

## **The Relevancy of the ‘Guanxi’ and ‘Xinyong’ Concepts in Chinese Business Capitalization in Indonesia**

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### *Abstract*

*The concepts of ‘guanxi’ (relationships and networking) and ‘xinyong’ (interpersonal trust) in Chinese traditional ethics are often studied as the key factors that contribute to the pattern and succession of the ethnic Chinese in business practices which are based on the cultural approach. In the context of Southeast Asia such as in Indonesia, Malaysia, The Philippines, the ethnic Chinese are one of the minority groups whose profession is dominantly that of a businessman or an entrepreneur. As stated in the literature, even though the ethnic Chinese are classified as a minority group in those countries, some of the Chinese capitalist groups had controlled 70-80% of the private business sector. However, these two traditional concepts are not the only main factors of the Chinese business success, but the ‘irregular’ business pattern such as the patronage relationship with political elites also becomes the most important criteria. Hence, this study needed to re-examine and clarify whether the implementation of the guanxi and xinyong concepts in Chinese business activities are still relevant in their business practice due to the political connection in the Chinese business succession also being a dominant variable. This study was based on a fieldwork conducted in Indonesia especially in Medan City of Indonesia and used the descriptive qualitative method through interviews and library research. This aim of this study were three fold: the first was to discuss the relevance of the guanxi and xinyong concept in Chinese business practices, the second was to discuss whether the Chinese business practices were more influenced by a formal community organization or rather influenced by an informal network among Chinese businessmen through guanxi and xinyong bases, third, this study also discussed the challenges faced by the Chinese in attempting their business interests.*

**Keywords:** *Ethnic business, Chinese business, guanxi, xinyong, business network, business trust, Indonesia.*

### **Introduction**

An increasing amount of literature on migrant ethnic Chinese studies, in particular in business practices, has shown their importance as a minority group that plays a significant

role in terms of the economic sector in several countries (Dorsch & Dorsch, 2012; Koning, 2007)). The Chinese business capitalization in Southeast Asia and particularly in Indonesia cannot only be studied through the economics or business perspective, but rather through a political-economy perspective (Vinodan, 2014; Zengeni, 2013)). Some of the political-economists such as Evers and Schiel (1988), Shin (1989), MacIntyre (1990), Winters (1996), and Rosser (2002) neglected cultural explanations for the success of Chinese business in favor of structural interpretations. However, in terms of the success of Chinese business, it might be important as well to find out more from both perspectives to make any comparison to show whether the success of the Chinese business comes from their internal ethnic capability or is rather influenced by the political patronage (external ethnic capability).

In the context of Indonesia, the Chinese population is only 1.2 percent of the country's total population which is 236,728,379 (Indonesia Statistic Center, 2010). However, scholars such as Wanandi (1999), Backman (2001), and Coppel (2008) suggested that the Chinese controlled 70-80 percent of the private business sector (*big businesses*). From the historical perspective in Indonesia, during the Dutch colonial period, the position of Chinese business in Indonesia relied upon the Dutch policy. According to Pelly (2016), the Dutch used most of the Chinese to control native people's economics and trade in order to put them at the lower class position. One of the Dutch policies was known as '*Pach-stelsel*'. It was the special right given to some of Chinese to monopolize the excise system in the land area with full authority on the island of Java (Kahin, 1946).

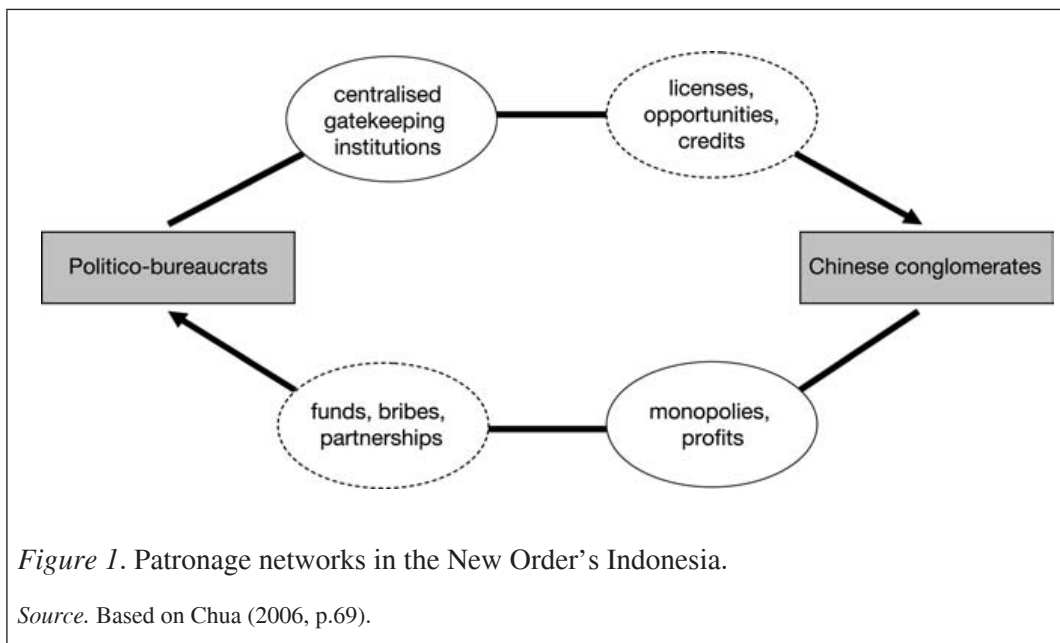
The facilities, accommodation and access given by the Dutch to the Chinese group were part of the strategy to strengthening the Dutch economic interest. According to Raffles (1817, in Tan, 1979), the Chinese were "the life and soul of the commerce of the country". It showed how important and vital the position of the Chinese was for the Dutch in terms of the economic sector.

At the end of the colonial period or in the 1950s, many shops abandoned by the Dutch were taken over by 90 percent of Chinese owners. In order to confine the aggressiveness of the Chinese business activity, President Sukarno (1945-1965) or the so-call '*Orde Lama*' (Old Order) in 1959 released the Government Regulation, locally named *Peraturan Pemerintah No.10/1959*, that prohibited the Chinese to expand their businesses outside their residential area. It was believed that the discriminative regulation was formed by Sukarno to protect the economic position of the indigenous group in Indonesia.

When the Suharto regime came to power, also known as *Orde Baru* (New Order), in 1966, the position of the Chinese remained an interesting issue in Indonesian socio-political discourses. During this time, some discriminative policies were issued by the regime which resisted the Chinese interests in terms of social and political rights. However, on the other side, Suharto developed good relationships with some groups of Chinese businessmen, notoriously known as '*cukong*' which referred to cronyism behavior or Chinese businessmen who cooperated with the power elites (Koning, 2007).

Practically, the 'cukong' behavior can be explained by the patron-client politics model. Suharto had given continuously political accommodation, access and facilities to some Chinese businessmen. It seemed that the formation of the informal relationship between Suharto and the Chinese businessmen was for mutual interests. However, one of the Chinese big Chinese businessmen, named Sudono Salim, was known as the monetary supporter for Suharto's *Golongan Karya (Golkar)* political party and donated 30 percent of Bank Central Asia's (BCA) shares to Suharto's family. Sudono Salim claimed, "I am a crony (of Suharto), but I am not a bad crony" (www.merdeka.com, 2016).

Hence, this study argues that the type of the Chinese business capitalization is difficult to be said as capitalism in 'nature' which is based on market competitiveness; rather it could be said as 'ersatz capitalism'. This phenomenon has not only occurred in Indonesia but also in The Philippines, Malaysia, and Thailand (Yoshihara, 1988). In fact, in the case of Southeast Asia, particularly in Indonesia, Chinese business capitalization, especially in big business orientation, was dominantly influenced by the political or government elites in maximizing profits. In fact, Pelly (2016) said that the stronger the ethnic Chinese position in the field of business, the more secure and controlled interests and powers of the New Order elite.



According to Chua (2006), the patronage relationships between the government and the Chinese conglomerates were established based on a win-win situation (refer to Figure 1). Although the political powers lacked the economic know-how, connections and capital, they could access the markets through their Chinese cronies from whom they extracted massive gains. These payments acted as bribes to open up opportunities, as commission charges

for profits, or as protection money for the relative security the new regime guaranteed. In addition, the cultural explanation can be an important variable that has to be embedded in a structured discussion based on the material politico-economic conditions (Chua, 2006).

Based on the condition of the Chinese doing business in Indonesia as aforementioned, the objective of this study was to discuss whether the traditional concept of *guanxi* and *xinyong* are still relevant in their business activities especially of the Chinese small and medium-size businesses, even though at the state level of business capitalization and capitalism, the Chinese businesses were more influenced by political connection especially during Suharto's era.

### **The Character of Chinese Business in Medan**

Based on data obtained from the Central Statistics Agency (BPS) in 2010, the population of Chinese in Medan City was 202,839 people, which was 25 percent of the total population of 2,770,395. Even though there is no statistical data that shows the percentage of Chinese doing business, this study argues that most Chinese in Medan run their daily activities as businessmen or entrepreneurs based on the initial fieldwork observation. The argument is in line with Koning (2007) and Chong (2015) who studied Chinese politics and business in other cities of Indonesia, Yogyakarta and Medan. The scholars experienced difficulties in getting the official data regarding the number of Chinese small and medium-size enterprises and even the percentage of economic domination was not also available.

Based on the fieldwork in Medan, this study also argues that besides being businessmen, the Chinese in Medan engage in other professions such as lawyers, bankers, medical doctors, dentists, or even school teachers. In the business sector, there are at least three classifications of Chinese businesses such as small, medium, and medium-large size businesses.

As for the small scope businesses, the Chinese in Medan City run the business in forms of '*kedai runcit*' (tavern) that sells foodstuffs, '*panglong*' (building material shop), electronic equipment, clothing and so forth. In this type of business, the Chinese usually run their business activities from their residence known as '*ruko*'/'*rumah toko*' (shop house) and also from the traditional markets so-called '*pajak*'/'*pasar*'. In this practice, usually the Chinese businessmen hire their relatives as employees. However, there are cases where the Chinese businessmen also hire part-time workers from among the non-Chinese.

For the medium-size businesses, the Chinese ethnic usually run a more structured business and also apply a business management system. In this instance, the Chinese focus on several business sectors such as large restaurants, retail shops located in modern markets such as shopping centers or mall, used car showroom, travel agencies, product distributors, conventional and digital advertising and others. In this practice, some of the Chinese employ about five to twenty workers who are not only Chinese but also from other ethnics

groups. In addition, according to Chong (2015), the domination of small and medium-sized businesses is split almost evenly between the Chinese and the indigenous business people.

The Chinese businessmen, in the case of the medium-large size businesses, focus their business orientation more on strategic sectors such as hospitality and services, and real-estate sectors such as housing, shopping complex, property, plantation, factory or manufacturing, construction, and others. These kind of businesses at least require a minimum of twenty to forty employees. To engage in such businesses requires a huge amount of capital. Most of the Chinese who dominate in this business, usually manage the business in a group or a consortium, comprising of Chinese businessmen. This group works to strengthen the capital network and the development of the firms, and at this stage trustiness, loyalty and networks are built formally and informally.

In fact, the Chinese business group does not only work for investment purposes, but also function to attract the Chinese as customers. After all, most of these three classifications of the Chinese business activities are usually based on family business orientation. Another conspicuous character of the Chinese businessmen is that they keep selling the products even if they get less profit, compared to other indigenous businessmen, who only sell the products for a maximum profit. The Chinese businessmen believe that this strategy can attract more customers that finally can achieve success in doing business (Yeu et al., 2012).

Table 1

*The Classification of Chinese Businesses in Medan City.*

| <b>Size of business</b> | <b>Business sector</b>  | <b>Number of employees</b> | <b>Location</b>  | <b>Type of business</b>   |
|-------------------------|---|----------------------------|--|---|
| Small                   | Foodstuffs, wholesale, building equipment, electronic equipment, clothing, etc.   | 1 – 3                      | Traditional shop-house or/ and traditional market ( <i>pajak</i> ), etc. | Traditional or family business  |
| Medium                  | Medium size restaurant, clothing boutique, used car shop, travel agent, distributor of goods, cars accessories, traditional and digital advertising, etc. | 5 – 20                     | Modern shop-house, mall, office building, etc.                           | Professional, family and non-family business, more structured and organized |
| Medium-large            | Developer (housing complex, real-estate, office building, property, shopping complex), plantation, Big restaurant, etc.                                   | 20 – 40                    | Office building, Modern shop-house, mall, etc.                           | Well-structured and organized, family and non-family business               |

In another perspective, according to Chong (2015), in order to obtain protection for their businesses, many well-established Indonesian Chinese business people in Medan have utilized their social capital to establish close relationships with heads of security forces or even regional military officers and local police officers. The Chinese business shows the same character at the country level which is involved with the patronage model, especially during Suharto's era. It has become has 'legacy' to some of the local Chinese businessman and the local elite or authority.

The political connection has also become one of the variables to indicate the success of Chinese business especially the business sector is that correlated with the function and decision of the government institution, i.e. real estate and the property business sector which need some permits, and other legal matters. However, in the low level (small and medium size) of Chinese business, they might be unconcerned or find it less necessary to build a close relationship with the government authorities since they could follow the bureaucracy system formally due to the low level of the amount of business capitalization and the business interest they run.

### **The Practicing of *Guanxi* and *Xinyong* in Medan**

Some scholars such as Landa (1983), Greenhalgh (1984), Yoshihara (1988) and Luo (2007) have expressed their concerns on the importance of the *guanxi* concept. By terminology, *Guanxi* refers to the Chinese system of doing business on the basis of personal relationships (Lovett, Simmons, & Kali, 1999). Meanwhile, apart from the business aspect, Davies et al. (1995) stated that *guanxi* is any special relationship or connection in human relationships.

According to traditional Confucian ideology, *guanxi* is a special relationship based on a kind of principle of kinship that has existed since birth. The 'power' of *guanxi* is the obvious among Chinese, even if they have nothing in common with 'blood relationship' such as parents, siblings, etc. Although a massive number of Chinese are far from their mainland in China due to migration in the thirteenth to seventeenth century to the *Nusantara* region (Lubis, 2008), the values of brotherhood and special relationships are still constantly embedded.

Yadong (1997) defined *guanxi* as a concept of making connections in order to secure favors in personal relationships. It meant that *guanxi* may also refer to an inter-personal relationship and networking among individuals or groups and others to gain any favors to facilitate them in the daily activities including for business purposes. According to Ismail (2016), there is no Chinese firm that can grow and be well developed unless they apply the *guanxi* values in their business activities. If *guanxi* has played an important role in Chinese business practices, it is then very clear that *guanxi* is not only a cultural or traditional matter, but it has also transformed into a business system which offers an alternative approach in terms of producing a 'good relationship and network through trust value' that could be useful in business activities.



According to Lovett, Simmons, and Kali's (1999) explanation, *guanxi* is also a system that depends on reputations and trust between individuals, and to reduce transaction costs because these transactions occur within a flexible, but relatively permanent network that reduces the potential gains from opportunistic behavior. Nonetheless, the main question here is that if the *guanxi* is one of the business systems, can it be applied to non-Chinese ethnic businessmen? During the fieldwork, one of the informants said that he believed that the value of *guanxi* can also be applied to non-Chinese ethnic businessmen, but it should have a different 'place' in terms of the level of trust.

*Guanxi* is not only regarded as an inter-personal trust among Chinese groups in business practices, but it is also developed through intelligence, creativity and also flexibility (Leung & Yeung, 1995). In practice, as aforementioned, *guanxi*, as a business relationship and networking, also cannot be separated from the *xinyong* concept. *Xinyong* simply refers to a trust system. According to Kiong and Kee (1998), at a general level, *xinyong* refers to the integrity, credibility, trustworthiness, or the reputation and character of a person. *Xinyong* may also refer to a personal trust of others.

The level of trust depends on how close the relationship has been. However, Chinese businessmen also cannot be forced to trust each other when they get bad information which will indicate a low level of trust because it could bring a negative impact on business prospects. One of the informants noted:

"We are very flexible in doing business, just make a deal with other Chinese businessmen based on a contract on a scrap of cigarette paper, then they will offer you a favor to facilitate the business matter... But it's difficult to happen if our business partners are not Chinese. Nevertheless, if we have a long good relationship and a high level of trust with non-Chinese businessmen, we can also make a deal easily through the telephone (short text message, chat application, etc.); then we proceed to a formal agreement. There are also a number of Chinese businessmen also trying to cheat... we trust them in doing business and after all that he disappears. We have *guanxi* and *xinyong* in our souls, but we cannot be sure the others will implement them or not."

The *guanxi* and *xinyong* are very instrumental in facilitating the business practice among the Chinese, even though some of them do not apply *guanxi* wisely. As a business system model for a Chinese businessman, *guanxi* could also be applied to non-Chinese businessmen even though it is quite difficult at the beginning. However, the level of trust shows the different models of *guanxi*. The business contracts on a scrap of cigarette paper clearly show the high level of trust among the Chinese businessmen compared to a business contract through the phone with a non-Chinese businessman. Thus, it can be seen that *guanxi* as a business system model could be applied to non-Chinese business partners just because of a good and long social relationship and also based on their reputation. An informant noted:

“In my personal opinion, I believe in our traditional *guanxi* and *xinyong*, but practically, it is just an ethical matter. Nowadays, we run businesses in a professional manner... Even if our business network and customers are Chinese, we need to make business contracts legally in accordance to the regulations and laws... If I meet a new Chinese businessman without knowing his reputation and background, it would also be difficult for me to deal with a contract based on verbal communication only such as through the telephone or email, etc....“

*Guanxi* and *xinyong* do not work well if they are applied based only on the Chinese common belief without considering the credibility and background of the businessman himself. So is the case with the non-Chinese. In dealing with non-Chinese businessmen, Chinese businessmen also look closely at their partner’s reputation and try to get recommendation from others before engaging in a cooperation or building a business network. If it is not so, then the meaning and power of *guanxi* and *xinyong* applied to the business practices will be either less or not effective in their partnership. In other cases, an informant clearly noted:

“I used to be a worker at a small electronic shop owned by a Chinese... I sent some of the electronic stuff to an army base in Medan as I got so many orders from them... I served as a worker to send electronic stuff. Later a former Army General (non-Chinese) offered me a project to build a hostel for troops... and he was satisfied with my work. Time flew, I used to play golf with him. He was just like a member of my family. He trusted me very well and so did I. From there, I expanded my property business to the State National University in Medan... And most of them were not Chinese. They offered me some projects to build campus buildings... I did them in a professional way to make sure they were satisfied...”

From the informant is experience, it is hard to tell whether the relationship among them was based on the *guanxi-xinyong* approach or the type of political patronage model? Unless, there was a *quid pro quo* of politics to economic interests and *vice versa*, then it could be identified as a political connection network rather than interpersonal trust between the Chinese and the non-Chinese in business engagements. In the above case, if there was trust among them, then it can be said as *guanxi* (relationship and network) and *xinyong* (trust) based on a business system model and was not a cultural model base.

Although, the customer, who later became one of his business partners, did not have Chinese blood, the relationship between them was so flexible, professional and tight. Chinese businessmen would take any opportunity and respond to others who are willing to make a good business network with them whether they are Chinese or non-Chinese. Based on the informant’s experience, this study argues that a Chinese businessman is a rational actor in making decisions related to business prospects. Another informant also added:



“To me, trust is number one in a business practice. Ethically, we trust the *guanxi* and *xinyong* culture in our daily life, but both these values can also be found in other races too... As long as they promise to be good friends, honest and professional in business cooperation, then there should be no problem with it... You can see from my experiences, who gave me the opportunity to be a real estate businessman? They were not Chinese... So although the values and terminology of *guanxi* and *xinyong* are culturally from the Chinese, it is everywhere to trust and make good relationship with others.”

It seems that, the practice of *guanxi* and *xinyong* is something dynamic. As a business system model which forms trust and professional relationships, it should be applied among businessmen to create a positive market competition and cooperation rather than use a political connection or cronyism to fulfill the business interest.

### **Chinese Social Organization, Community Business Organization and Political Networks**

In fact, the Chinese in Medan are not entirely and collectively doing businesses. Collectiveness is used only to achieve the interest and to maintain a balance of competition, yet individualism also remains as an obvious character. It can be seen that there is only a formal Chinese business organization in Medan, the so-called HPET (Association of Chinese Entrepreneurs - *Himpunan Pengusaha Etnis Tionghoa*). However, most Chinese businessmen and non-businessmen, prior to joining HPET, are likely to join multi-ethnic community organizations that relate to specific business backgrounds. Although, after the fall of Suharto's regime in 1998, most Chinese established some sort of social organization, locally known as 'Ormas' or *Organisasi Masyarakat*, to function as a community movement which involved the social and humanitarian sectors. Some of these community organizations were formally formed in Indonesia's capital city of Jakarta, even though there were more than 100 Chinese organizations in Medan city.

According to Ling (2014), apart from the local branches of PSMTI or *Paguyuban Sosial Marga Tionghoa Indonesia* (Indonesian Chinese Social Club) and INTI or *Perhimpunan Indonesia Tionghoa* (Indonesian Chinese Assembly), other major Chinese organizations in Medan included the Medan Angsapura Social Foundation (Yasora Medan- *Yayasan Sosial Angsapura Medan*), a clan association for the Chinese of Hui Chew origin, and North Sumatra's Chinese Community Social and Education Association (MITSU-PSP- *Perhimpunan Masyarakat Indonesia Tionghoa Sumatera Utara - Peduli Sosial dan Pendidikan*), a coalition of Chinese organizations and Chinese community leaders in North Sumatra, Loe Clan Association (*Perkumpulan Marga Loe*), etc. In fact, some of the Chinese organizations were not exclusive, because they would allow non-Chinese to join as members (Refer to Table 2).

However, most of the Chinese did not formally establish a community organization to function as a business organization. One of the informants clearly stated:

“In PSMTI, our organization is only concerned on brotherhood and humanity matters... Helping each other... Even if some of the members want to share their business interest, they can do it individually, not through the organization... But it is not a matter if they want to do business together. I think there were only 2 or 3 PSMTI members that conduct business together because they are in the same business field.”

It seems that the establishment of social organizations was to re-introduce their existence in the social and political sectors since it was restricted during Suharto's era, rather than to do formal business which can be a trigger for misperception to a non-Chinese. For instance, during the 1997 economic crisis in Indonesia, some Chinese were made scapegoat and became victims of the mass riots due to misinterpreted information disseminated virally which provoked that all economic sectors were controlled by the Chinese. It also can be seen from Pelly (2016) who explained that the anarchist action was, therefore, targeted at the lower middle class Chinese (who were not a large conglomerate or the New Order crony) in several locations that did not enjoy crony capitalism between the Chinese big business groups and the New Order elites. An informant reflected:

“Most Chinese do not only join Chinese social organizations... Some of them also join community organizations with multi-ethnic bases. The reason is to socialize with other people and make a network... So that we are not considered as an exclusive ethnic group... myself, also joined the KNPI branch in Medan city (National Youth Committee of Indonesia – *Komite Nasional Pemuda Indonesia*) to foster my interest in the community... On the other hand, I was also engaged in business with the non-Chinese... Many people said that we, the Chinese, are so dominating in businesses... I think we are not dominating in businesses, but it is because of the small Chinese population and only the business sector is open for us [couldn't be involved in politics due to the discriminative policy during Suharto's era], then we need to survive as being businessmen and entrepreneurs...”

In Medan, the Chinese still use their internal-ethnic social network to strengthen the business network, but it is not in the form of a formal business organization. They are also open to other non-Chinese businessmen to be business partners. In fact, in establishing the networking of the business system, the criteria of Chinese business practice in Medan can be divided, at least, into four categories. First, the Chinese businesses have informal business networks and partnerships with other Chinese businessmen in the local area. Second, the Chinese businessmen have formal business networks and partnerships with other Chinese and non-Chinese businessmen in the local area through community business organizations. Third, the Chinese businesses also have informal business networks with other Chinese

Table 2

*Major Chinese Organizations in Post-Suharto Medan*

| <b>Major Chinese organization</b>   | <b>Year of establishment</b> | <b>Remark</b>   |
|---|------------------------------|---|
| Medan Angsapura Social Foundation (Yasora Medan- <i>Yayasan Sosial Angsapura Medan</i> )  | 1985                         | Formerly known as Hui Chew Indonesia in the pre-New Order period. Converted to a charitable foundation that provided burial service during the New Order era. Yasora Medan began to include again socio-cultural activities that promoted Chinese culture after the demise of the New Order regime. |
| Indonesian Chinese Social Association is (PSMTI- <i>Paguyuban Sosial Marga Tionghoa Indonesia</i> ) local branches  | 1999                         |   |
| Chinese Indonesian Association's (INTI- <i>Perhimpunan Indonesia Tionghoa</i> ) local branches  | 1999                         |   |
| North Sumatra's Chinese Community Social and Education Association (MITSU-PSP- <i>Perhimpunan Masyarakat Indonesia Tionghoa Sumatera Utara - Peduli Sosial dan Pendidikan</i> ) | 2007                         | A coalition of Chinese organizations and Chinese community leaders in Medan.  |

Source. Based on Ling (2014, p.316).

businesses outside Medan, such as in Jakarta and overseas. For instance, one informant, said “There is a local Chinese real-estate businessman who has a relationship and is networking with Tommy Winata [one of the most successful and controversial Chinese Indonesian businessmen] to run businesses in Medan... Tommy allegedly gave a huge amount of capital to the local Chinese businessmen to purchase land previously owned by the Indonesian Air Force in Medan, for a real estate development... Tommy also certainly has a number of connections at the Air Force's Army Headquarters in Jakarta, to lobby for the purchase of the land in Medan... So, the local Chinese businessmen play the role of being accomplice.” Fourth, the wealth and strength of the Chinese big businesses enable them to establish close ties or political connections with local political power holders and security forces (Chua, 2008). However, the relationship between Chinese businessmen (medium and medium-large businesses) with Military institutions also could be formed in some formal ties through community organizations which are affiliated to the Military institution (Refer to Figures 2 and 3).

Some of the Chinese businessmen usually join as members of the Communication Community established by one of the Indonesian Army Divisions such as the Military Police known as ‘*Satuan Komunikasi (Satkom) Gajah Mada Pomdam*’ (Gajah Mada Communication Unit of Military Police for Regional Military Command) which is also open to civilian members under the military officer is recommendation. According to Chong (2015), some of the Chinese shops are often visited by local gangsters locally known as *preman* who are also affiliated to bigger crime organizations. The same informant said, “The *preman* come by asking for money or the so-called ‘*pungli*’ (Illegal taxes – *Pungutan Liar*) for security service reasons notoriously known as ‘*uang keamanan*’”.

If the owners or the staff at the shops refused to give the money as requested, the *preman* will threaten them to break or damage the shop or simply say “we cannot ensure the safety of your shop”. According to the informant, besides building a networking with military organizations for social community purposes, some of the Chinese businessmen who joined the *Satkom*’s community often put a kind of the organization’s symbol in the form of a sticker in front of their shops to ‘warn’ the *preman* or even civil servant officers who come to collect either formal or informal tax, and to show that they [the Chinese shop owners] have a relationship with the local military authority. Hence, it could be a sign that they have the ‘back up’ from the military to protect the business interests, and sometimes it could be very dangerous if such a military symbol is abused by the businessmen especially to back up some illegal business practices.

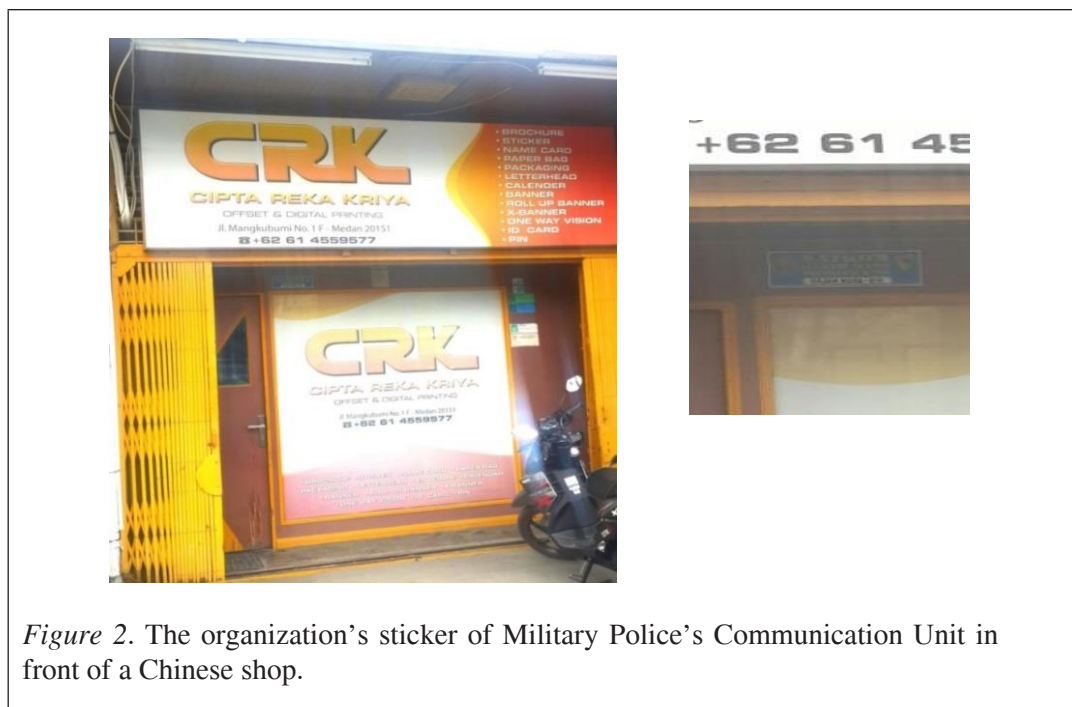


Figure 2. The organization’s sticker of Military Police’s Communication Unit in front of a Chinese shop.



Figure 3. The logo of Military Police's communication Unit

Source. [www.satkom-gajahmada.com](http://www.satkom-gajahmada.com)

However, some of the Chinese businessmen are also involved in the Primary Cooperation/ Union of Military Justice Board or the so-called *Primer Koperasi Badan Peradilan Militer* which is affiliated with the local Military Justice Board. The informant said that some of the Chinese businessmen who joined that particular organization have the objective to build a regular business partnership and cooperation with the Military institution. Sometimes they put the formal organization signboard in front of the shop to show their business affiliation. The informant also explained that the formal organization signboard in front of the shop sometimes also has a similar function as to the previous case (Refer to Figure 4).



Figure 4. The formal signboard of the Primary Cooperation/Union of Military Justice Board in front of a Chinese shop.



On the other hand, the social network is one of the supporting factors used by the entrepreneurs to establish relationships with fellow entrepreneurs or even non-entrepreneurs and it can be an important resource in building and carrying out businesses (Johannisson, 1988; Larson, 1991; Aldrich, 1999). As aforementioned, since it is rather difficult to find Chinese organizations functioning as formal business organizations or networks in Medan except HPET, the Chinese businessmen also choose to join several non-Chinese community business organizations to form business networks and cooperation such as REI (Real Estate Indonesia), AKI (Indonesian Contractor Association), APINDO (Association of Indonesian Entrepreneurs – *Asosiasi Pengusaha Indonesia*), ASITA (Association of Indonesian Tours and Travel Agency – *Asosiasi Perusahaan Perjalanan Wisata Indonesia*), etc.

In fact, some of the organizations are also led by the Chinese. Every business organization has different functions, yet their main function is particularly establishing business networks to facilitate their business activities such as in the real-estate, construction, travel agencies, etc. According to Hansen (1995), the interaction between the individuals will extend the access to other new sources of resources that can further retain the strength of the companies within them, by exchanging information, sharing ideas, and other means of sharing. One of the informants stated:

“It is important for us to join some community business organizations... Sometimes, we can use the organization to pull out the government regulations that are less profitable to our business... The organization also can work to absorb aspirations from the business partners... And through the organization, we can make any regulation to regulate the businesses fairly and competitively... To exchange knowledge and information, including resource sharing as well.”

For instance, the former Head of the REI branch in Sumatera Utara Province located in Medan is a successful real-estate Chinese businessman. The organization is open to all property and real-estate businessman. The organization is a networking platform to gather information and opportunities among members and also to honestly create mutually advantageous schemes. The fifth Informant added:

“We are REI members carrying out our business, always placing ourselves as a responsible private national company, respecting and rewarding the real-estate business profession and upholding a sense of justice, truth and honesty... We should always respect each other, appreciate, and help each other and avoid unfair business competition”

It can be seen that the Chinese social organizations only played a role as a social movement and to show their identity. Meanwhile, at the business level, they enjoy being a part of the community business organizations especially as regular or committee members. The above explanation also shows that *guanxi* and *xinyong* culturally are not highly obvious in Chinese business practices in Medan especially in terms of medium-large size businesses because they are more concerned with formal structures, unless they have high levels of trust.



The Chinese businessmen emphasize more on professional approaches by using formal agreements to be professional businessmen, manage regulatory issues, and also to avoid fraud. Nonetheless, there is also a small number of Chinese businessmen that run medium-large size businesses which still practise the *guanxi* and *xinyong* tradition in business activities through the informal approach. Yet in the scope of small-medium businesses, they are still practising the *guanxi* and *xinyong* values to reduce transaction costs, of is also due to their business structure being less organized.

The Chinese businessmen also do not consider whether the business engagement involves Chinese or non-Chinese businessman as long as their business interests are totally achieved. The Chinese business capitalization at medium-large level of businesses sometimes dismissed the role of *guanxi* and *xinyong* values. It is because maximization of income becomes the priority and sets of rules and formal regulations must be obeyed in the modern business sector. It can also be said that in the smaller Chinese business, the implementation level of *guanxi* and *xinyong* would be higher, than in the larger business size. (Refer to Figure 5).

### **The Challenges of Chinese Business**

There are at least three main challenges of the Chinese business practice in Medan. First, is the lack of a governmental system; second, is extortion through '*pungli*' by preman and government officers, and third, is the uncompetitive business environment. The third informant clearly noted:

“As a real-estate businessman, I deeply feel the progress from the government to settle the permit to set up buildings (IMB – *Izin Mendirikan Bangunan*) is so slow... also for the renewal the Trading Business License (SIUP) and Company Registration Certificate (TDP)... But I heard the central government will remove the rules of SIUP and TDP extension... Then it would be bring a positive impact on us.”

The lack of a governmental system was due to the heavy bureaucratic system which was also influenced by the failure of decentralization or the regional autonomy (*Otda - Otonomi Daerah*) process of the post-Suharto era in terms of effectiveness. According to Winters (2013), during the post-Suharto era, the political structure in Indonesia and the context of its democracy was only a game in the movement of oligarchs primarily to gain power, maintain power, and enrich themselves. Chong (2015) also stated that although democratization had started, it had not led to the emergence of good governance that promotes the rule of law, transparency, and accountability, as corruption remained endemic in state institutions.

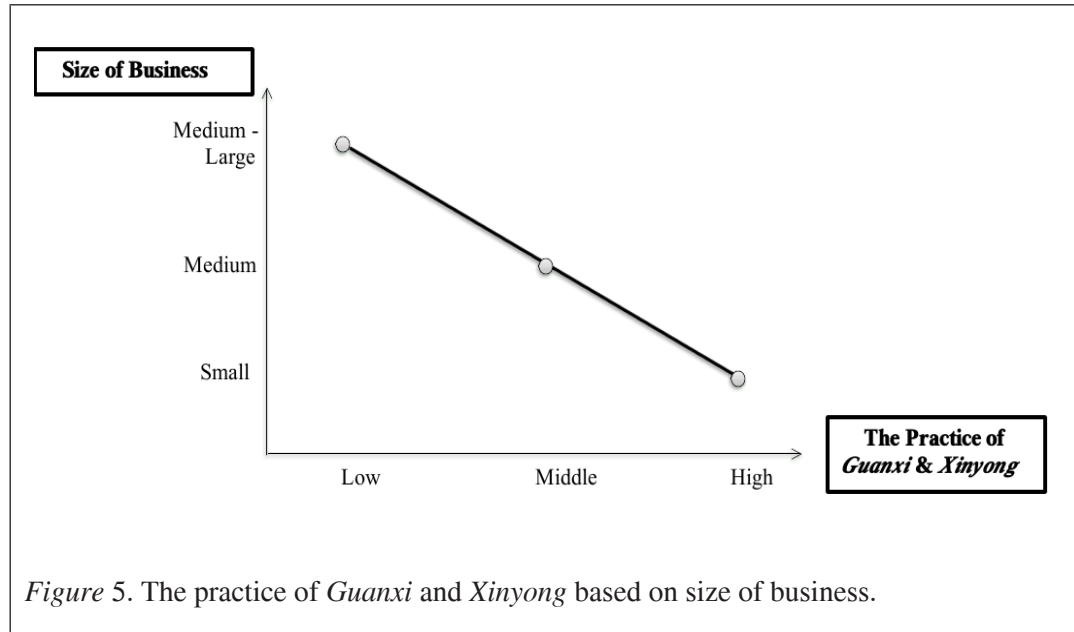


Figure 5. The practice of Guanxi and Xinyong based on size of business.

For instance, two former Mayors in Medan City quit their posts because they were involved in corruption and sentenced to prison. It not only happened to the Mayors, two former governors of Sumatera Utara Province were also arrested by the Corruption Eradication Commission (KPK – *Komisi Pemberantasan Korupsi*) and the local police authority due to their involvement in corruption in different cases. Corruption brought about ineffectiveness and unprofessionalism, which disabled the government system to serve the people. For the second challenge, the fourth informant noted:

“Sometimes the *preman* comes to my shop and asks for money. I cannot simply ignore him because he will threaten me and throw stones at our shops night... If we give him a little money, he will ask for more... This kind of situation is usual for us... We just want to do business here... If we report to the police... They will just note it and after that there is no progress...”

The capital of North Sumatra, Medan is notorious for its institutionalized gangsterism or *premanisme* and is therefore known as a gangster city (*kota preman*) (Honna, 2011). During the Suharto era the number of local gangsters further increased (Wilson, 2011). An informant said that sometimes to protect their business interests the Chinese businessmen also joined the OKP (Youth Organization – *Organisasi Kepemudaan*) to make networks to people who have strong influence and are respected in Medan such as FKPP (Armed Forces Sons’ and Daughters’ Communication Forum - *Forum Komunikasi Putra-Putri Purnawirawan Indonesia*) and also HIPAKAD (Armed Forces Sons’ and Daughters’ Family Association - *Himpunan Putra Putri Keluarga TNI Angkatan Darat*) which were open to the public.

In fact, some Chinese businessmen became regular donors to HIPAKAD. As aforementioned, the Chinese business men also joined the community Police or *Satkom* or *Bankom* (Communication and Information Assistance - *Bantuan Komunikasi dan Informasi*) which was affiliated to the Military and Police institution. In 2016, there was the case where the head of a branch of a youth organization (OKP) in Medan was arrested by the North Sumatra Police Officer. He was arrested for extortion or illegal levies from a company for the installation program (*pelantikan*) fee for new members of the organization (www.republika.co.id, accessed on 01 July 2017).

The *preman* not only extorted the Chinese businessmen but also the non-Chinese. The third challenge was wealth. Strong Chinese businessmen had connections with local and national political elites which made it easier to run their projects so other Chinese businessmen who did not have any political connection found their project would be disrupted due to the uncompetitive environment. One informant noted:

“There are some Chinese businessmen who have good relationships with the political elites or military officers at the local or the national level...They will easily open and control new areas to build real-estates and apartments in unusual areas such as at the Air Forces Military base... Another example, is the construction of apartments in Medan; however the permit was not in hand... How can they still continue the project?”

Most Chinese and non-Chinese businesspeople were disappointed with the business environment in Medan due to the practice of cronyism which led to unfair competition. The situation is quite similar to the New Order period, only with different actors and oligarchs. The *little kings'* abuse of power was not only a disservice to the businesspeople, but also to the country and the society.

### **Conclusion**

The paper concludes that the *guanxi* and *xinyong* concepts have their own portion to the Chinese in Medan. Culturally, in the scope of small and medium size businesses, the practice of *guanxi* and *xinyong* is still quite relevant compared to the medium-large size business. In the scope of the medium-large businesses, the Chinese often used the professional approach rather than the traditional. The Chinese considered regulations, rules and the law, in doing business. This was because of the high tension of business capitalization and market competition which relied on maximum profit and minimizing the occurrence of fraud.

For business purposes, some of the Chinese businesses also considered the importance of business networks within specific business communities such as REI, ASITA, etc. to facilitate their business interests, while the Chinese social organization only functioned for community and social purposes. The *guanxi* and *xinyong* concepts could not be applied

directly to all Chinese businessmen, because they also needed to be verified whether the Chinese partners were legit or not. This study found that the Chinese businessmen are rational actors. To than the Chinese and the non-Chinese are same for them as long as the business partners are fair. In the scope of the medium-large businesses, the relevancy of *guanxi* and *xinyong* practice are still in question because it is depends on the individuals. On the other hand, some of the Chinese businessmen are involved in *koperasi*, which is affiliated to local Military institutions, to achieve their business interests, and also to show their relationship to avoid other extortion measures. Such Chinese practices, are influenced by the social, economic and political environment which are unfavorable and unprofessional. However, Chinese businessmen have successfully adapted themselves to strengthen the networks from other races through any channel or other circumstances.

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