Shanxi Shangbang, the origin of China’s merchant guild

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Li Yizhong, Minister of Industry and Information Technology of China, stated before the press during the 2010 National People’s Congress (NPC) that “small and medium-sized enterprises constitute 99% of the total number of enterprises in China. Small and medium-sized enterprises account for 60% of China’s GDP and 50% of taxes, and provide 80% of jobs.”

China’s SME’s are mainly privately-owned companies. They contribute five times more to the GDP than large companies, but their borrowing from financial institutions accounts for only 20% of the total amount of loans. Private companies are a growth engine of the Chinese economy, which has opened a new chapter in the history of the world economy. The rise of privately-owned SME’s is propped up by the culture of Shangbang (商幫), regional business groups.
Shangbang culture, the spirit of China’s small and medium-sized enterprises

The Chinese character shang (商) literally means “to consider.” It means to see the inside from the outside. Shang refers to considering distance, surpluses, and losses in order to redistribute goods effectively. Another Chinese character, gu (賈), means to secure useful goods and wait for people to buy them and make profit. The meaning of gu (賈) corresponds to another Chinese character, gu (固), which means “to protect.” The difference between the two characters is similar to the difference between “peddler” and “shopkeeper” in the Confucian classic Baihu Tongyi (白虎通義; Comprehensive Meanings [as Discussed] in the White Tiger [Hall]), written by Bangu (班固), the author of Hanshu (漢書; The Book of the Han Dynasty). In today’s terms, shang refers to export companies and delivery businesses; gu refers to domestic companies and agency sales networks.

Bang (幇) refers to a “gang” or “association.” It means a “group of people of similar interests or backgrounds.” When the two characters, shang (商) and bang (幇), are combined, they form shangbang (商幇), which refers to a “merchant group” or “business association” based in the same areas. Chinese people regard “running into a friend from one’s hometown in a foreign land (他鄉遇故知)” as one of the four pleasures. There is a saying, “Whether friendly or not, a person from one’s hometown is family (親不親家鄉人).” As illustrated by these two examples of Chinese culture, Chinese are particularly fond of their hometowns. Their love for their hometown was applied to trade and became the basis of shangbang. People from same hometowns built personnel and sales networks, lent and borrowed money from one another, and developed markets. This is the power of shangbang.
Famous traditional shangbangs had five common traits: 1) Their hometown enjoyed flourishing trade; 2) wealthy merchants were at the center of shangbangs; 3) their characteristics were distinguishable from those of other trade groups in terms of business, institutional, and cultural aspects; 4) they were formed by many independent merchants based on regional bonds out of need for joint management and healthy competition; 5) they had significant influence on history.

In the Ming-Qing period, ten shangbangs were formed in different regions. After China’s Reform and Open Policy in 1978, new shangbangs were formed in each province. Let us explore Shanxi Shangbang (山西商帮), the first shangbang in China.

Shanxi Shangbang corporations

Shanxi Shangbang was based in the land of Jin (晉) during the Spring and Autumn Period. For this reason, the merchants of Shanxi Shangbang are called jinshangs (晉商, Jin entrepreneurs). In fact, jinshangs are quite familiar to Koreans. The movie Raise the Red Lantern (紅燈籠高高掛, 1991), directed by Jang Yimou (張藝謀) and starring Gong Li (鞏俐), was set in the mansion of a successful Shanxi merchant.

The beginning of jinshangs dates back to the time when Jin Wengong (晉文公), one of the five hegemons of the Spring and Autumn Period, took power in 636 BC. Later on, jinshangs established border trade in the Song and Yuan Dynasties. The Kaizong system, or the grain-salt exchange system (開中法) of the Ming Dynasty, brought jinshangs to their heyday. This is a
system wherein the government gave “salt licenses (鹽引)” for salt trading to merchants who transported grain to army units stationed on the frontier. Jinshangs secured a monopoly in the salt trade and controlled salt trade networks across China. Jinshangs made great fortunes and formed the first shangbang.

Jinshangs were pioneers of financial business. They established piao haos (票號), private financial institutions that dealt with bills of exchange. Piao hao was the beginning of today’s commercial banks. It went by the name piao hao in Northern China and qian zhuang (錢莊) in Southern China. It had a firm grip on China’s capital market. Piao haos offered services including remittance and receipt of money on behalf of merchants. It is no surprise that piao haos made a fortune.

Jinshangs first conceived of a limited liability system for companies, which was similar to today’s incorporation system. The Korean word jusik (株式), meaning “shares,” is the Japanese variation of a Chinese word gufen (股份). Shanxi merchants, who favored joint management, systematically linked the profits of investors, management, and employees. This system was called gufenzhi (股份制), or the share system. Suppose there were a shop with 100,000 dollars of total shareholder equity, and the owner of the shop owned shares worth 10,000 dollars. This would be the capital stock. A shop owner responsible for shop management usually received bonus stock. Employees also received bonus stock depending on their capabilities and performances. Profits were distributed during a settlement term according to the shareholders’ capital investments, and the bonus stock received by the shop owner and the employees. Ownership and management were separated. Employees who received employee stock had high morale at work.
Lei Li-tai (雷履泰, 1770-1849) was a “poster child” of jinshangs. After his success with a dye plant, Lei established Rih Sheng Chang Bank (日昇昌票號), a private bank in Shanxi, in 1826. Started as a remittance company, Rih Sheng Chang expanded its business to include a wide range of financial businesses, such as savings, remittance, and lending. Lei set trust as the most important rule in business. The first and second criteria for employment were both trust. As a result of his philosophy, Lei earned credibility among his customers. Next, Lei established a fair foreign exchange system. Under the new system, the content of silver, which had been evaluated differently by region, was objectively evaluated before the silver was exchanged for coins. Lei introduced anti-counterfeit technology to prevent fake drafts from being circulated. These measures led to Lei Li-tai’s success. In Lei’s later years, Rih Sheng Chang was called Huitong tianxia (匯通天下), meaning “a place for controlling the circulation of money in the whole country.”

**Fair competition, a way to protect loyalty and profits**

What characterizes the new jinshangs (新晉商) of today? First, new jinshangs are frugal and are not afraid of hard times. Shanxi is a sterile land with many mountains. Most jinshangs started from nothing, and their resilient spirit led them to success. Frugality is a virtue of jinshangs that has been handed down from generation to generation.

Second, jinshangs value fair competition. They think that fair competition is the only way to protect both loyalty and profits. It is said that Shanxi-based companies did not abuse their personal networks (關係; guanxi) or conduct any wrongful acts in their bids for the China Western Development Project.
Third, they prefer small profits and quick returns, and they attract customers with their earnest and careful service. These characteristics are well illustrated by jinshang proverbs: “Even a small profit is valuable in business,” and, “Business without calculating profits is no business at all.”

Finally, jinshangs are information savvy. They are precise in forecasting situations. When doing business with a jinshang, one should thoroughly investigate not only the jinshang’s performance, but also various market information, such as the market share, popularity, and sales status of his products. Information is an important factor in determining a business partner.