Xinyong: reputation as collateral

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The concept

Chinese merchants used the word *xinyong* to describe the quality that made a person worthy of credit. It combines the idea of trustworthiness with the idea of usability in commerce: a person with *xinyong* is someone whose word can be relied upon and to whom goods or money can safely be advanced. The related concept of *guanxi*, meaning relationships or connections, describes the networks of personal obligation within which *xinyong* was built and tested.[1]

In economic terms, *xinyong* functioned as collateral. A merchant who lacked land or other assets to pledge could still obtain credit if his reputation was good. His reputation represented a store of value built up over years of reliable dealing. A default would destroy it, together with his future access to credit and the respect of his community. The threat of losing this asset gave borrowers a strong incentive to honour their obligations even where formal enforcement was weak.

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How reputation worked

Reputation worked through repetition, information and sanction. Merchants dealt with the same partners over many years, so that each transaction was part of a continuing relationship whose value exceeded the gain from cheating in any single deal. Information about conduct spread rapidly within the dialect community through the associations, the temple, the coffee shops and the family networks that linked Singapore with the home districts. Sanctions followed default: exclusion from further dealings, loss of standing in the association and shame for the family.

The economist Janet Landa has described this system as an "ethnically homogeneous middleman group", in which shared identity lowers the cost of contract enforcement among members.[2] Her analysis, based partly on Chinese middlemen in the rubber trade of Singapore and Malaysia, explains why Chinese traders preferred to deal with members of their own group and why the circle of trust tended to follow the lines of kinship and dialect. The structure of trust was rational, given the weakness of formal enforcement.

Instruments of trust

Trust was supported by instruments. Chinese firms kept careful accounts according to traditional bookkeeping methods, while their seals or "chops" authenticated documents and goods. Promissory notes and letters of credit circulated within the community. Partnerships, often formed between relatives or members of the same association, allowed capital to be pooled and risk to be shared. Guarantees by respected merchants introduced newcomers to creditors and bound the guarantor's reputation to that of the person guaranteed.

These instruments linked the informal system with the formal legal order. A partnership agreement or promissory note could be enforced in the colonial courts if necessary. The European agency houses, for their part, accepted Chinese guarantees in their dealings with Chinese dealers. The Chinese merchant of the

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nineteenth century therefore moved in two legal worlds at once: the informal world of his community and the formal world of English law. Many of the most successful merchants were those who could move easily between them.

The limits of personal trust

Personal trust has limits. Extending only as far as information and sanctions reach, it excludes those who stand outside the network. A newcomer without connections found it difficult to obtain credit, while trade between communities remained riskier than trade within them. Personal trust is also vulnerable to shocks. When a respected merchant failed, the losses spread through the network of people who had trusted him. The damage to confidence could affect the whole community.

The limits of personal trust explain why the Chinese merchants of Singapore eventually founded banks. A bank pools the deposits of many people who do not know one another and lends them to borrowers whom the depositors do not know. It replaces personal trust with trust in an institution, its capital and its management. The first Chinese banks of Singapore, founded at the beginning of the twentieth century and examined in Part B, still reflected the dialect structure of the community. They nevertheless marked the beginning of the transition from personal to institutional trust.

Notes

1. On *xinyong* and *guanxi* in Chinese business practice, see Gary G. Hamilton, *Commerce and Capitalism in Chinese Societies*, and Wong Siu-lun, "Chinese Entrepreneurs and Business Trust", in Gary G. Hamilton (ed.), *Business Networks and Economic Development in East and Southeast Asia*, Hong Kong, Centre of Asian Studies, 1991. ↩

2. Janet T. Landa, "A Theory of the Ethnically Homogeneous Middleman Group: An Institutional Alternative to Contract Law", *Journal of Legal Studies*, vol. 10, 1981, pp. 349–362, and Janet T. Landa, *Trust, Ethnicity, and Identity*, Ann Arbor, University of Michigan Press, 1994. ↩

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