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INFORMAL FINANCE AND THE SUCCESS OF DIASPORIC CHINESE BUSINESSES IN CENTRAL AMERICA

Josephine Smart and Alan Smart

Introduction

China’s trade connections with Central Asia, South Asia and South-East Asia have existed for millennia along the overland and maritime silk roads. The Chinese people migrated to these far-flung destinations for one reason or another in various periods (Huang, 2003). In particular, the outflow of Chinese (mainly from Fujian and Chaozhou regions along the south-eastern coast) to South-East Asia from the 14th century was well documented in Chinese history (Sinn, 2013, p. 47). The expanded scale of Chinese migration to the Americas, the Caribbean, Africa and Australasia from the mid-19th century set the stage for a Chinese diaspora that is truly global. The number of people of Chinese heritage who reside outside the People’s Republic of China (PRC) today is estimated to total 40–50 million or higher and grows every year.1 The geographical distribution in 2020 indicates an estimated 34.2 million overseas Chinese in Asia, followed by nearly 10 million in the Americas, 2.25 million in Europe and 1.1 million in Africa.2 It is beyond the scope of this chapter to review comprehensively Chinese international migration, well documented in publications both scholarly and popular (Pan, 1999; Kuhn, 2008). This body of literature is predominantly in English and focused on Chinese immigrants and geographically located in a single country or a region. This approach to the Chinese diaspora covers a broad canvas within which are insights and information about globalization, labour and capital mobility, cultural change, racism and ethnic relations, transmigration, transnationalism, identity politics and more.

Publications are geographically uneven. Chinese in East Asia (Hong Kong, Taiwan and Japan), North America (USA and Canada), South-East Asia (Singapore, Malaysia, Thailand, Vietnam and Indonesia) and Australia-New Zealand are well covered; this is less so with studies of Chinese in Europe, the Caribbean and Latin America. Regions like Africa, the Pacific Islands, the Polar Regions and the Middle East are the least studied to date. Since the 1980s, the central government of the PRC has initiated overseas Chinese studies in various universities, and this has supported a sharp increase in the number of publications on overseas Chinese in the Chinese language. In particular, the Jinan University (founded in 1906) in the city of Guangzhou in the Pearl River Delta (PRD) of Guangdong province was singled out by President Xi Jinping during a visit in 2018 to be the premiere centre of overseas PRD Chinese studies. The library at Jinan University currently houses the largest
archival collection of PRD overseas Chinese material (in Chinese). It is home to the Overseas Chinese Research Institute created in 2006 to support research and publication on overseas Chinese worldwide.

This chapter on Chinese diaspora begins with a brief introduction of Chinese out-migration since the 19th century to provide context for the expanding global dispersal of Chinese today. The main section of this chapter focuses on post-1978 Chinese migration to Central America and the ambivalent local perceptions regarding these new immigrants’ ability to become business owners soon after their arrival. A key question raised by local stakeholders was the source of start-up capital in Chinese businesses and whether it is evidence of shady capital markets involving Chinese criminal syndicates. Drawing from ethnographic data collected in Belize (2013) and Panama (2015), and the literature on Chinese business finance past and current, we suggest that Chinese migrants in Central America and elsewhere are able to achieve rapid economic mobility in the form of business ownership due to their ability to tap into various forms of informal finances and other resources mediated through networks rooted in regional, dialectal and social affinity.

The global dispersal of Chinese in the 19th century

The 1850s gold rush in California (USA) and western Canada set off a major outflow of Chinese from the PRD that was “transoceanic, and free and voluntary” (Sinn, 2013, p. 47). The first group of 300 Chinese “gold seekers” arriving in California in 1849 were followed by 450 in 1850 and 2,700 in 1851, peaking in 1852 at 30,000 (Sinn, 2013, p. 1, 3). It is important to emphasize that the early Chinese immigrants in California and Canada were not the poorest despite the common erroneous perception that all Chinese immigrants were poor, illiterate peasants driven out of their country by poverty and hardship. The gold seekers and independent entrepreneurial Chinese immigrants were people with the economic means to cover their passage and subsistence, and for some their business ambition in a foreign land (Mei and Zhang, 2001, p. 75). By 1868, a total 106,800 Chinese migrants arrived in California, nearly all of them from the PRD (Sinn, 2013, p. 49).

In parallel with this independent stream of Chinese economic migration to North America and elsewhere was a larger-scale labour migration orchestrated by foreign and Chinese shipping merchants in their effort to recruit cheap Chinese workers for various agricultural, mining and construction employments in European colonies worldwide (Sinn, 2013). The conditions of work and life in these overseas locations were harsh, and typically the pay was low. Mortality rates were 10% or higher during the weeks of travel by sea to reach the site of employment, and subsequent mortality rates within the first few years after arrival were 50% or even higher in some locations (Wu, 1982; Mei and Zhang, 2001, p. 97). Not only were Chinese workers under-informed about the hardship inherent in their overseas employment; they were also victims of indentured labour contracts which did not allow early termination of the 8–15 years contract term or the freedom to seek other forms of employment that offered better working conditions and/or pay. These indentured workers were the “coolies” (manual labour) who were treated no better than slaves. It is now understood that the “working conditions in some of the receiving countries – particularly Cuba, Demarera (in British Guiana), and Peru – were so brutal that recruiting agents were able to obtain the men only through kidnapping, decoying, and other forms of deception” (Stewart, 1970; Sinn, 2013, p. 50). Between 1840 and 1870, various British, Dutch, French and Portuguese colonies in Latin America received an estimated 340,000 Chinese immigrants, most of whom were indentured labours destined for the mines, guano islands, farms and construction projects.
Jamaica recruited 680 Chinese through a company in Hong Kong to service the sugar and banana farms in 1884 (Mei and Zhang, 2001, p. 103). Cuba received an estimated 140,000 indentured Chinese workers from the PRD between 1847 and 1874 who arrived on ships that sailed from the ports in Macau, Guangzhou and Hong Kong (Yan, 2013, pp. 17, 28). The journey from China to Cuba took over four weeks. More than 17,000 Chinese died during transit (roughly a 12% mortality rate). These indentured Chinese workers were sent to plantations and construction projects where harsh conditions of work and routine mistreatments led to a high mortality rate of over 50% before the end of the labour contract (Mei and Zhang, 2001, p. 97, 102; Yan, 2013, p. 50). The main causes of death were disease (especially dysentery), suicide and injury inflicted by supervisors at the sugar plantations (Yan, 2013, p. 50). In one account, a Chinese migrant from Shunde in the PRD described a cohort of 45 workers who were brought to Cuba on an eight-year indentured contract. At the end of the contract, only 26 workers from the original cohort were still alive. The mortality rate in this group was over 40% (Yan, 2013, p. 50). In Mexico, 1,800 Chinese workers were deployed in various construction projects in Merida in 1891, about half of which died soon after arrival (Mei and Zhang, 2001, p. 98). The Panama Canal project and railway construction employed 40,000 Chinese workers in the 1850s; nearly 20,000 (50%) died due to overwork and disease and were buried in mass graves. The Panama railway was nicknamed “The Railway of Death”, and the Panama Canal was known among the Chinese as “The Death Canal” (Mei and Zhang, 2001, p. 99).

High demand for Chinese workers worldwide throughout the 18th century and early 19th century was driven partly by economics and partly by the reputation of Chinese as hardworking and compliant workers. Chinese indentured labourers were cheap by comparison to the cost of keeping African slaves in locations where slavery was still in practice, and racist norms made them much cheaper than European workers. On the National Pacific Railway project in the USA, Chinese workers were hired for US$ 30 a month, with the workers responsible for their own subsistence (Mei and Zhang, 2001, p. 84). In contrast, Europeans workers were paid US$ 35 per month, and the construction company provided their meals. It was similar in Canada during the Pacific Railway construction period in the 1880s. Nearly 20,000 Chinese workers were employed at half the wage of white workers; many thousands died on the job without proper documentation (Mei and Zhang, 2001, pp. 93–94).

The dialectal and regional affinity of the Chinese immigrants in Hawaii shows a pattern common to diasporic Chinese communities worldwide, with the exception of Europe which received predominantly Chinese from the Zhejiang region during the First World War period as a result of the labour recruitment of 230,000 Chinese by France, Russia and Great Britain (Mei and Zhang, 2001, p. 141; Chu, 2016, p. 30). There were an estimated 46,000 Chinese in the Republic of Hawaii before the territory was annexed to the USA in 1898 (Glick, 1980, p. x). They were predominantly Cantonese-speaking migrants from the PRD in areas near the cities of Guangzhou (previously known as Canton), Macao and Hong Kong; Zhongshan dialectal groups from several counties; Xiyi dialectal groups from the counties of Taishan, Enping, Kaiping and Xinhui in western PRD; and the Sanyi dialectal groups from the counties of Punyu, Shunde and Nanhai south of Guangzhou (Char, 1975, p. 16). As previously noted, South-East Asia received many Chinese immigrants from Fujian and Chaozhou regions with their distinctive dialects, including Kejia (also known as Hakka). The Kejia-speaking people are geographically dispersed within China, many Kejia communities in the Guangdong province supplied migrants to South-East Asia from the 14th century and other parts of the world from the mid-19th century. These dialectal and
regional affinity markers are important conduits for informal finances in overseas Chinese communities past and present – a key source to finance business start-up, among other purposes.

Despite thin attention to Chinese immigrants in Africa, one of the earliest documented destinations for Chinese migrants associated with labour recruitment colonial interests in the 19th century were 132 indentured Chinese workers shipped to the French colony of Senegal in 1783. Between 1860 and 1930s, an estimated 100,000 Chinese were brought to Africa; the largest recipient country was South Africa which employed nearly 64,000 Chinese in gold and diamond mining between 1904 and 1910 (Mei and Zhang, 2001, pp. 138–139). The post-1978 waves of Chinese immigration to Africa under the various rubrics of bilateral aid/development/trade agreements between China and African nations contributed to the current estimated population of over one million Chinese in the African continent.

International mobility of Chinese migrants grew and contracted over the decades under the influence of geopolitical conditions. The Chinese Exclusion Acts in the USA (1882–1943) and Canada (1923–1947) slowed the flow of Chinese. The Great Depression in the 1930s caused many overseas Chinese to return to China. The anti-Chinese policy in Indonesia in 1960 forced many Chinese to sell their business and leave the country. The Sino-India war of 1962 caused many Chinese families to leave India under pressure of anti-Chinese sentiments. The return of Hong Kong to China in 1997 provoked a major outflow of Hong Kong Chinese worldwide throughout the 1980s and 1990s. The 1978 economic reforms in China created conditions that supported a new wave of economic migration among Chinese in the PRD and Zhejiang who have ties to overseas Chinese worldwide. The 1989 Tiananmen incident created an open opportunity for many overseas PRC students to become permanent residents in the country where they studied, marking a new chapter of Chinese international migration that involves Chinese who are not from the traditional supply sources in the PRD and Zhejiang. Family reunification was and remains today a major reason for Chinese out-migration. The steady demand for Chinese workers worldwide brings many contract workers (skilled and semi-skilled) to diverse countries, many of whom eventually become permanent residents and bring their family from China. Increasingly more Chinese immigrants have been selected for educational achievements, work/business experience and wealth to become permanent residents in various countries since the 1960s. These highly qualified “designer immigrants” are now the dominant type of new arrivals by number in countries like Canada and Australia.

It is not an exaggeration to suggest that overseas Chinese can be found in almost all countries around the world. The city of Wenzhou in Zhejiang province claims a population of 700,000 overseas compatriots in 131 countries today, most of whom are concentrated in France, Spain, Italy and other European countries (Chu, 2016, pp. 27, 62). The Wuyi regions of the PRD include 288 square kilometres (Mei and Zhang, 2001, p. 3), and it claims more than two million people of affinity overseas, 75–80% of whom are residents in various countries in the Americas, with the USA being the top country, followed by Canada, Venezuela, and Brazil (Mei and Zhang, 2001, pp. 73–74). There are now 125 or more World Clan Associations organized by dialectal, surname/kinship or regional affiliations among overseas Chinese. These associations meet regularly so that members from diverse countries can network in person to enhance business exchange and collaboration (Lin, 2018, p. 195). Some of them, such as the Tian Fu Association, Tianjin Club and Shanxi Association based in Singapore, are indicative of “a general trend of the organisation of activities moving from Southeast Asia and southern provinces of China towards the northern part of China since the late 1990s” (Lin, 2018, pp. 19–20).
Chinese in Central America – Panama and Belize

Chinese immigration to the Caribbean, Central and Latin America occurred in three major periods (Lai, 2010): first, the early colonial period (pre-19th century) during which Chinese/Asian migrants arrived on ships servicing the Manila-Acapulco trade route; second, the targeted recruitment of more than seven million indentured Chinese workers to various European colonies around the globe throughout the 19th and early 20th centuries; and the latest wave is a “renewed” immigration of Chinese from the PRC after 1978 (Lai, 2010, pp. 2–3). The post-1980 PRC Chinese immigration to Central America is a relatively new subject matter of scholarly research (Lai and Tan, 2010).

The UNHCR website\(^3\) estimates there are about 150,000 Chinese in Panama (2009 figures), the largest Chinese community in Central America. The first documented Chinese immigration to Panama was tied to the canal and railway construction projects during the 1850s (Cohen, 1971; Lazarus, 2011). Belize brought in Chinese workers for the sugar plantations even earlier but these workers did not stay to establish any permanent settlement. In general, the Chinese presence in Central America was scattered and small scale until the 1990s, the exception being Panama. In Belize, there is no official documentation of citizens and temporary workers by ethnic background; thus, there is no official figure on the total number of Chinese in the country.

The legacy of the PRD region as source of immigrants helps to explain the strong presence of Cantonese-speaking Chinese entrepreneurs in small business in Panama and Belize today. The city of Colón, Panama is a stronghold of people from Enping, a city of half a million people in the south-western part of the PRD. It counts another half million people of Enping origin scattered around the world today, some of whom were among the first waves of Chinese immigrants to the Caribbean, the Americas, Papua New Guinea and Australia, beginning in the early 1880s (Wu, 1982). Hakka-speaking immigrants from the Hua Du district in Guangzhou city dominate the grocery and pharmacy outlets in Bocas del Toro, Panama. The significantly larger Chinese community in Panama City is a diverse mix of Chinese from Enping, Hua Du, Zhongshan, Hong Kong/Macau and Taiwan. Many Chinese in Panama are multi-generation local citizens, while many others are recent immigrants, and still others are temporary residents on work permits.

As early as the 1880s and 1890s, there were reports of distinct but “effective business practices” by Chinese traders in Central America and Caribbean: stocking up on Creole staples (salt fish, beef, pork, etc.), offering lower prices, extending credit to small wage earners and selling provision in small amounts (Hu-DeHart, 2010, p. 74). A 1907 census in Cuba identified 4,729 Chinese as day labourers, 2,059 Chinese as merchants and 1,644 as domestic workers, and another 3,000 or more Chinese in various forms of petty businesses as bakers, laundymen, barbers, landscapers, tailors, house painters, brick makers, blacksmiths, carpenters and restaurateurs (Yan, 2013, pp. 95–96). The Chinese engagement in petty businesses was a common phenomenon in most of the host societies in the history of the 19th-century Chinese diaspora (Char, 1975; Glick, 1980; Mei and Zhang, 2001; Liu, 2005; Hu-Dehart, 2010; Sinn, 2013; Yan, 2013; Lai and Tan, 2010; Chu, 2016; Li, 2017).

The economic success of the ubiquitous “Chinese shops” in the retail trade in the Caribbean was attributed partly to their cultural competency in communication and meeting local consumer needs, often with the help of a wife or concubine of local origin (Hu-Dehart, 2010, p. 80), and partly to the strength of the Chinese capacity for vertical integration by occupying the retail, wholesale and import/export sectors which greatly enhanced their control over the supply and pricing of commodities. The Chinese shops outcompeted their...
local counterparts with lower prices, and selling large volumes so that sales made up for reduced profit margins. This kind of Chinese operation was known as “farthing trade” in Jamaica (Hu-Dehart, 2010, p. 77). In Panama today, we heard one person call it “penny business”. The largely Hakka-speaking Chinese in Jamaica in the 19th and early 20th centuries engaged in “creolization or acculturation soon after their arrival, out of necessity, if not inclination” by taking local women as wives or concubines, learning the local language(s) and adopting local names (Hu-Dehart, 2010, p. 80). This process at least partially localized Chinese businesses, and contributed to their success.

Localization was originally used to describe the process through which imported products were modified in their content, form of utilization or purpose which resulted in the successful acceptance by local consumers. The use of cognac at Chinese banquets in Hong Kong; the mixing of cognac with tea or soda drinks by Chinese consumers; and the innovative creation of chop suey, egg rolls and ginger beef in Canadian Chinese cuisine are examples of localization (Smart, 1999, 2004, 2005). In a broader sense, localization can be conceptualized as a constructive process of modification in an effort to support a working compromise between two or more different cultural realities. A Chinese business in a non-Chinese country must address the consumer needs and normative modes of business conduct that are expected and meaningful in local contexts, while retaining background cultural competency and practices that enhance economic success. A variety of localization practices in Chinese retail outlets in Belize and Panama today were observed during our fieldwork. Examples include the use of Spanish as a working language with customers, the stocking of locally in-demand products, supported by highly competitive prices, and convenient location of shops. Fish and fresh meat are sourced from local producers and are sold in cuts according to local usage. Fresh fish are sold unprocessed.

The Chinese grocery stores (known locally as m’s or mini-super) in both Panama and Belize cater to the poor and rich, tourists and locals, urban and rural. They come in different sizes, selling basic grocery items both fresh and canned, alcohol, fresh meat, cooked food and sundries, and a variety of imported products. Some include an in-house pharmacy division with a qualified pharmacist on-site, and electronic goods are often sold in the larger operations. Typically there is only one public entrance guarded by a check-out counter behind which is a person of Chinese descent who deals with money and transactions in fluent Spanish. In the bigger stores, there may be two or more check-out counters. Following a long-standing practice in Chinese business, handling of cash is mostly a task for the owner, a family member or a trusted relative. Local employees stock shelves, work at the meat counter, do general cleaning and other tasks. While Chinese owners/operators have working or higher proficiency in Spanish, we saw no sign that local staff use Chinese at work. In Panama, as in Belize, the m’s are mostly family-run businesses involving husband, wife and children, siblings, sometimes grandparent(s) and other relatives. The Chinese owners/operators often live in quarters behind or above their business. It is not unusual to see owners and staff having their meals on site between transactions. Children are present throughout the day. When living quarters are attached to the business premise, it is common to provide on-site accommodation for Chinese employees. Local employees do not receive on-site accommodation as part of their employment terms.

In both Belize and Panama, the grocery retail sector is dominated by Chinese ownership, so much so that they are known as “Chinos” in Panama and “Chinesse” in Belize. These labels carry two meanings: first, they refer to the business, in this case specifically the m’s operated by Chinese; second, they point to the Chinese as a category of people different from the locals. The Chinese presence in the grocery retail sector in Panama expanded
Chinese businesses in Central America significantly after the 1990s, through the purchase of locally owned businesses and the creation of new ones. Similarly, the Chinese dominance in grocery retail in Belize began 15–20 years ago, correlated with the introduction of the “going out” policy by China in 2000 to encourage Chinese nationals to invest overseas (Nyíri, 2010). By creating new institutional support in the forms of preferred loans, state assistance in technology and skill training, and liberalized policy on export of fund to invest overseas and emigration, the Chinese state intends the “going out” policy to boost Chinese direct investments in global markets. This has encouraged an increasing outflow of Chinese immigrants and capital (Smart, 2012; A. Smart and Smart, 2012).

The reach of Chinese immigrant entrepreneurship and investments in Central America goes beyond the grocery sector to include hotels and hostels, electronic goods and services, restaurants, laundry, other retail such as the fiesta sector (party supplies and gifts) and department stores, and wholesale. While there are observable concentrations of Chinese businesses in specific neighbourhoods such as the new Chinatown in El Dorado in Panama City, by and large Chinese businesses are indistinguishable from local businesses by location, scale and (often) name. Some business names explicitly identify Chinese ownership, such as the three-generation fruit and produce outlet Chinese Garden in the Canal Zone, m\s Yu Yie in Chepo and m\s Jamie Yau in Almirante. They are exceptions. Most Chinese businesses bear names in Spanish that are either inherited from past owners (e.g. m\s Arturo #2 in Panama City, Neuvo Café Nacional in Colón) or indicative of its geographical location/affiliation (e.g. m\s Bocas, m\s Isla Zapatilla), or a product of the owners’ creativity and sentiment (e.g. m\s Tony’s in Bocas Del Toro, Restaurante Jumbo in Panama City, Super 888 in Almirante).

Chinese businesses in both Panama and Belize cater primarily to the local populations, and not to co-ethnics whose numbers are well below the necessary critical mass to sustain any one business outside the ethnic enclaves in major urban centres. This is particularly true in Belize which until recently had little Chinese immigration (Hu-DeHart, 2010, p. 69).

What do local people think of the Chinese dominance in some sectors of their economy? A senior Belizean government minister and a local businessman in San Ignacio (Belize) both offered a similar reaction (summarized by the authors below) which echoes comments in Panama by local citizens:

*The Chinese are very hard working and they are always there during the opening hours as listed. In contrast, the Belizean store owners are only there whenever they are there, you cannot rely on them for regular working hours and services. Yes, there is some ambivalence about the Chinese displacing the local small business owners. They buy up existing outlets, and they open new ones which are bigger and better stocked. At the beginning they offer the best prices to outcompete the local store owners. When they control the whole sector, they then begin to raise prices. By then, you have no choice. They are very smart business people.*

The ambivalence about Chinese businesses is often accompanied by a hint of suspicion about Chinese mafia connections. A handful of people in Belize and Panama express this suspicion in strikingly similar discourses (paraphrased and summarized by the authors):

*They hardly spoke any Spanish when they first arrived but they all built their grocery stores with the same layout. How is that possible? They work long hours and make good money. But they live like paupers. Where did they spend their money? The money goes to the mafia. There are well dressed Chinese who come regularly to collect cash from the shop keepers. It is the Chinese mafia.*
For the local people who are unaware of the extensive co-ethnic and family resources that support the set-up of a new Chinese run grocery outlet, the seemingly miraculous and rapid success of the Chinese business is indeed a mystery. The Chinese mafia connection is a familiar notion in local government and media discourses in the context of real and imagined crimes in illegal immigration, labour exploitation and drug trafficking (Siu, 2005).

**Informal finances and business start-up financialization – kinship and networks**

Business creation and finance are often conceptualized today in specific colours under the rubric of market economy and fully developed capitalist logic. For many, the idea of “informal” finances points to practices in the grey world of the underground or shadow economy that exude a strong hint of illegality, and they are distinguished from the main stream/formal capital market structure by labels such as “fringe banking”, “back-alley banking” and “curb finance” (Tsai, 2002, 2004; Carter and Skiba, 2012). But if we take a step back to remind ourselves that business start-up and finance pre-existed the rise of capitalism, then we must accept the reality that the so-called “informal” finances are cross-cultural age-old practices mediated through social and cultural principles which persist in spite of the pervasive reality of “formal” finances underwritten by institutions, such as banks; lending companies; and (supra) governmental agencies, like the IMF and others (see Firth and Yamey, 1964; Willmott, 1972; Tsai, 2002, pp. 291–295). In her work on Chinese merchants, Hill Gates points out that the financing of petty businesses throughout the history of China relied heavily on interpersonal loans, rotating credit associations, as well as “the transfer of brideprice and dowry, pawnshops, money lending, gambling, protection rackets run by gangs, and other mechanisms large and small” (Gates, 1996, p. 32). All these forms continue today in varying degrees.

Informal finance as it is known in the literature includes many forms that operate outside the structure of kinship and networks, some of which can be exploitative and coercive, backed by violence and criminal acts. In this chapter, we let the voices of the Chinese migrants direct our focus, which is to articulate the forms of informal finances they know of and utilize, and which turns out to be heavily anchored in kinship and networks.

The outstanding research by Kellee Tsai points to “uncertain and risky circumstances” as a powerful root cause of the proliferation of informal finances in post-reform PRC in the forms of personal loan, trade credit, private bank, rotating credit association and others (Tsai, 2002, p. 4). A common uncertainty factor is the tremendous barrier to qualify for a (formal) bank loan for PRC entrepreneurs who are engaged in small businesses and for consumers who do not have the kind of asset or employment security required as collateral. Similar barriers, exaggerated by the consequences of downward mobility commonly associated with migration, are also documented among overseas Chinese. In Australia, David Ip (1991) reported that PRC immigrants borrowed up to 90% of business capital from their network at home and/or in Australia. One PRC immigrant he interviewed in Brisbane explained this tendency to seek finances outside the formal lending structure as follows:

> It is about trust and credibility in your network. It is not like a bank. We couldn’t get a bank loan because we come with nothing. We had some savings along the way but we had no assets. The banks just aren’t interested in you when you have no collateral. Our network is our capital.

*(Ip, 1991, p. 156)*
The use of personal loans by overseas Chinese to cover travel, medical and subsistence costs, business capital, remittance and other expenses is well documented (see Sinn, 2013; Li, 2015). In one account, a Mr Li in Cuba recorded a total of US$ 440.7 he lent to 57 borrowers whom he called “brothers” during one year in the early 1920s (Li, 2015, p. 37). These borrowers were kin and non-kin from the same region (longxiang) where Mr Li came from in the PRD. Ancestral, linguistic and regional affinity are important loci of identity among overseas Chinese, and many mutual aid associations and interpersonal credit/loan/partnership relationships were/are fostered within these kin-based and regional/linguistic networks. A Chinese immigrant from Kaiping by the name Chang Yitang landed in Los Angeles in 1900 with a substantial sum in personal saving. Tapping into the Xi yi community in California, he formed a partnership with eight other people from the same region in a Chinese herbal shop business with a US$ 1,000 per partner business start-up input (Liu, 2005, p. 34). He subsequently became quite well off from his business venture in the USA, an achievement that might not have been possible if he was to start up a much smaller business on his own. Among the Hakka-speaking Chinese immigrants in Calcutta, business partnerships in leather tanning with a kin or a non-kin from the same linguistic or regional background were common (Oxfeld, 1993, pp. 130–131). In forming a business partnership, economic resources, networks and technical/management knowledge are pooled to give the business a competitive edge over smaller counterparts by scale and reach.

A Hakka-speaking Chinese immigrant in Panama from Hua Du who left the PRD in 1980 mentioned the hardship imposed by foreign exchange restrictions in effect at the time. The maximum he was allowed to leave the country with was US$ 150. In his own words, “if you do not know anybody” in Panama, you could not get ahead. He was fortunate that he has relatives in Panama and is part of the expanding Hakka-speaking community from Hua Du in Panama. He found work, married and had many children; he started his own business, and, now in his 70s, he practices circular migration between Hua Du and Panama where he has a residence in both locations. He mentioned the rotating credit system (hui in Chinese) as being instrumental as a source of capital for business or big-ticket item purchases. Not everybody can join a rotating credit system: you need to “know somebody”, which means you have to be a member of a kin or other network that is linked to a rotating credit system.

Rotating credit system is known widely around the globe (see Topley, 1964, pp. 177–178; Tsai, 2002, pp. 291–295). It is not specifically a Chinese phenomenon; each society and culture has its own history and there are variations in terms and conditions by location and temporal period. Among the Chinese immigrants in southern Alberta in Canada in the early 1900s, the rotating credit system was known as a form of capital pooling:

*Whoever wanted to borrow would gather, and they’d write down on a slip what rate of interest they would pay, the highest bidder would... get the pool. If someone needed money, he’d start up the pool and would bid heavily.*

*(Dawson, 1991, pp. 102–103)*

The organizer of a rotating credit system is known as the “head” or chairperson, s/he recruits members from his/her network which is usually regional and/or linguistically based among immigrants, and more likely to be kin-based among indigenous residents in the same locality. Members are usually known to one another personally. Strangers (i.e. persons outside the community or group) are only admitted into the rotating credit system if they have a guarantor from within the group or community. Members are selected for their reliability (kekao) and trustworthiness (laoshi) which are key personal attributes to ensure the feasibility
and viability of a rotating credit system (Oxfeld, 1993, pp. 130–131). In the New Territories in Hong Kong in the 1960s, such rotating credit systems were described by Marjorie Topley (1964, p. 178) as follows:

…members make fixed monthly payments, and each member on one occasion gets the use of the total collected. The association thus exists for as many months as there are members … When a member defaults on his monthly contributions, the amount is customarily borne by the head of the association (or) by the other members, or by his guarantor…

Depending on the size of the monthly contribution and the total number of members in a rotating credit system, the amount collected at each meeting can be substantial. The pooled contributions can be used to finance a business start-up, a funeral, a child’s wedding expenses, the purchase of a property or a child’s education. It can even create a platform for major economic change for an overseas Chinese community, as evidenced by what happened in Great Britain in the 1900s among Chinese immigrants from the Xiyi region in the PRD. The Xiyi Association at the time organized a monthly hui (monthly credit system) that was opened to members only. Participants paid one £ per share and there was no limit to the number of shares per member. There was a monthly competition for the collected pool, the person who offered the highest interest was the winner. This monthly contribution enabled the rapid expansion of the laundry sector throughout Great Britain which eventually became a near monopoly by Chinese immigrants from the Xiyi region (Mei and Zhang, 2001, p. 188).

The most common form of informal finance is probably the personal loan between two individuals. Very often, the first line of credit extension is sought from family members or a relative within one’s extended kin network. In Calcutta, it is common for Chinese women to underwrite a son’s business venture with her income from the illicit liquor production and retail business (Oxfeld, 1993, p. 131). Sometimes a small loan in cash or kind can be obtained from employers or contacts, but a loan of substantial amount usually involves lenders who have a close relationship with the borrower. This “close” relationship may take the form of deep sentiments and commitment such as that between parents and child, siblings and even friends. It may also involve people who do not share deep emotional or social ties, but the borrower is known to the lender in sufficient detail to mitigate the risk of a loan default. The details of a person’s family background, employment and credit history, and interpersonal conduct are part of his/her “interactive performance” that a lender can use to gauge a borrower’s trustworthiness, honesty and credibility. This assessment is driven by mitigation of the risk that the loan may not be repaid in full.

Our ethnographic data reveal a form of business finance in Panama that involves an integrated business succession strategy and deferred buy-out scheme between two parties. It is not clear how common this particular type of business finance is in Panama and other Central American countries. However, given the existence of similar schemes among the Chinese restaurant businesses in Canada, we are inclined to consider it more common than usually thought. One of the cases in our database involved a couple from the PRD who had worked in Panama for many years before they were invited by the husband’s patrilineal cousin to consider a buy-out offer of this cousin’s supermarket in Bocas del Toro. This cousin and his wife had over the years expanded their supermarket business into a substantial size with several Chinese and local employees. They were ready for retirement. Instead of a one-time lump sum, it was agreed that the future owners would work in the supermarket as co-owners to learn the management know-how and supply contacts, and their wages and
share of business profit would go towards the purchase of the supermarket over a period of several years. Another case involved a young man from Enping who came to Colón on a temporary visa to work in his uncle’s restaurant. After marrying a local Chinese woman who is a Panama citizen, he offered to buy out his uncle, who was ready for retirement. His wife’s Panama citizen status made it possible to obtain an official business licence transfer since only residents with local citizenship are eligible for a business licence. The total purchasing cost of his uncle’s restaurant was paid by instalment. A third case involved a couple from Hua Du who came to Panama City with a healthy personal saving of over US$ 10,000 in the early 1990s. The husband’s younger brother inherited a grocery store from their father in Panama City several years earlier but lost the business to gambling debts. Soon after arrival, the older brother bought a grocery store from a fellow Hua Du compatriot with a 50% down payment and the rest to be paid in instalment. The total purchasing price was US$ 20,000. The younger brother and his wife helped out with the store management. The younger brother’s business know-how was crucial to keep the business going, and the regional affinity with the previous store owner was a crucial connection that enabled the newly arrived Hua Du immigrants to purchase the business with only a 50% down payment.

Risk, trust, interactive performance and informal finance – concluding remarks

It is easy to accept the apparent simplicity that network and connections through kinship and social relations are the key to the economic success of overseas Chinese migrants. Having networks that can offer financial assistance when needed is indeed a valuable asset that facilitates business success in any location at any time. But it would be misleading to suggest that every individual can access informal finances through their network. The social connection is a necessary but insufficient condition to establish a financial relationship of credit extension. In other words, just because you are related to a person through kinship, or know someone from school or work or in the neighbourhood, it does not mean your relative or friend will automatically offer you a loan when asked. When a credit loan comes without the safeguard of an enforceable legal contract, it is natural for the lender to seek evidence that the borrower is the type of person who is highly likely to repay the loan in full. This is a good and necessary risk mitigation tactic, and one can learn a lot about a person from information exchange with people who are part of the same network(s). The networks provide a necessary platform to connect a person to other people who may be potential credit lenders, the same networks also act as a reservoir of information and an information highway that can produce a reasonable picture of a person’s conduct. Whether a person will be admitted into a rotating credit association or be granted a personal loan/deferred credit is conditional upon risk mitigation, a process that draws on knowledge about a person’s integrity and credibility as indicated by his/her history of interactive performances. A person’s interactive performance over his/her life time is a body of cumulative evidence which speaks of the person’s credibility, integrity, reliability and trustworthiness. These interactive performances are the day-to-day social interactions and outcomes between a person and other actors in his/her social world – how a person treats his/her parents and siblings, and whether s/he repays debts in full, treats his employees and friends with fairness and kindness, keeps promises and so on. This concept of interactive performance is not new even though the use of this label may be; the ideas behind this concept and relevant field observations in support of this concept can be gleaned in the work of several anthropologists who worked in Hong Kong and Taiwan in the post–Second World War decades. The following excerpts from publications by Robert Silin
and Donald de Glopper are of particular relevance to our conceptual thinking about interactive performance in the context of business relations and informal finance:

...The solidarities that bind non-kinsmen and kinsmen, while they may originate in prescriptive loyalties, are maintained on the basis of successful interaction in business. The essential distinction is not between kin and non-kin, between those who continually validate their relationship and those who do not. ... Merchants enter into business relationships only with people they consider reliable, regardless of their kinship ties.

(Silin, 1972, pp. 351–352)

Hsin-yung refers to an individual’s or a firm’s reputation, reliability, credit rating. It is the most important thing in business ... (it) is predicate on performance in business... Nobody has good hsin-yung just because his surname is Lin or Chen.

(De Glopper, 1972, p. 304)

In closing, we caution readers to avoid exoticizing the economic success of Chinese immigrants within a circular framework of cultural determinism. The overseas Chinese immigrants are not privileged to become business owners just because they happen to be Chinese. Our research on Chinese entrepreneurship in multiple countries for nearly four decades has shown that the use of network resources to secure business financialization and knowledge transfer is not a particular Chinese endeavour; rather, it is a common optimization strategy which takes on many forms that are context specific and appropriate for different groups of people across cultural, class, gender and geographical divides. New Chinese immigrants show a strong tendency to turn to their dialectal, regional and ethnic networks for financial assistance and knowledge exchange but their success is always conditional on their history of interactive performances. And behind every successful business, much more is required than just money.

Notes

3 The UN Refugee Agency http://www.refworld.org/docid/49749cf28.html

References


Chinese businesses in Central America


Josephine Smart and Alan Smart


