these relationships as forming "trusted networks" consisting of a set of individuals in whom a trader can have confidence and trust. The number and expanse of such trusted networks available to a businessman obviously depend on his position in the market system and in the society generally. As Burns goes on to argue,

A network will generate trust among its members when its interpersonal links will support the flow of reliable information and/or manipulation of sanctions reinforcing desired behaviour or increasing the probability that disputes among members will be fairly settled. (1985, p. 32)

It is useful to transpose Burn's concept to the Chinese cultural context. A central notion for understanding Chinese trusted networks and networking strategies in business is that of *guanxi*, literally meaning social relationships or particularistic ties (Jacobs 1979). These relation-

ships or ties are an entrepreneur's connections with local or foreign businessmen, politicians, or friends who may guarantee support and provide access to favours, credit, or insider information. The cultivation of networks of useful personal relationships offers businessmen with commercial advantages over competitors, and such advantages are crucial not only in unstable and potentially hostile markets but also in familiar and relatively structured ones in which a person has operated for a long time (Eastman 1988, p. 36). To have connections with persons "who can be trusted and by whom one will be trusted" (Omohundro 1983, p. 68) is deemed an essential condition for business survival.

According to Jacobs (1979), in Chinese culture *guanxi* relationship depends upon two or more persons having a commonality of shared identification. Such an identification may be ascriptive (native place or lineage) or it may rest upon shared experience. Jacob writes:

A person seeking allies will first turn to persons with whom he knows he has a *kuan-hsi* base. ... The existence or non-existence of a *kuan-hsi* base, therefore, determines the existence or non-existence of a *kuan-hsi*. However, a *kuan-hsi* may vary according to "closeness" or "distance" and this variation depends in turn upon a third variable, affect or *kan-ch'ing*. (p. 242)

The notion of *kang-ch'ing* (*ganqing*), on the other hand, refers to the affective or emotional component of a relationship (DeGlopper 1978, p. 312; Lee 1987, p. 61). *Ganqing*, or simply "sentiment", arises from social interactions as when people work together, belong to the same social club, or have attended the same school or university. Jacobs is particularly emphatic that such a sentiment differs from friendship in that it presumes a much more specific common interest, and conversely, much less warmth and more formality of contact. The closeness of *ganqing* can of course vary between different sets of relationships and may exhibit, within the same connection, different degrees of intensity over time (Jacobs 1979, pp. 258, 261).

Writers often assume that Chinese family and kinship are the most common basis for building *guanxi* relationships because of the moral imperative that relatives should help and trust each other (Eastman 1988, p. 36). But the fact is that, as Jacob (1979, p. 242) again points

out, non-relatives and even foreigners can also be incorporated into one's identification system. *Guanxi* ties, however, are not the only criteria for establishing a business relationship. Exporters and importers, for example, may consider prices and quality of goods as well as the reliability of supplies before forming a more enduring relationship with any trader. Nonetheless it is clear that there is a significant social component in the development of all trading relations. Generally, from our study of Chinese traders in Singapore, the following types of business relationship with overseas buyers and suppliers can be listed.

1. Consanguineal and Affinal Kinship Ties

The extensive use of *guanxi* based on consanguineal and affinal kinship ties is often regarded as a significant factor for explaining the economic success among the Overseas Chinese world-wide (Greenhalgh 1984, p. 529). Chinese entrepreneurs in Singapore, whose companies have developed from small-scale businesses to large enterprises, have sometimes relied on family members to organize their business interests abroad. An illustrative example is the Hong Leong Group founded by Kwek Hong Png. According to the *Business Times*, in the Hong Leong Group

the Malaysian cousins, led by nephew Quek Leng Chan, have always stressed their independence from the Singapore family. Nevertheless, Leng Chan is known to defer all major decisions to Hong Png, who still retains important posts in some of the Malaysian companies. (*Business Times*, 19 September 1989, p. 14)

However, such an example should not be over-generalized. Descendants of the business founder may shun the traditional enterprise started by their forefather and prefer to take up modern and more prestigious professional jobs (Menkhoff 1993, pp. 73–88). While kinsmen may provide the most reliable and trustworthy support, difficulties such as that taking place in the “brittle relationships between adult brothers” do occur (Jacobs 1979, p. 246). In a similar note, DeGlopper has observed that co-operation between brothers in business is not a rule:

If they do, it is said to be because their personal relations are good, their *kan-ch'ing* is good ... Some brothers have good *kan-ch'ing* and a lot of interaction (*lai-wang*), and others do not ... In the long run, and in crisis, one can depend on one's brothers. But no one wants to

be dependent on his brothers, and an able-bodied man should not expect his brothers or kinsmen to make sacrifices for his sake. (DeGlopper 1978, p. 312)

So doing business with close kinsmen carries certain social costs. Indeed Chinese traders are reported to have avoided commercial dealings with kinsmen because such transactions may run the risk of losing autonomy, delayed payments, bad debts, or incurring problems in negotiating fair prices (Diamond 1969; Silin 1972, p. 351; Omohundro 1983, p. 68; Wong 1988a, pp. 135–37).

2. Fictive Kinship Ties

Our investigation of the Teochew-dominated sharks' fins trade in Singapore shows that kinship can also be created by transforming long-standing business friends into "uncles" in accordance with Chinese kinship system (Menkhoff 1992; 1994). This form of fictive kinship goes some way in enlarging business connections and in ensuring that trading partners behave within the rules of kinship. If the mutual obligation in the relationship is strong, such fictive kinship ties may allow for a degree of social control and certainty of behaviour. Generally close social dealings over time, writes a Chinese sociologist:

tend to stress Chinese kinship relations, causing not only their perpetuation but also the expansion of their influence into relationships where no kinship ties actually exist. Many kinds of social dyads such as teacher-student, master-apprentice, employer-employee ... are often patterned after kinship relations and are used to seek or establish authority in all interpersonal relations. In daily life people do not hesitate to use the pseudo-kinship terms for addressing a stranger and influencing him. (Hsieh 1978, p. 204)

Another form of fictive kinship is created by the exchange of vows of blood brotherhood and through the system of god-parents (Jordan 1985). Relationship is affirmed by the performance of rituals in a temple or ancestral hall. Under certain circumstances sworn-brother *guanxi* may become a basis for building a business network, as Omohundro has observed:

Loans, credit, supplies and emergency aid commonly flow along this line. Bloodbrothers may seek further to betroth their children or in-

vite one another into a godparent relationship. They may join in a partnership, market each other's merchandise or accept each other's sons as apprentices. (Omohundro 1983, pp. 69-70)

Finally *guanxi* can also be formed by appealing to the real or imaginary lineage connections among people with the same surname. Early Chinese migrants to Southeast Asia often formed surname associations, joining persons of a common surname in order to provide each other mutual assistance in a foreign environment. As Tan writes:

Clan associations are voluntary associations formed on the basis of consanguinity or blood ties. In overseas Chinese communities, this is often judged on the criterion of all those having common surnames. It is a well-known fact among Chinese that common surnames do not necessarily mean common ancestry. However, for an overseas Chinese a common surname is enough ground for him to claim kinship ties and to address even total strangers as if they are his kinsmen. (1986, p. 107)

Our study of the Hokkien association "Chin Kang Huay Kuan" in contemporary Singapore and Malaysia suggests that men — and often women — use association branches in Ipoh, Melaka, or Pulau Pinang in Malaysia as bases for establishing contacts or intermediaries to other Chinese voluntary associations in the country. The committee members of these associations are often influential local businessmen who can establish linkages between a Hokkien network in Singapore and those in Malaysia.

In the context of rapid changes associated with urbanization and modernization, surname ties have lost their former significance in Southeast Asia. Many Chinese in Indonesia, for example, have adopted indigenous names barely resembling the original Chinese ones. In Singapore, it is reported that very few Chinese associations are organized around a lineage where members trace their descent from a common male ancestor (Hsieh 1978, p. 205).

3. Friendship Ties

Friendship is another possible basis for building *guanxi* relationships. Friendship here refers to personal ties developed through co-residence, schooling, work, and other forms of common social experience among

people. Friendship ties, and the associated feeling of trust generated by shared experience and mutual knowledge, have less of the structural quality of relationship based on kinship, for example. The mutual affection tends to come about by having entered a relationship freely, by choice rather than by kin obligation or demand of status (Hart 1988, p. 185). Friendship may be "used" for economic purpose, but it can also develop from social interactions with people with whom one has a long history of economic dealings.

The importance of schoolmate *guanxi* can be traced back to Chinese history (Jacobs 1979, p. 247). In the past, candidates who passed the imperial examinations together often developed a special regard for each other. A contemporary equivalent of schoolmate *guanxi* is perhaps the so-called old boys' network among university graduates, a network which offers a means of recruiting people into business relations.

People who come to know each other during work sometimes share an identification with their work-place. A relationship established between clerks in a shop, for example, can play a potential role in forming business relations if they later become independent businessmen. It goes without saying that such a relationship may facilitate business contacts and transactions and serve as an incentive to form partnership.

One particular type of friendship can be singled out. The so-called locality ties are formed by people who claim a common place of origin in China. Locality in this sense was an important source of solidarity among the Chinese in nineteenth-century Singapore. Such solidarity, Freedman points out, "could be created or strengthened overseas ... between men originating from the same area ... in China" (1976, p. 36). However, as Jacobs (1979, p. 244) emphasizes, the concept of locality or native place also tends to be flexible and varies from situation to situation. The place of origin can range from a village to a city or a province in China. In Singapore, locality associations are formed based on five levels of administrative unit: province (*sheng*), prefecture (*fu*), district (*hsien*), borough (*chu*), and village (*hsiang*) or town (*ch'en*), cutting across people speaking several dialects (Hsieh 1978, p. 206). Locality-based *guanxi* relationship is articulated among Overseas Chinese business organizations in preferential recruitment of employees from the

same native place in China (Tong 1989, p. 8). Loyalty of people from the same place of origin is often given as one of the reasons for such practice, but the situation is probably more complex than that (Evers 1987).

Generally, it can be suggested that social connections with others from the same native place in China can facilitate the building of business relationships and investment flows between Singapore and China. In the current situation those who help to set up joint ventures or identify new suppliers in China may function as intermediaries between government agencies or state firms in China and ethnic Chinese businessmen in Southeast Asia. Outside China, locality *guanxi* ties can also be used to form trading networks among businessmen in Asian countries where Chinese communities are found, especially Singapore, Hong Kong, Malaysia, and Indonesia (Wong 1988a, pp. 109–31).

4. Outsiders

The final category of *guanxi* relationships refers to ties formed with outsiders, that is, people not related by kinship and common place of origin. In theory, compared with other forms of social ties, the degree of closeness with and obligations towards outsiders are considered weakest and socially least sustainable. However, in the increasingly complex global or regional economic transactions, important business links can no longer draw from kinship or locality ties alone. Many owners of family firms now incorporate foreign partners into their trading network. In principle, establishing business ties with outsiders can proceed this way:

Should he [that is, a businessmen] desire to ally with another person, he may approach him directly or through an intermediary and attempt to discover a *kuan-hsi* base on which to develop a closer *kuan-hsi*. If they discover a common *kuan-hsi* base, then the alliance may develop; if they cannot discover such a base, they may need to rely on intermediaries. (Jacobs 1979, p. 242)

Survey Results

The firms investigated for this study had their most important markets

in East and Southeast Asia. They imported from Indonesia, Hong Kong, Malaysia, China, and to a lesser extent the United States, Thailand, India, Australia, and Italy. Some also acquired their supplies from the Philippines, Brunei, Japan, Taiwan, Mauritius, the Middle East, Switzerland, Canada, and Mexico. The major export markets for the firms were in South America, Malaysia, Hong Kong, Japan, Indonesia, and Australia, as well as the United States and Europe. Clearly, the firms maintained world-wide commercial links of different degrees of intensity and economic importance, though Southeast Asia remained their strongest foothold. Most of the firms were aggressively entering new markets wherever feasible. At the time of the survey in 1988/89, Mauritius and Thailand were highlighted as potential future markets especially for timber and wood products. The smallness of the market in Singapore, difficulties in getting raw materials, and the tariff walls imposed by many Southeast Asian economies, were given as main incentives for the pursuit of new markets. Even a small marine foodstuffs merchant who imported dried seafood products from Indonesia emphasized that he intended to process his products outside Singapore where labour and transport costs are lower.

Among the twenty-three firms surveyed, "selling directly to customers" is most frequently quoted as the method of export (see Table 1). About 60 per cent of the firms reported that they served their customers this way without commissioning agents. The firms who relied on

Table 1
Methods of Exporting Cited

Sell direct to customers	1
Agents overseas	2
Through trading houses overseas	2
Through local import/export agents	2
Through subsidiary companies overseas	3
Through related traders overseas	3

1 = Very frequently cited.

2 = Frequently cited.

3 = Seldom cited.

Source: Interviews, 1988/89.

local import/export agents perceived them as costly intermediaries. Importers usually had their own regular customers, local wholesalers, and foreign buyers and suppliers in Southeast Asia and beyond. Only two firms maintained overseas sub-branches which served as suppliers, buyers, or transit points for imports and exports.

As indicated by Table 2, most entrepreneurs pointed to the importance of face-to-face meeting and direct negotiation with their partners in export-marketing transactions. The reason for this practice is that more immediate social interactions arguably nurture mutual trust. Nearly all merchant exporters reported that they usually insisted on payments via letters of credit, though there are occasional exceptions (Menkhoff 1993, pp. 131-47).

Kinship and Business Network

Turning to Table 3, it reports our findings regarding the origin of the *guanxi* relationships of the twenty-three Singaporean Chinese entrepreneurs in our survey. Business partners of the firms surveyed are classified according to the four categories in our typology: kinsmen, fictive, or ritualistic kin, friends, and outsiders. Survey findings suggest that there is a strong tendency among Singaporean Chinese merchants to transact with "outsiders" and "friends" rather than with "kinsmen" or "fictive or ritualistic kins".

The majority of the respondents reportedly dealt with non-Chinese business partners (mainly Europeans, Japanese, and Indians) and with members of other Chinese dialect groups. Preferences for trading with members of one's own dialect group and kinsmen were not apparent. While only four trading firms relied on overseas kinsmen (brothers and

Table 2
Preferences for Export Marketing Transactions

Face-to-face meetings and direct negotiations	1
Trust	1
Letters of credit	2
Contracts	3
Agents	3

Note: As for Table 1.

Table 3
Trading Partners of Singaporean Chinese Traders

Kinsmen	
Consanguineal	3
Affinal	3
Fictive or ritualistic kins	
Long-standing family friends	1
Those with same surname	3
Sworn or godbrothers	3
Friends	
Personal friends	2
Those from same village, town, or province in China	3
Schoolmates	2
Former co-workers	3
Outsiders	
Non-Chinese (Europeans, Indians, Japanese, etc.)	1
Members of other Chinese dialect groups	1

Note: As for Table 1.

fathers who lived in Hong Kong, Sibiu, Surabaya, and Guangzhou) as regular business partners, overseas family members or distant kinsmen were of some importance for the businesses sampled. Several respondents stressed that one's kinsmen such as children studying abroad might be asked to gather market information rather than to involve in more direct economic dealings.

While long-standing family friends frequently assisted in various ways, respondents reported that they did not make much use of fictive and ritualistic kin relationship. Sworn-brothers seemed to be more important in information gathering, and in seeking occasional help when extra hands were needed. Instead, most traders described their business partners as coming from "friends of one's parents" or "business friends". Generally speaking, "business friends" are non-Chinese-like Europeans and Japanese as well as those outside one's own dialect group.

Social ties based on locality or place of origin in China and common surname were seldom cited as bases for forming trading relations. Locality ties might be more important during the initial stage of a business life-cycle, as a source of capital and for connections with potential

business partners. Consistent with the observation of Hong Kong enterprises, kinship often forms a weak framework for business transactions outside the immediate family. Wong (1988*b*, p. 136) writes:

There is little evidence that a dualistic business ethic is prevalent or that honesty and trust are found only within the kin group while sharp practices reign without ... The inter-firm economic order ... is secured largely on non-kin solidarities ... forging business alliances through a conscious marriage strategy is hardly practical with the decline of the custom of arranged marriages and the inability of Chinese family heads to disinherit their children for disobedience ... the intensity of kinship reciprocity tends to limit economic options. Therefore it is invoked sparingly only when it suits one's ends.

The relative importance of the type of *guanxi* relationship can be illustrated by examining the following two cases from the survey among Chinese business firms in Singapore.

Singaporean Chinese Trading Networks Observed

Case One: Suzukawa Pte. Ltd. and the Japan connection: Suzukawa Pte. Ltd. was established in 1980 as one of several local branches of the parent company Ng Chee Ltd., founded by a native from Fukien province in China (Jamann 1994). The parent company and its branches are still owned by the Ng family. Their main businesses are marketing of foodstuffs, though Ng Chee Ltd. is a distributor of motor spare parts. According to Mr Ng Chin Kang, fifty-two, managing director of Suzukawa Pte. Ltd. and eldest son of the now-retired founder, the branch was established because the parent company had "more or less reached the saturation point in the spare parts business".

Mr Ng and his four brothers had previously worked together in the company run by his father; but according to Ng, "[having five siblings working in the same firm] became a burden to Ng Chee Ltd., so we decided to diversify". Suzukawa, which had an annual turnover of about S\$4.8 million for 1986 (Singapore Registry of Companies and Businesses), currently concentrates on importing canned and manufactured foodstuffs. The company is the sole distributor of Japanese products ranging from confectioneries to beverages and dry foodstuffs. Some of

the items it deals in are salt, cooking oil, rice, sugar, soya bean sauce, and dried mushrooms, as well as frozen food. Suzukawa also imports chocolate from Switzerland, spaghetti and pasta from Italy, and rice from America. It exports these products to neighbouring countries such as Indonesia and Malaysia, where customers are supermarkets, hotels, and restaurants.

Neither the retired chairman of Ng Chee Ltd. nor his sons had any previous experience in the food trade. Mr Ng, who holds a Master of Business Administration (MBA) degree from a Japanese university, runs the company together with his younger brother who has studied in England. Their earlier attempts to market Chinese foodstuffs were hindered by strong local competitors located along Hong Kong Street in Singapore, a traditional business quarters for firms dealing with China via Hong Kong-based middlemen (Menkhoff 1993, pp. 181–95). Mr Ng entered the Japanese foodstuff business almost by accident. According to him,

We met a friend of ours who was in the food business and he recommended some items to us. So we started, first in a very small way, and later we expanded.

When asked whether the company is still connected with this friend, Mr Ng pointed out that this friend is a Japanese businessman who was one of their partners in the beginning but whose interest was later bought out by the family. The Japanese partner was introduced to the Ng family by a go-between who was himself a Japanese performing the significant role of an “interconnecting cable”, to borrow the metaphor of Yang (1989, p. 41).

This intermediary was Mr Ng’s classmate whom he met during his studies in Japan. The friendship and social ties Mr Ng previously formed in Japan were of strategic importance for dealing in Japanese imports which have proved profitable. As Mr Ng explained:

We started very small. Initially we tendered only a few confectionery products, then we took over some items. We got some agencies from some new companies. We were looking for new sources, new products. I went to Japan very often in the initial stage. We failed with a lot of items and we succeeded with some.

The majority of Suzukawa's current suppliers are located in Tokyo and Osaka. These contacts were cultivated and revitalized by personal visits in the early years, but such visits are less frequent now. According to Mr Ng:

In the beginning we had to contact them by telex. We had to look for suppliers. Through suppliers you get new suppliers and then you go there. Before we go, we normally send a telex saying that we are coming over. When we arrive there we call them and try to see them.

Formerly, Mr Ng visited Japan four or five times a year. His good command of Japanese has been crucial in consolidating the relationship with the Japanese. Once the relationship is established, Mr Ng travels less frequently to Japan.

Suzukawa's trading relations with suppliers in Europe were initiated by Mr Ng's brother. He attributes his brother's studies in the United Kingdom as one reason why the company now handles several European products:

He knows the other side better. He was actually studying engineering. He had not so much to do with food business. Both of us learned through experience and practical work. We failed in a lot of things but we more or less got through [the difficult times] somehow.

Even now, the contacts Mr Ng's brother enjoys in Europe continue to help the firm in establishing new and useful business relations with suppliers there.

Suzukawa's trading network shows an interesting pattern. In addition to fluency in the relevant language, communications by personal visits, telephone, and fax also help to build up a transacting framework. Friendship and schoolmate relations have shown to be crucial in this regard. More specifically, schoolmate *guanxi* between Mr Ng and his Japanese associate facilitated the commercial operations of Suzukawa and his relationship with other Japanese counterparts. The intermediary who was a mutual acquaintance of Mr Ng and his partner guaranteed what Yang (1989, p. 41) has termed the "transformation of identities" through activating mutual obligation between the two. Suzukawa's business success demonstrates that foreigners can be transformed

into reliable trading partners. Finally, the trading network of Suzukawa is outgrowing its sole reliance on personalistic relations. Other sources of supply of cash and goods have to be sought.

On the whole, Mr Ng's recruitment of trading partners appears to contradict with Landa's (1983, p. 97) thesis about kinship as being the most favoured foundation for building commerce ties. It is superfluous in this case to speculate whether Mr Ng would prefer to deal with Chinese traders, kinsmen, or fellow villagers. In a pragmatic quest for business opportunities, Mr Ng made Japanese business contacts and learned about the Japanese way of doing business. He reported that his Japanese friends still advise him in his dealings with Japanese firms. Consequently we can infer from this case that Chinese trading networks are not invariably confined to among fellow Chinese but cutting across ethnic borders to form links with schoolmates and friends among the non-Chinese.

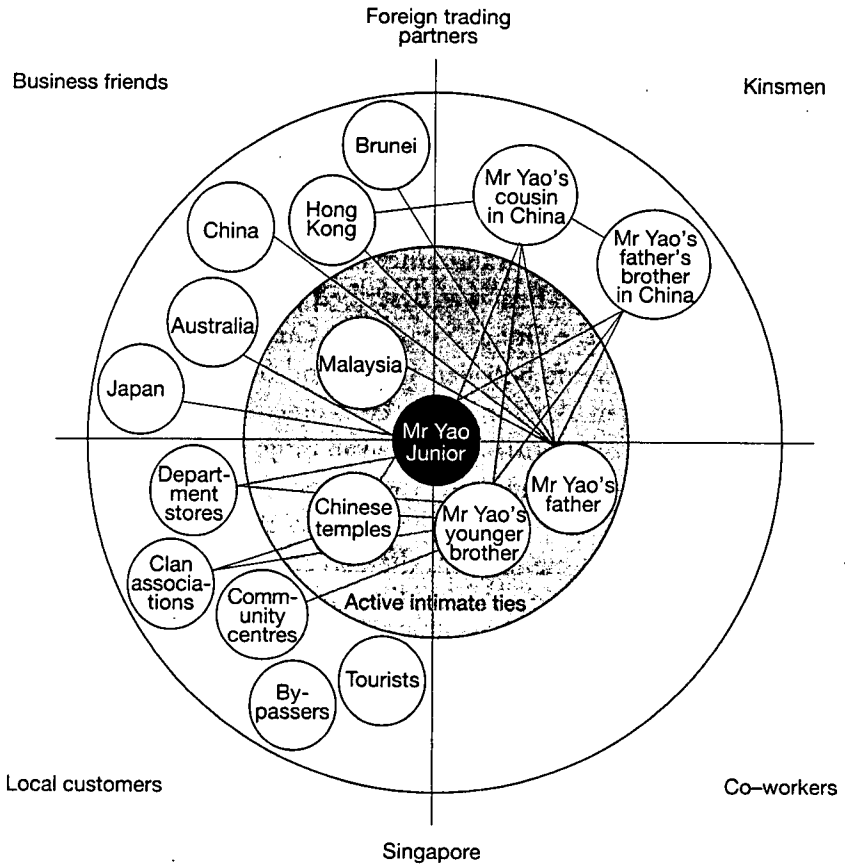
Case Two: Pipa Limited and the China connection: Pipa Limited was established in 1939 by the grandfather of the current managing partners. The founder of the firm was described by those interviewed as a Teochew sailor from the city of Swatow in Guangdong province who had travelled many years between China and Southeast Asia. In the 1940s an important market for temple embroideries, religious paraphernalia, and Chinese opera fittings existed in Singapore, and the grandfather began business by importing these goods from China and Hong Kong. Presently, the firm continues to import these ceremonial products and musical instruments from the two countries as well as Japan. Annual turnover for the year 1988 was estimated at S\$300,000 with a profit somewhere between S\$60,000 and S\$80,000 after tax.

Pipa Limited has no branches and its trading partners are those who have been acquainted with the owners for many years. Its customers are buyers who represent local Chinese temples, schools, clan associations, community centres, and department stores in Singapore. The firm also exports to Brunei, Malaysia, Indonesia, and Australia. Regular and long-standing customers in Singapore get credit for thirty to sixty days. As indicated by Figure 1, individual customers are identifiably "by-passers",

“friends”, and “other people” while 10 per cent of the retail customers are tourists.

The figure depicts the total network of Pipa Limited from the perspective of Mr Yao, Jr., one of the managing directors. The figure shows the personal and business ties extending from him to overseas buyers who are often business friends and kinsmen. Local ties stretch to customers in Singapore, and to his co-workers and his brother and father. The figure distinguishes between active intimate ties and active non-

Figure 1
Extract of Mr Yao's Personal Trading Network



Source: Interviews, 1988/89

intimate ties to illustrate the relative intensity of the types of relationship.

Pipa Limited has formed trading relationship with the suppliers from China in a number of ways. Until the 1980s, the company established links with officials of state-owned manufacturing firms who came to Singapore as part of trade missions. These missions were organized by the Singapore Chinese Chamber of Commerce of which Pipa Limited has been a long-standing member. Before 1978, Pipa dealt with state firms in Beijing and Shanghai. However, the quality of the goods supplied by these firms were not consistent, and there were disruptions in supply. Especially during the Cultural Revolution of 1968, the state firms were unable to supply *pipa* — a string plucking musical instrument — decorated with heads of dragon. At the time the ornamentation was considered as symbolic of imperial power, and thus politically forbidden. Consequently, from the 1970s Pipa Limited began importing the instrument with the figure from Hong Kong to supplement the irregular supply from the mainland. In 1978 when the Chinese reform policy led to a flowering of the private sector, it was decided to purchase *pipa* from private firms in China. Two relatives — Senior Yao's brother-in-law and Junior Yao's cousin — acted as go-between for the Chinese producers and Pipa Limited.

Relationships with long-standing customers like representatives of temples or clan associations were initiated by the founder and later his son who is the father of the two managing directors presently running the firm. The grandfather had joined a surname association and a Taoist temple association of which he was a committee member. Although there was no direct link between membership in these organizations and Pipa Limited overall marketing connections, his involvement in the management committee probably helped to bring customers. Though Mr Yao, one of the current managers, maintains business connections with Hong Kong suppliers, he continues to import some of his products from China. That trading with China was assisted by his relatives there probably signifies the importance of kinship ties. Yet it was emphasized during interviews that this kinship *guanxi* was founded on material interests rather than on any *ganqing* (emotional) considerations based on primordial ties by blood.

Conclusion

Foreign trade often implies multiple barriers for small businesses which have limited knowledge about foreign markets and factors such as currency fluctuations. Given the uncertainties and associated transaction costs, traders aspire to deal with trustworthy trading partners and establish long-standing personal relationships (*guanxi*). The trading network provides businessmen with important resources such as capital, goods, information, and even access to other networks. In addition, social relationships in such a network give business transactions a certain degree of predictability. Trust is the social cement that holds business networks together (Menkhoff 1992, 1993, pp. 89–131; Granovetter 1985). In this context, it is important to point out that Chinese exporters in Singapore tend to operate with *guanxi* relationships built on a number of kin and non-kin principles. Business relationships are maintained not only with kinsmen, but also with those who are reliable, co-operative, and willing to share information. Face-to-face negotiations, personal visits, hosting of lunches, and communications via phone calls, and telefax are typical of the ways commercial ties are reproduced.

At the same time, the majority of the firms surveyed maintain long-standing relationships with “foreign” business associates in the United States, Europe, Latin America, and Asia. Our survey findings appear to support Yoshihara’s (1988) argument that Chinese networks, based on kinship, clanship, territorial, and ethnic principles have disintegrated since the years after World War II. Together with the expansion of the market economy and increasing economic integration in Southeast Asia, Chinese trading networks in Singapore now extend across ethnic and national boundaries. The present generation of traders are able to transcend ethnic boundaries through Western education and the use of English. Mandarin language education promoted by the Singaporean Government also tends to reduce barriers previously existing between different dialect groups. The importance of Japanese, American, and European business partners both within Singapore and abroad testifies to the common wisdom that “You can’t stick to your own kind if you are engaged in international business”. It is a statement that underlines

the pragmatic rationale of Chinese merchants in Singapore.

In view of these changes, many of the generalizations about Chinese networking strategies need to be re-examined. The often mentioned global network of Chinese businessmen interconnected by kinship solidarity has yet to be proved empirically. In our very modest survey, which does not pretend to be statistically significant, network of kinsmen and close acquaintances in providing capital and business contacts is relevant to no more than four of the twenty-three trading firms.

In any case, access to a commercial network cannot guarantee business success and the rate of failure among Chinese firms is reportedly high. Business failures, however, are seldom reported in contemporary studies on Chinese entrepreneurs. The result is the tendency to overestimate the utility potential of business network among ethnic Chinese in Southeast Asia. The narrative of "from rags to riches stories" is often told by the popular press to confirm the continuing success of Chinese commercial empires in East Asia. But networking is in fact practised everywhere in all societies. Singaporean Chinese traders who intend to go regional or global know that they must learn to network with the locals too.

In view of the hitherto inadequate empirical and conceptual exploration of Singaporean Chinese business networks, future studies should be devoted to examine particular aspects of such networks. The operations of power and credit relations among traders and their clients are just some of the crucial issues that have to be analysed. Furthermore, changes in Chinese trading networks in Southeast Asia over the last decade present an important focus for further research. Government policies and laws, global economic integration, improved transportation, modern communication, and fluctuating market conditions have all made a crucial impact on traditional and contemporary trading relations and systems (Evers 1988, p. 99). Modern communications certainly affect how trading relations are now initiated. For example, the Singapore Government has created Singapore Network Services Pte. Ltd. (*Straits Times*, 17 October 1989, 4 December 1989, p. 39), jointly owned by the Trade Development Board, Telecom, Port of Singapore Authority, and the Civil Aviation Authority of Singapore. Under the

label TradeNet, this company is in charge of operating and managing the so-called "TradeNet System" designed to facilitate computer-to-computer transfer of trade documents. The objective is to speed up cargo clearance, and thereby improve the productivity and efficiency of Singapore's trading companies. Linked to other global network, TradeNet users are able to communicate with airlines, freight forwarders, and exporters and importers all over the world.

Traditional family-based small firms will take time before they can utilize these costly and sophisticated services. In principle, "there is no reason why the marketing of sharks' fins should not be facilitated by computers", as one respondent in our study has stated. The successful introduction of telefax machines, which were installed in nearly all firms surveyed, underlines the rationality of these supposedly "conservative" entrepreneurs (Wu and Wu 1980). There is no reason why electronic data exchanges will not effectively complement personal relations and face-to-face contacts.

Another point to be made concerns the stability of cross-border trading networks. Political change often leads to disruption of traditional trade links. The decline of communism and the political and economic reform in China since 1978 were external forces to which Singaporean trading networks have had to adjust. In the context of these changes, it is uncertain if traditional Chinese cultural values will continue to underpin business connections, and to what degree modernization of cultural values will affect business networks (Harrel 1985; Wu 1973; Wong 1993, p. 21).

NOTES

The article summarizes research findings first published in Menkhoff, T., *Trade Routes, Trust and Trading Networks: Chinese Enterprises in Singapore* (Saarbruecken/Fort Lauderdale: Verlag Breitenbach, 1993). A shorter version of this article was published in Germany in *Internationales Asienforum* 26, no. 3/4 (1995): 343-64. The authors would like to thank Yao Souchou of the Institute of Southeast Asian Studies for his valuable comments in the preparation of this study.

1. Tong (1989, p. 9) has summarized Chinese business networking strategies such

as networking in the form of ownership links, economic links of mutual co-operation, links formed through the sharing of common directors, or marital links. Business networking often extends beyond national boundaries, as indicated by the large number of Chinese import/export companies and family firms which have become transnational (Lim and Teoh 1986, pp. 336–65).

2. No studies have come to our attention so far which link the often cited Chinese networking theses to the social network concepts of British social anthropology (for example, Radcliffe-Brown 1940) or to the works of American network analysts who have tried to map interpersonal relations and to study social networks, using graph theory, computer models, and complex matrices (Wellman 1988, p. 21–30).

REFERENCES

- Burns, J.J. *The Management of Risk, Social Factors in the Development of Exchange Relations among the Rubber Traders in North Sumatra*. Doctoral dissertation, Yale University, 1978. Ann Arbor, Michigan: University Microfilms International, 1985.
- DeGlopper, D.R. "Doing Business in Lukang". In *Studies in Chinese Society*, edited by A.P. Wolf. Stanford: Stanford University Press, 1978.
- Diamond, N. *K'un Shen: A Taiwanese Village*. New York: Holt, Reinhart, Winston, 1969.
- Eastman, L.E. *Family, Field, and Ancestors: Constancy and Change in China's Social and Economic History*. Oxford, New York: Oxford University Press, 1988.
- Evers, H.-D. "Chettiar Moneylenders in Southeast Asia". *Marchands et hommes d'Affaires Asiatiques*, 1987, pp. 199–219.
- _____. "Traditional Trading Networks of Southeast Asia". *Archipel* 35 (1988): 89–100.
- Evers, H.-D. and T. Schiel. "Exchange, Trade, and State: A Theoretical Outline". *Review* 10, no. 3 (1987): 459–70.
- Freedman, M. "Immigrants and Associations: Chinese in Nineteenth-Century Singapore". In *Immigrants and Associations*, edited by L.A. Fallers. The Hague: Mouton, 1976.
- Goldberg, M.A. *The Chinese Connection: Getting Plugged in to the Pacific Rim Real Estate, Trade and Capital Markets*. Vancouver: University of British Columbia Press, 1985.
- Granovetter, Mark. "Economic Action and Social Structure: The Problem of Embeddedness". *American Journal of Sociology* 91 (1985): 481–510.
- Greenhalgh, S. "Networks and Their Nodes: Urban Society on Taiwan". *China Quarterly* 99 (September 1984): 529–52.
- Harrel, S. "Why Do the Chinese Work So Hard? Reflections on an Entrepreneurial

- Ethic". *Modern China* 11, no. 2 (1985): 203-26.
- Hart, K. "Kinship, Contract and Trust: The Economic Organization of Migrants in an African City Slum". In *Trust: Making and Breaking of Cooperative Relations*, edited by D. Gambetta. New York: Basil Blackwell, 1988.
- Hsieh, J. "The Chinese Community in Singapore: The Internal Structure and Its Basic Constituents". In *Studies in ASEAN Sociology: Urban Society and Social Change*, edited by P.S.J. Chan and H.-D. Evers. Singapore: Chopmen Enterprises, 1978.
- Jacobs, J.B. "A Preliminary Model of Particularistic Ties in Chinese Political Alliances: *Kan-ch'ing* and *Kuan-hsi* in a Rural Taiwanese Township". *China Quarterly* 78 (June 1979): 237-73.
- Jamann, W. *Business Practices and Organizational Dynamics of Chinese Family-Based Trading Firms*. Saarbruecken/Fort Lauderdale: Verlag Breitenbach, 1994.
- Jordan, D.K. "Sworn Brothers: A Study in Chinese Ritual Kinship". In *The Chinese Family and Its Ritual Behaviour*, edited by Hsieh Jih-Chang and Chuang Ying-Chang. Taipei: Academica Sinica, Institute of Ethnology, 1985.
- Landa, J. "The Political Economy of the Ethnically Homogeneous Chinese Middlemen Group in Southeast Asia: Ethnicity and Entrepreneurship in a Plural Society". In *The Chinese in Southeast Asia*, vol. 1, edited by L.Y.C. Lim and L.A.P. Gosling. Singapore: Maruzen, 1983.
- Lee Siow Kim. "A Chinese Conception of 'Management': An Interpretative Approach". Doctoral dissertation, School of Management, National University of Singapore, 1987.
- Lim, L.Y.C. "Chinese Economic Activity in Southeast Asia: An Introductory Review". In *The Chinese in Southeast Asia*, vol. 1, edited by L.Y.C. Lim and L.A.P. Gosling. Singapore: Maruzen, 1983.
- Lim Mah Hui and Teoh Kit Fong. "Singapore's Corporations Go Transnational". *Journal of Southeast Asian Studies* XVII, no. 2 (1986): 336-65.
- Mahathir bin Mohamad. *The Malay Dilemma*. Kuala Lumpur: Times Books International, 1970.
- Menkhoff, T. "Chinese Non-Contractual Business Relations and Social Structure: The Singapore Case". *Internationales Asienforum* 23, no. 1/2 (1992): 261-88.
- _____. *Trade Routes, Trust and Trading Networks: Chinese Small Enterprises in Singapore*. Saarbruecken/Fort Lauderdale: Verlag Breitenbach, 1993.
- _____. "Trade Routes, Trust and Tactics: Chinese Traders in Singapore". In *The Moral Economy of Trade: Ethnicity and Developing Markets*, edited by H.-D. Evers and H. Schrader. London: Routledge, 1994.
- Ng Chin-Keong. *Trade and Society: The Amoy Network on the China Coast 1683-1735*. Singapore: Singapore University Press, 1983.
- Omohundro, J.T. "Social Networks and Business Success for the Philippine Chinese". In *The Chinese in Southeast Asia*, vol. 1, edited by L.Y.C. Lim and L.A.P.

- Gosling. Singapore: Maruzen, 1983.
- Radcliffe-Brown, A.R. "On Social Structure". *Journal of the Royal Anthropological Society of Great Britain and Ireland* 70 (1940): 1-12.
- Silin, R.H. "Marketing and Credit in a Hong Kong Wholesale Market". In *Economic Organization in Chinese Society*, edited by W.E. Willmott. Stanford: Stanford University Press, 1972.
- Tan, T.T.W. *Your Chinese Roots*. Singapore: Times Books International, 1986.
- Tong Chee Kiong. "The Internal Structure of Chinese Firms in Singapore". Paper read at the Conference on Business Groups and Economic Development in East Asia, 20-22 June 1989, Hong Kong.
- Wellman, B. "Structural Analysis: From Method and Metaphor to Theory and Substance". In *Social Structures: A Network Approach*, edited by B. Wellman and S.D. Berkowitz. Cambridge: Cambridge University Press, 1988.
- Wong Siu-lun. *Emigrant Entrepreneurs: Shanghai Industrialists in Hong Kong*. Hong Kong: Oxford University Press, 1988a.
- _____. "The Applicability of Asian Family Values to Other Sociocultural Settings". In *In Search of an East Asian Development Model*, edited by P.L. Berger and M. Hsiao. Oxford, London: Transaction Books, 1988b.
- _____. "Business Networks, Cultural Values and the State in Hong Kong and Singapore". Paper read at the Conference on Chinese Business Houses in Southeast Asia since 1870, 22-24 March 1993, London.
- Wu Teh-yao. "Chinese Traditional Values and Modernization". *Southeast Asian Journal of Social Sciences* 1 (1973): 113-22.
- Wu Yuan-Li and Wu Chun-hsi. *Economic Development in Southeast Asia: The Chinese Dimension*. Stanford, California: Hoover Institution, 1980.
- Yang Mei-Hui. "The Gift Economy of China". *Comparative Studies in Society and History* 31, no. 1 (1989): 25-54.
- Yoshihara Kunio. *The Rise of Capitalism in South-East Asia*. Singapore: Oxford University Press, 1988.

Newspapers

- Straits Times*. "SNS and SITA Join Forces in Global EDI Approach", 17 October 1989, p. viii.
- _____. "TradeNet Joins Global Electronic Network", 4 December 1989, p. 39.

Thomas Menkhoff is Director at the Human Resources Development Council, Kuala Lumpur.

Chalmer E. Labig is Senior Teaching Fellow in the Department of Organizational Behaviour, National University of Singapore.