

China's Changing *Guanxi* Capitalism: Private Entrepreneurs between Leninist Control and Relentless Accumulation

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Abstract

Guanxi and *guanxi* capitalism are much-debated terms in the context of China's evolving political economy. This article explores the changing nature of China's *guanxi* capitalism. It analyzes first various aspects of *guanxi* capitalism, a unique conceptual blend infused with seemingly incongruous cultural and historical meanings drawn from both Chinese and Western roots. It then introduces three case studies of private firms, illustrating empirically how Chinese entrepreneurs' relationship with the political system is evolving. The article ends by assessing the ways in which political factors, *guanxi* practices and capitalist accumulation are interacting and changing. I hold that *guanxi* capitalism is playing a crucial role in realigning the interests of state and capital in China. It yields idiosyncratic benefits to certain Chinese private firms, while also bridging the logics of freewheeling capital accumulation and authoritarian control in a state-dominated economy. In this view, *guanxi* capitalism encompasses both contradictory and complementary institutional logics. Since the persistence of Leninist control generates "deliberate ambiguity" in how China's private sector is governed, the penetration of *guanxi* networks into government-business relations creates institutional space that enables both Leninist control and relentless capital accumulation to proceed, in turn lending China's emergent capitalism a unique quality.

KEYWORDS: China, *guanxi*, capitalism, political economy, private entrepreneurs, political change

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Introduction

Over the past thirty years China has witnessed a gradual transition towards a capitalist political economy with an emphasis on capital accumulation, market competition and international economic integration. China's capitalist transition is perhaps best reflected by how a large swath of Chinese manufacturing is now globally enmeshed.¹ The growing capitalist nature of China's political economy also is noticeable in how the term capitalism has gained increasing currency in works analyzing China's reform era.² However, most of these works eschew direct comparisons of China with other forms of capitalism found in Japan, Europe and North America.³

Part of this omission stems from the fact that China's capitalist transition is highly complex, multifaceted and by no means complete. Institutional arrangements characterizing China's emergent capitalism certainly differ from those found in the advanced industrial economies.⁴ China's case also is complicated by her vast landmass and strong local cultural traditions.⁵ Finally, the global capitalist system is constantly evolving, generating new dynamics within national economies. This is especially the case for the world's fastest growing economy in which changing transnational production networks are continuously shaping and reshaping local political economies.

As a result, there are considerable conceptual difficulties in placing China in the larger comparative context of "Varieties of Capitalism."⁶ Nonetheless, China seems to be producing a new variety of capitalism, albeit a variety that is and will continue to evolve. While this article-length examination cannot even begin to fully capture the comparative implications of China's variety of capitalism, it can start by disentangling its main elements within the context of the Chinese domestic political economy, thus providing a necessary first step to examine the nature and logic of China's emergent capitalism. Without doubt, China's evolving variety of capitalism encompasses global capitalist influences and a form of state coordinated capitalism, including a large and powerful state enterprise sector.⁷

¹ Steinfeld 2010.

² See, for example, Hsing 1998; Guthrie 1999; Tsai 2007; Huang 2008.

³ For a recent exception see Redding and Witt 2007.

⁴ McNally 2007.

⁵ Various studies have shown that the local state's orientation toward the economy can vary considerably (e.g., developmental; predatory; clientelist, etc.). Baum and Shevchenko 1999.

⁶ The "Varieties of Capitalism" perspective generally focuses on advanced industrial economies, especially in Europe, North America and Japan. See, for instance, Hall and Soskice 2001.

⁷ Hsing 1998; Zweig 2002; Huang 2008; McNally 2008a.

More uniquely, China's emergent political economy is generating a form of network capitalism or *guanxi* capitalism.⁸ The term *guanxi* capitalism was first used by Gary Hamilton with regard to Taiwan's political economy.⁹ It denotes how Taiwanese and Overseas Chinese business organizations are built on distinct forms of business practices derived from strong-tie networks of *guanxi* relations. Chinese business systems are thus network-based and differ qualitatively from Western capitalism.¹⁰

Conceptions of *guanxi* capitalism reflect what Chinese and foreign scholars have long observed: "...the centrality of personal networks in Chinese life, historically and in modern times."¹¹ *Guanxi* is often translated as "connections," "relationships" or "membership," though these English terms hardly capture the potential depth of *guanxi* relations. *Guanxi* denotes the establishment of long-term reciprocal personal relationships that can create enduring trust. *Guanxi* thus can facilitate business dealings and collaborative ties among entrepreneurs.¹² Networks based on *guanxi* can generate a form of social capital for its members. In turn, this creates structural consequences for the organizational field within which Chinese entrepreneurs find themselves since *guanxi* act as a binding agent among social actors.¹³

While *guanxi* distinctly derives from Chinese traditions, the term capitalism is Eurocentric in origin. As Gregory Blue and Timothy Brook note, "...almost every attempt to place China in our field of knowledge involves recurrence to a prior recognition of China and capitalism as a contrasting pair."¹⁴ Combining *guanxi* and capitalism, therefore, involves a conceptual encounter between Chinese civilization and Western historical experience. Indeed, one difficulty of conceptualizing *guanxi* capitalism lies in how this term is infused with seemingly incongruous cultural and historical meanings.

The purpose of this article is to enhance our understanding of *guanxi* capitalism and thereby elucidate the nature of the People's Republic of China's (PRC) changing political economy. I seek to assess the ways in which political factors, *guanxi* practices and capitalist accumulation are interacting, changing and adapting, leaving open the possibility of complementary and contradictory dynamics occurring simultaneously. I proceed by first disentangling the concept of *guanxi* capitalism. I attempt to provide better analytical clarity on this concept

⁸ Boisot and Child 1993.

⁹ Hamilton 1998.

¹⁰ Hamilton 1996; Gordon Redding 1993.

¹¹ Gold, Guthrie and Wank 2002b, 3.

¹² I here employ an expansive and historically flexible conception of *guanxi*. For a more differentiated conceptualization see Yang 1994.

¹³ *Guanxi* thus can also be seen as a means to overcome transaction costs inherent in complex political economies. See Williamson 1985 and North 1990.

¹⁴ Blue and Brook 1999, 5.

and review present insights and debates on *guanxi* and *guanxi* capitalism. I then introduce three case studies that trace the changing nature of *guanxi* in China's private sector. In particular, I focus on the role that political *guanxi* networks—the *guanxi* relations that private entrepreneurs form with the institutions and agents of the Chinese party-state—play.

I end by arguing that as *guanxi* capitalism evolves it is realigning the interests of state and capital, thus changing the nature of China's emergent capitalism.¹⁵ In essence, *guanxi* practices bridge the logics of free-wheeling private capital accumulation and authoritarian control in a state-dominated economy. Despite their Confucian origins, *guanxi* in contemporary China are being fundamentally reshaped by the interaction of relentless accumulation and Leninist control practices. *Guanxi* are now best seen as a cultural metaphor, a cultural tool kit for entrepreneurs, allowing them to fall back on time-honored cultural precepts to diminish the frictions and obstacles created by China's combination of capitalism and Leninism.

Guanxi capitalism further encompasses two seemingly contradictory trends in the business environment of China's private sector. The pressures of capitalist accumulation and international economic integration have increased the use of contracts, formal institutional arrangements and modern corporate forms. These new formal rules and legal rights have allowed many Chinese private firms to clarify their ownership structures and their relationship with their socio-political environment. Nevertheless, the persistence of Leninist control creates institutional ambiguities in the governance of China's private sector. To enhance firm success, private entrepreneurs use political *guanxi* networks to embed themselves in party-state institutions, carving out over time increasingly powerful positions *vis-à-vis* the state mediated by the application of *guanxi*. *Guanxi* capitalism thus yields idiosyncratic benefits to certain Chinese firms, while also transforming the Chinese political economy in enabling wealth to be translated into power.

The practice of *guanxi* is therefore being tailored to China's emergent capitalism, forming a cultural reservoir that allows entrepreneurs to navigate the ambiguities created by combining the logics of Leninist control and relentless capital accumulation. So far, *guanxi* capitalism has aided the rising fortunes of China's private entrepreneurs while enabling the state to enhance its prosperity and power as well. In the future, though, *guanxi* capitalism could just as well

¹⁵ In more formal analytical terms, China's Leninist political system and capitalist accumulation are two independent variables, changing *guanxi* practices an intermediate variable, and China's changing *guanxi* capitalism (a component of China's emergent variety of capitalism) the dependent variable. As in all socio-economic systems, though, the variables are linked by interactive feedback loops, privileging the more interpretative dialectical or evolutionary view of social change that this article adapts.

support as corrode existing power structures, since it encompasses both contradictory and complementary institutional logics. In the meantime, the penetration of *guanxi* networks into government-business relations is conferring a distinct character on China's emergent variety of capitalism, melding formal legal rules and contracts with time-honored Chinese cultural precepts.

Conceptualizing and Debating *Guanxi* Capitalism

Guanxi capitalism remains a problematic term since it is infused with conceptual meanings drawn from both Chinese and Western roots. The term was first employed with regard to transnational Chinese business cultures, especially those based in the political economies of Taiwan, Hong Kong and Southeast Asia. For example, Gary Hamilton and his collaborators stressed that the rise of Taiwan's private business class could be traced back to two key factors: a heavy reliance on family to establish and grow private firms;¹⁶ and the formation of *guanxi qiye*, literally translated as "*guanxi* enterprises."¹⁷

Guanxi qiye denote how Taiwanese private firms tend to coalesce into business groups based on *guanxi* networks. The internal structures of these groups can be quite diverse, though most are characterized by the maintenance of reciprocity and mutuality that enables group firms to pool information, finances and technological know-how. With these mutual supports, even relatively small firms can take advantage of economies of scale. Ultimately, *guanxi qiye* allowed Taiwan's private entrepreneurs to carve out a competitive niche in the global division of labor. They also provided mechanisms by which Taiwanese firms could sprawl beyond the island to establish transnational business networks.

The predominance of family firms and *guanxi qiye* in Taiwan's private sector reflect the cultural-institutional resources of the Chinese.¹⁸ These resources also lie at the root of conceptions of *guanxi* capitalism. In other words, *guanxi* capitalism must be seen "as a distinct form of business practice derived primarily from the Chinese kinship system," generating unique aspects of firm organization, international competitiveness and state-business relations.¹⁹ The PRC is naturally a late-comer to the materialization of *guanxi* capitalism, since prior to 1978 *guanxi* capitalism was confined to Overseas Chinese business communities. With the start of economic reforms, however, enterprising Overseas Chinese investors

¹⁶ Hamilton and Kao 1990.

¹⁷ Hamilton and Biggart 1988. See also Gates 1996 and Shieh 1992.

¹⁸ Jonathan Unger, for instance, argues that both Taiwan and certain areas of China exhibit a common pattern of "Chinese" practices of entrepreneurship based on family firms, informal financing, high rates of profit reinvestment, business networks and major roles for the wives of entrepreneurs in managing internal operations. See Unger 2002, 138-140.

¹⁹ Gold, Guthrie and Wank 2002, 12.

were able to employ *guanxi* ties to carve out the maximum possible realm for capital accumulation within the PRC's transitional economy. They used *guanxi* to collaborate with local entrepreneurs and to both elude and collude with the agents of the Chinese party-state.²⁰

This implies that while both capitalist and *guanxi* practices are rooted in history they underwent change as they came into contact with each other in China. A deeper comprehension of *guanxi* capitalism therefore necessitates an understanding of the transformative dynamics facing both *guanxi* practices and capitalist practices as they interact in China. Thankfully, a considerable body of literature already exists on the changing nature of *guanxi* in the political economy of China. I highlight several key insights here.²¹

Guanxi practices' enduring significance and philosophical roots are in general identified as stemming from Confucian practice. Early understandings from the pre-1949 period, such as Fei Xiaotong's *From the Soil*, see *guanxi* as constituting a complex web of familial obligations and sentiments defined by Confucian ideology.²² Central to Fei's depiction of Chinese society is the idea of *chaxugeju* (differential mode of association). *Chaxugeju* refers to a social structure in which individuals are not viewed as apart from their social positions. Rather, an individual's role within family and society defines that individual's identity. Accordingly, Chinese society is not made up of discreet individuals and institutions, but organized on the basis of interpersonal relationships.

In Confucian *guanxi* these interpersonal relationships were always located in a hierarchy of social positions and sustained by the ceaseless enactment of proper rituals, the rituals themselves defined and controlled by the Confucian state elite. The basic principles of the rituals were "reciprocity, respect for hierarchy, and the ritual materialization of sentiment."²³ Up until the present day, Chinese people continue to treat each other differently depending on family background, place of origin, shared experiences, educational affiliation and other dimensions, with the nature of these affiliations determining the treatment received.

Starting in the late nineteenth century, China experienced wrenching political and social dislocations. As the Chinese imperial state weakened, doubts about Confucian values surfaced. The founding of the PRC created an even more pressing urge to break with China's past, altering the meaning and practice of *guanxi* in fundamental ways. Upon coming to power, the Chinese Communist Party (CCP) vehemently opposed the particularism of Confucian *guanxi* and held up universal socialist principles of comradeship. Consequently, the Party strove to

²⁰ Hsing 1998; Zweig 2002.

²¹ The following insights build on Yang 1994; 2002; Lo and Otis 2003; Kipnis 1997; Yan 1996; and Gold, Guthrie and Wank 2002a.

²² Fei 1992.

²³ Lo and Otis 2003, 137.

cleanse Chinese society from all remainders of Confucian values, including those pertaining to patriarchy and Confucian *guanxi* rituals. “The state, formerly an institutional pillar of Confucianism, became its archenemy.”²⁴

Guanxi practices, though, did not die. While the cultural legacy of *guanxi* fragmented, its practices continued to evolve and adapt. As in the Soviet Union, the CCP established after its rise to power a centrally planned economy in which goods and services were allocated by state administrative fiat rather than market forces. This created a “shortage economy” in which most goods, services and factors of production were in short supply.²⁵ Under such a “shortage economy” ordinary Chinese faced countless frustrations in obtaining daily necessities, forcing them to queue for long times, conduct barter trade and postpone purchases. Like in the Soviet Union, where the practice of *blat* became common place, *guanxi* allowed Chinese citizens to navigate the “irrational institutions of the socialist re-distributive economy.”²⁶

Guanxi thus became the basis for ubiquitous underground practices. These practices defied state regulations, yet enabled citizens to gain scarce necessities by cultivating friendships and exchanging gifts, favors and banquets with the local party-state’s agents and organizations.²⁷ *Guanxi* ties also worked in the opposite direction, providing local party-state cadres with a means to exert grassroots level authority.²⁸

After 1978, the introduction of capitalist practices and market forces brought on a further transformation of the already fragmented *guanxi* practices of the socialist period. China rapidly moved from a “shortage economy” to a full-scale consumer society. Originally a means to surreptitiously evade the strictures of the centrally planned economy, *guanxi* increasingly allowed various actors to navigate the ambiguous and uncertain terrain of China’s transitional economy. David Wank, for instance, argues that in the absence of effective legal safeguards *guanxi* supported the process of marketization by providing a modicum of trust and certainty.²⁹

The Confucian political basis of *guanxi* therefore had diminished, but *guanxi* nonetheless offered a common set of norms and values that budding entrepreneurs could employ to reach out to virtually anybody. *Guanxi*, in this sense, became a purposeful human effort that, while making use of past cultural logics, was constantly generating new ones.³⁰ In fact, China’s extensive

²⁴ Lo and Otis 2003, 137.

²⁵ Kornais 1992, 233-234.

²⁶ Hsu 2005, 311.

²⁷ Yang 1994, 8.

²⁸ This created a form of neo-traditional authority under Leninist institutions. See Walder 1986.

²⁹ Wank 1999.

³⁰ Kipnis 1997.

marketization created a radically more open system of complex personal networks. As Ming-Cheng Lo and Eileen Otis argue, *guanxi* transformed into a “flexible, ‘modularized,’ and to some extent pluralistic” cultural metaphor.³¹ In keeping with the requirements of capitalist accumulation and marketization, *guanxi* inescapably integrated affective with instrumental dimensions of action. Modern *guanxi* practices are thus best conceived of as “strong ties” in which the relationship *per se* comes first or at least is equally seen as an end in and of itself.³² Relationships can be instrumental, but this aspect is layered with long-term reciprocal personal relationships that establish trust. Rather than being purely hierarchical and ceremonial, *guanxi* are now a mobile and flexible means to build interpersonal alliances to mobilize resources.

Undoubtedly, *guanxi* practices have played an important role in China's capitalist transition, making them an indispensable element of any conceptualization of Chinese capitalism.³³ Similar to Taiwan's *guanxi qiye*, China's private sector tends to be based on small- and medium-sized entrepreneurial firms that use *guanxi* networks to access global markets and technology. It is therefore “no longer a stretch of the imagination to expect that China might develop a *guanxi* capitalism of subcontracting networks that will create the contours of a capitalist world system significantly different from the present.”³⁴

While *guanxi* capitalism constitutes a prominent element of China's emergent capitalism, debates continue on how *guanxi* capitalism might evolve. These debates actually reflect broader debates on how to conceptualize capitalism's encounter with Asia. Lee Kuan Yew, for example, reflects the belief that *guanxi* could be transitional when he noted in the mid-1990s that “*guanxi* capability will be of value for the next 20 years at least, until China develops a system based on the rule of law, with sufficient transparency and certainty to satisfy foreign investors.”³⁵ Brook and Luong, more pointedly, ask: “Is capitalism in Eastern Asia mutating into uniquely Eastern Asian forms or has it simply dressed itself in systems of cultural reference that camouflage its fundamental incompatibility with, and hegemony over, indigenous cultural forms?”³⁶ In China's case, will *guanxi* capitalism gradually give way to rational-legal principles, thus eroding any distinctly Chinese cultural references? Or will *guanxi* capitalism remain a permanent feature of China's capitalism, incorporating

³¹ Lo and Otis 2003, 135.

³² On *guanxi* as “strong ties” see Yang 1994; Yan 1996; and Bian 2002.

³³ Wank 1999.

³⁴ Yang 2002, 474.

³⁵ Lee 1993.

³⁶ Brooks and Luong 1997, 1-2.

indigenous cultural principles, even ones that seem contradictory to capitalism's central purpose of relentless accumulation?

In part, these debates reflect philosophical, methodological and theoretical differences that cannot be elaborated here due to space constraints.³⁷ At base, though, they revolve as much around the nature of *guanxi* as about the nature of capitalism. Doug Guthrie has been at the forefront of those arguing that the building of market institutions and rational-legal bureaucracies is diminishing the importance of *guanxi* in China.³⁸ For him, *guanxi* capitalism is a transitory phenomenon, only present due to specific structural and institutional conditions, such as weak property rights and an incomplete legal system. As rational economic institutions develop, reliance upon *guanxi* will fade.

Although Guthrie notes that the path-dependent nature of institutional development is likely to create distinct varieties of capitalism, including a Chinese form of capitalism,³⁹ he nonetheless holds that *guanxi* are simply becoming a means to cultivate business relationships. Their role as an institutional system is declining and there is little that is uniquely Chinese about them. Quite a number of authors have rebutted Guthrie's arguments on empirical grounds, including Yanjie Bian's analysis of Chinese labor markets,⁴⁰ David Wank's studies on business-state clientelism,⁴¹ and Pitman Potter's and Ethan Michelson's examinations of the Chinese legal system.⁴² All of these studies hold that *guanxi* practices, though changing, are not declining in significance.

In response to these critiques, Guthrie invoked a "positional notion of *guanxi*" which argues that "The structural position of individuals and firms within Chinese society is one of the central variables figuring into our assessment of the importance of *guanxi* in China's transforming economy."⁴³ A firm's position *vis-à-vis* the state, therefore, "has a tremendous influence over managerial assumptions about the importance of *guanxi*."⁴⁴

Guthrie is correct in arguing that the importance of *guanxi* depends on where a firm is located in the Chinese political economy.⁴⁵ While analyzing this

³⁷ Though see the contributions in Gold, Guthrie and Wank 2002a as well as Yang 2002.

³⁸ Guthrie 1999; 2002.

³⁹ Guthrie 1999, chapter 2.

⁴⁰ Bian 2002.

⁴¹ Wank 1999; 2002.

⁴² Potter 2002; Michelson 2007.

⁴³ Guthrie 2002, 38.

⁴⁴ Guthrie 2002, 39.

⁴⁵ Ironically, Guthrie's own research in Shanghai focused exclusively on the urban industrial sector, in particular state-owned enterprises. Detecting *guanxi* practices in this field can be notoriously difficult (see Yang 2002, 461-62). Despite more uniform and rational-legal bureaucratic guidelines, state enterprise managers continue to be managed by Leninist institutions. Since *guanxi* are frowned upon and often conflated with corruption and nepotism by the CCP, state enterprise managers are unlikely to be forthcoming when discussing this subject.

subject-matter from a different vantage point, Hsu and Saxenian hold that there are limits to the sway of *guanxi* capitalism in the high-tech networks integrating Silicon Valley and Hsinchu on Taiwan. While “*Guanxi*-embedded trust helps cross-border firms engaging in initial cooperative business,”⁴⁶ it does not create “essential resources for firms in both regions to build up their competitive competence... The argument of *guanxi* capitalism just goes too far.”⁴⁷

Like Guthrie, Hsu and Saxenian argue that *guanxi* capitalism's sway differs depending on a firm's positioning. Since China's emergent capitalism possesses considerable regional and sectoral differences, institutional logics are multifaceted, and *guanxi* can attain different purposes, meanings and significance. Nonetheless, Guthrie misinterprets the nature of China's emergent capitalism when he argues that “The closer an organization is to the central government (...), the less likely the general manager of that organization is to see *guanxi* as continuing to be important in the reform era.”⁴⁸

In contrast to Guthrie's assertions, several studies indicate that the larger and more powerful a private firm, the more likely its managers are to engage with the party-state's power structure.⁴⁹ As David Wank notes, “larger scales of trade and capital accumulation appear to correspond to heightened perceptions of the necessity to have ties to influence officialdom through *guanxi practice* and other kinds of network strategies.”⁵⁰ More generally, comparative international surveys of entrepreneurs reflect the contemporary importance of *guanxi* in China, especially the cultivation of *guanxi* with the agents and institutions of the Chinese party-state. 93 percent of Chinese business owners, for instance, reported that *guanxi* are necessary to succeed in business.⁵¹ Even for many Western executives it seems that “nurturing good *guanxi*...continues to be the best way to get advance warning of new developments that could affect their businesses.”⁵²

Ultimately, Guthrie's definition of capitalism is ideal-typical, stressing capitalism's rational-legal attributes above the more universal principle of relentless capital accumulation. For sure, as capitalism develops many realms of the economy become regularized, driven by market forces and based on clear rules and regulations. However, the higher echelons of capitalist political economies continue to be shaped by close personal networks. As they rise to positions of social and political influence, capitalists attempt to shape the powers of the state.⁵³ Capitalists also seek super-profits, often in the form of monopoly

⁴⁶ Hsu and Saxenian 2000, 2003.

⁴⁷ Hsu and Saxenian 2000, 2004.

⁴⁸ Guthrie 2002, 54.

⁴⁹ See Dickson 2008 and Yang 2002.

⁵⁰ Wank 2002, 113; italics in original.

⁵¹ Streeter 2010.

⁵² Simon and Fuld 2010.

⁵³ Heilbroner 1985.

profits. The first large-scale firms in modern history, the great merchant companies, were born of trade monopolies that “would have been unthinkable without the privilege granted by the state.”⁵⁴ Constant networking between the elites of state and capital has remained a feature of capitalist political economies ever since.

Guanxi practices have lent the cultivation of personal networks at the higher echelons of China’s emergent capitalism an additional quality, infusing it with norms and values drawn from China’s cultural lexicon. Indeed, *guanxi* have facilitated the transition from a monolithic Leninist system to a more open and plural polity in which up-and-coming capitalists can exchange wealth for power.⁵⁵ The marketization and institutionalization of China’s emergent capitalism thus merely stands in contradistinction to the continued need for private entrepreneurs to use political *guanxi* networks to embed themselves in party-state institutions.

To sum up, *guanxi* practices have transitioned over the past 60 years from a means by which ordinary people could acquire everyday necessities to a key mechanism that allowed China’s nascent private sector to establish itself, especially by providing entrepreneurs with channels to navigate government restrictions and ambiguous institutions. As China’s everyday economy has become more institutionalized and marketized, *guanxi* capitalism is moving up the political spectrum to create channels by which wealthy entrepreneurs can enter political institutions and exert political influence.⁵⁶ *Guanxi* practices have become a conduit between the logics of Leninist control and relentless capitalist accumulation.

The following case studies elucidate these changing dynamics of China’s *guanxi* capitalism. Private firms in this limited sample have owners that emphasize *guanxi* networks with political authorities, though with different conducts and outcomes. Some rely on idiosyncratic ties to the party-state for business success, while others actively seek to formalize their access to the organizations and agents of the Chinese party-state.

***Guanxi* Capitalism’s Contemporary Dynamics: Three Cases**

Over the past thirty years private firms have marched from the fringes of the Chinese political economy to take on a central role. In the early reform phases up until the mid-1990s private entrepreneurs faced political uncertainty, insecure property rights and overt government discrimination. Since the mid-1990s, economic, legal and political initiatives have allowed private firms to gradually clarify their ownership structures and attain a certain degree of organizational

⁵⁴ Braudel 1982, 443.

⁵⁵ Dickson 2008.

⁵⁶ McNally and Wright 2010.

clarity *vis-à-vis* their socio-political environment. Nonetheless, institutional ambiguity persists in many realms, and larger private firms in particular continue to cultivate *guanxi* networks with the local party-state.

The three case studies presented here constitute a snapshot of the changing nature of political *guanxi* networks in China's private sector. Although three cases cannot produce conclusive evidence, they can provide exploratory indications. Indeed, ethnographic methods and in-depth case studies are perhaps the best means to trace the evolution of government-business relations in China's rapidly changing and transitional context.⁵⁷

AB Furniture

The first case is a medium-sized furniture manufacturer that grew out of the privatization of a Township and Village Enterprises (TVE). It therefore reflects a large swath of China's private sector that focuses on small- to medium-scale light manufacturing, is located in semi-urban regions outside of major urban centers, and originally emerged from collective or local state ownership. AB Furniture first developed as a classic "red hat" enterprise, i.e., it was *de jure* registered as a TVE under a local government but *de facto* controlled by Mr. and Ms. A, the husband and wife entrepreneurial team that built AB Furniture.⁵⁸

In many ways, Ms. A has been the driving force behind AB Furniture's development. Her career began as a government official, but she was seconded to several TVEs in the early 1980s where she gained knowledge of the furniture business. With 30,000 RMB of their own money and another 20,000 borrowed from friends and relatives, Mr. and Ms. A established AB Furniture as a collective TVE under a village (*xiang*) government in 1986. In the initial entrepreneurial phase AB Furniture gradually accumulated capital by copying designs from furniture factories located in Guangdong Province. In 1993, good relations with the local credit cooperative allowed AB to access more than 6 million *yuan* to buy a land lease and build a new factory. As a result, sales expanded and its workforce exceeded 300 by 1996.

In 1997, the provincial government recognized AB Furniture as a "Famous Brand Name" (*mingpai*), an honor only reserved for a small number of mostly state-owned manufacturers. At this point, AB held an 80 percent share of

⁵⁷ Fieldwork was undertaken between 2001 and 2008 in Shanghai, Guangdong, Chongqing and Sichuan. In total, about 120 interviews were conducted covering 20 private enterprises and a variety of professionals and academics. All interviews were conducted without the aid of translators in either Mandarin or Cantonese and employed a standardized questionnaire. Interviewees were assured of utmost confidentiality, and a coding system has been employed to protect their identities.

⁵⁸ Interviewees included Mr. A and Ms. A; Mr. P, a General Manager; Mr. C, a Factory Manager; and two observers familiar with AB Furniture's business conditions.

the furniture market in its urban region. As government policies urged “red hat” enterprises to clarify their ownership after 1997, AB followed suit. In AB’s case no formal asset valuation took place. Rather, Mr. and Ms. A negotiated a token sum with the village government and registered AB as a limited liability corporation with two equal shareholders: Mr. and Ms. A.

By the late 1990s AB began to face severe difficulties as market conditions changed dramatically. Within the span of a few years more than 1,000 furniture factories sprung up in its vicinity, putting pressure on its profits. AB’s family-based management system also started to fall apart. As AB grew, Mr. and Ms. A had employed many relatives and acquaintances in management positions. A disastrous investment into furniture retailing initiated by Ms. A’s daughter and her husband, both of which had taken up top management positions in AB, almost bankrupted the firm and created a major rupture. Ms. A and her daughter fell out, leading the daughter and her husband to leave AB.

Since Mr. A faced an ongoing ailment, Ms. A decided to hire outside management expertise in 2001. This decision represented a move away from the traditional Chinese family-centered style of management to a more formalized system incorporating outside expertise and more institutionalized authority structures. The new managers fired many of the As’ relatives and other employees, restructured internal operations, liquidated inventory, lowered costs and decided to sell AB’s factory building. Fortuitously, Ms. A had access to a key piece of information: plans by the local government to develop the area where AB’s factory was located into a major shopping mall. AB was thus able to make a 60-70 percent return on its initial investment, generating much needed capital to pay down debts and invest in the future.

These new business strategies yielded some initial successes, but since AB Furniture faced enormous competitive pressures, its once dominant market position had vanished for good. Nonetheless, AB still possessed one major advantage: a well-recognized brand name in its region. While retaining some outside expertise, AB reverted back to a management system with Ms. A in the lead after 2007. It is now a medium-sized furniture manufacturer, benefitting from its once leading name recognition.

Perhaps the most interesting aspect of AB’s evolution are Ms. A’s political *guanxi* networks. Due to her family background, Ms. A was invited to become a member of one of China’s eight democratic parties in the early 1980s. According to Ms. A, however, it was not her political background but rather the rapid growth of AB Furniture that created strong political contacts. These then propelled Ms. A to be selected as a People’s Congress member on the city district level in 1993. In 1996, Ms. A moved up a further step and became a representative in the provincial capital’s People’s Congress. Finally, in 1998 Ms. A was invited to serve on that city’s Quality Inspection Association. While the Quality Inspection

Association is in principal non-governmental, it is closely associated with the Quality Inspection Department, giving its members some influence over policy implementation.

According to Ms. A, she has not used her political positions to benefit AB Furniture. Nonetheless, interviews made clear that the company was able to profit in indirect ways. As a City People's Congress representative, Ms. A possesses a "green pass" which gives her direct access to the mayor. In this way, Ms. A's political position has yielded a standing in China's political system for AB Furniture, allowing it to enjoy greater respect from government officials and the bureaucracy. For instance, after AB Furniture moved into a temporary factory premise in early 2002, local village officials descended on it to demand payments of all kinds. Due to her *guanxi*, Ms. A could immediately contact the party secretary of the township within which the village was located. The troubles disappeared.

AB Furniture also gained from the granting of official awards, such as the "Famous Brand Name" award and an additional "Outstanding Enterprise" (*teji qiye*) award given by the City Quality Inspection Department in 2001. The granting of these awards coincided to some extent with Ms. A's political ascent and generated free advertising and public relations.⁵⁹ In addition, Ms. A's political *guanxi* networks made it easier for AB to take out loans and gain access to crucial market information, most importantly early knowledge about plans to build a shopping mall at the location of its old factory premises. Finally, Ms. A's position on the City Quality Inspection Association gives her indirect influence over the implementation of government policies in the furniture sector.

Fundamentally, AB Furniture's successes and failures can be traced back to market strategy and economic conditions. AB's history thus expresses how increasing market competitive pressures have played a key role in rationalizing China's political economy. Nonetheless, the advantages generated by Ms. A's political career and resulting *guanxi* networks were an important factor underpinning AB's survival. Political *guanxi* networks generated distinct benefits, such as enabling AB to gain better access to credit and crucial information. They also eased AB's dealings with government officials and opened the door to government sponsored awards and policy benefits. Equally important, Ms. A's political *guanxi* networks express how *guanxi* relations are becoming more formalized as the CCP has selectively opened the door for entrepreneurs to enter political institutions.

Even though no government officials or local government institutions hold shares or other financial interests in AB Furniture, Ms. A has shrewdly leveraged

⁵⁹ These awards generally go to firms that government officials want to transform into local, provincial, or national champions. Market competitiveness therefore does not necessarily influence which companies receive these awards.

her political career to the advantage of AB's commercial survival. Indeed, her political *guanxi* networks have melded formal political positions with more informal access to policy makers, market information and other intangible benefits. In this sense, Ms. A might represent the future of China's increasingly politically embedded private entrepreneurs.⁶⁰

H Real Estate

Mr. H, the owner of H Real Estate, belongs to another type of private entrepreneur: those that did not directly transition out of the state sector, but that profited from taking advantage of China's ambiguous institutional arrangements by employing political *guanxi* networks to build businesses.⁶¹ Starting in 1987 and lasting in most regions into the early 2000s, much state-owned land was leased to the private sector. This did not occur *via* open bidding, but rather by negotiation, a process that allowed those who had close ties to the proper officials to obtain land at low prices.⁶²

Mr. H began his career in government service, including work in the provincial party secretariat, the province's highest political office. After leaving government service in 1992, Mr. H worked for several years at a large Hong Kong real estate developer. In 1996, he decided to invest his own savings and established H Real Estate as a limited liability corporation. To fulfill incorporation requirements, Mr. H brought two distant relatives on board, each of whom was given ten percent of H Real Estate but required to be a silent partner. All strategic and managerial decisions have since been in Mr. H's hands, and he is both the chair of the board of directors and general manager of H Real Estate. Due to his former political position, Mr. H is a member of the CCP. However, H Real Estate has no party committee and no formal links to CCP offices.

H Real Estate's management system is closely modeled on that of Hong Kong real estate developers. Indeed, Mr. H poached most of his twelve initial employees from his former employer. To grow its business, H Real Estate has mainly relied on retained profits, but in some instances used *guanxi* to obtain short-term loans from individuals to bridge cash flow problems. Overall, H Real Estate is considered a medium-sized developer in its region, facing strong competitive pressures. Accordingly, Mr. H's strategy has been to seek out larger real estate developers and enter into cooperative ventures with them.

Illustrative of this strategy is the largest development project H Real Estate ever undertook. As urban renewal garnered steam in China's west after

⁶⁰ See Dickson 2008; McNally and Wright 2010.

⁶¹ Interviewees included Mr. H; Mr. T, a vice-general manager; and three academics familiar with H Real Estate's business conditions.

⁶² Hong 2004, 27-29.

2000, H Real Estate tried to take advantage of an opportunity to develop a city district containing many old factories under state ownership. Mr. H knew that his corporation, faced with competition from larger real estate corporations, would be too small to bid for projects on its own. He thus linked up with a larger real estate corporation that possessed an important advantage—its special *guanxi* with a factory that occupied a large tract of land slated for redevelopment.

Mr. H's motivation for entering this partnership is clear, but why would the larger partner with direct access to land require a smaller partner? Mr. H's valuable political *guanxi* networks with his former subordinates and superiors in the provincial party secretariat, many of which had moved on to more important positions, made him a valuable asset in smoothing relations with various government departments. One of Mr. H's former colleagues, for example, had become the vice-party secretary of an important city district. In addition, H Real Estate had employed the son of a provincial vice-party secretary as vice-general manager, another important link into the political sphere.

When asked which factors facilitated H Real Estate's development, Mr. H noted modern management methods and entrepreneurial acumen, but that these had to be combined with *guanxi*. "*Guanxi* are more important than capital. If you have *guanxi*, you will have access to capital. However, if an entrepreneur has capital but no *guanxi*, the business cannot survive." Above all, political *guanxi* networks are important because real estate developers need to deal with a comparatively large number of government agencies, each of which can block or hold up a development. *Guanxi* ties come in particularly handy when dealing with various problems, such as demands from government officials for fees or in-kind benefits (use of cars, property, etc.). As Mr. H put it, "There is no use in resisting, because, if you do, you will just get into deeper trouble. Having *guanxi* facilitates most aspects of business."

Mr. H was adamant that medium-sized private real estate developers faced increasing discrimination in China. Mr. H thus saw himself clearly as standing outside of the power structure, needing political *guanxi* to create business opportunities and gain access to powerful decision-makers. According to Mr. H, there is no way that private corporations can enjoy the same policy benefits as real estate developers closely associated with the state.⁶³ Private corporations suffer since there is a conflict of interest that prods local governments to support the developers they own or are linked to with policy benefits.

These challenges prompted a gradual shift in strategy by Mr. H after the completion of his largest project in 2006. Since he had made back his investment and still owned about a third of the development, he decided to rent out the

⁶³ Interestingly, another real estate corporation interviewed had deliberately registered as a state-owned entity to avoid discrimination. The company, though, was managed exclusively by two partners and had no state investment.

remaining units and scale down his business. The future was not very bright for medium-sized developers, he noted. Basically, the regularization of the land tendering system in China *via* auctions had increased land prices, advantaging better capitalized businesses. Taxation burdens had also increased, while bigger developers, often state-owned or closely affiliated with the state, had created an uneven playing field. In fact, Mr. H noted that many private developers of H Real Estate's size faced losses after paying too much for land under the auctioning system. In some cases, they were unable to make a profit because they were hit with punitive taxes by local governments, forcing them to sell the land they had acquired at auction to developers associated with the local party-state at prices lower than what they initially paid.

Marketization and regularization of the land selling process thus pinched medium-sized developers like H Real Estate. In Mr. H's view, new rules had disrupted competition and moved *guanxi* practices into higher echelons of the power structure, advantaging more powerful and better capitalized companies. Although H Real Estate had many competitive assets, including Mr. H's political *guanxi* network, this was not enough. Big and well-connected capital was ahead of the game.

L Pharmaceuticals

In contrast to Mr. H and Ms. A, Mr. L belongs to a group of entrepreneurs who built their businesses after China's market economy had matured, mainly relying on technological acumen and entrepreneurial savvy.⁶⁴ However, as Mr. H and Ms. A, Mr. L has nurtured an extensive political *guanxi* network. Mr. L comes from a family of Chinese doctors, though he only graduated from junior high school. In the early 1990s he started work at W Corporation, one of the largest Chinese medicinal corporations. After developing a major new project for W Corporation, Mr. L fell out with the boss of W Corporation over how profits would be shared. As a result of this altercation, Mr. L left W Corporation and established L Pharmaceuticals with two partners in 1996 as a limited liability corporation, though each of the partners owns only one percent of the shares. Mr. L established his company in the prefectural-level city from which he and his partners hailed. At first they rented a factory premise, but then decided to buy land in 2000. By the late 2000s L Pharmaceuticals employed over 600 workers and its products were sold all over China to pharmacies and hospitals.

As a limited liability corporation, L Pharmaceuticals has a board of directors that Mr. L chairs. Basically, the board and management team are fused into one body, creating a unified management structure. There are no government

⁶⁴ Interviewees included Mr. L and two observers familiar with L Pharmaceutical's business conditions.

officials on L Pharmaceuticals' board, and Mr. L is not a CCP member. Interestingly, though, L Pharmaceuticals has established a party committee, since there are party members within the corporation. One of Mr. L's two partners acts as the party secretary. Unlike in state firms, this party committee has no real power and purely takes care of party matters affecting CCP members within L Pharmaceuticals.

L Pharmaceutical keeps very close *guanxi* with several government departments, especially the government agencies in charge of developing the pharmaceuticals industry on the prefectural and provincial levels. In return, L Pharmaceuticals receives guidance on quality control and sectoral development policies as well as access to low interest loans that the central Chinese government gives preferentially for technology improvements. Indeed, government support has aided L Pharmaceuticals' push to invest heavily in research and development, allowing it to develop new medicines and foster collaborative research ties with universities and government funded research units.

L Pharmaceuticals is the largest taxpayer in the medium-sized city it is located in. As a result, its size facilitates L Pharmaceuticals access to government officials. It is widely understood that the successful tenure of a city mayor or party secretary is dependent on producing economic growth and government revenue. Government leaders therefore do what they can to support their biggest taxpayers. In this sense, L Pharmaceuticals and the local government depend on each other for their respective development, and the company receives special treatment from the city government, especially aid in gaining access to bank loans, land, licenses, etc.

Nonetheless, not much unlike Ms. A, Mr. L has leveraged the size of his company to himself cultivate an extensive political *guanxi* network and foster close working relations with government agencies. He is a member of the city's Chinese People's Political Consultative Conference. In this capacity he can meet the city's political elite and make his views known, often with the result that they are taken into account. In addition, Mr. L is the chair of the local Chamber of Commerce and a standing member of the city's All-China Federation of Industry and Commerce.

As Ms. A, Mr. L has combined management expertise with the nurturing of a strong political *guanxi* network. The size of their firms locally was leveraged to expand their political *guanxi* networks to higher echelons of the party-state and to further their firm's success. Mr. L's network also is based primarily on formal positions, especially his membership in his hometown's Political Consultative Conference. Therefore, even for a company that primarily relies on technology development and market savvy, formal admission into China's political sphere for its owner has played a role in improving its status and aiding its success.

Case Analysis

These three case studies by no means constitute a representative sample of all Chinese private firms. Nonetheless, ethnographic methods and in-depth case studies were employed here to provide distinct snapshots or narratives of how private entrepreneurs cultivate political *guanxi* networks. While case studies cannot provide conclusive evidence, they are well suited to trace evolutionary dynamics over time.

The three firms are all located within the same region of China (Sichuan and Chongqing), though information gathered from fieldwork in other sites has been used to triangulate and compare the findings. While Sichuan and Chongqing are located in China's western interior and possess lower income levels and penetration of foreign business than coastal areas, they are representative of some of the rapidly developing and heavily populated urban middle income regions in China's interior which are majority Han Chinese. The three cases further are broadly representative in the sense that they illustrate the changing linkages between China's private sector and the country's political sphere. Even firms that are in more institutionally formalized settings (e.g., technology entrepreneurship) were found to emphasize the cultivation of political *guanxi* networks.

In addition, the enterprises interviewed are all considered medium-scale for their sectors and regions. Both location and size of the firms thus was held relatively constant. However, the three firms' sectors and origins are highly unlike. In fact, the three cases correspond quite well to the three basic groups of private entrepreneurs (in terms of their origins) identified in the literature.⁶⁵

The first group generally identified emerged during the privatization of small state enterprises and TVEs, which gained official support under the policy of *fang xiao* ("to let go of the small") in 1997. AB Furniture, as many of China's myriad of small- to medium-sized light industrial manufacturers, belongs to this group. The second group resembles the first in some key respects, but these entrepreneurs have not directly transitioned out of state ownership. Rather, they have used *guanxi* to gain economic advantages, especially during the early phases of reform lasting from the late 1970s through the mid-1990s. Mr. H, as many other private entrepreneurs in sectors where the government controls key resources, especially real estate, corresponds to this group. The third group of private entrepreneurs relied on their skills and market savvy to grow businesses. They are concentrated in technology-intensive and creative industries, and most of their firms were founded after China's market economy matured, i.e., starting in the mid-1990s. L Pharmaceuticals clearly is part of this group, as are most ventures in China's successful high-tech development zones.

⁶⁵ Hong 2004; Wank 1999.

Undoubtedly, the more government regulatory purview there is over a certain resource (e.g., land, mines, oil, metals, finance), the more likely private entrepreneurs dealing in this resource must nurture political *guanxi* networks. But even in sectors where government influence is relatively small (e.g., furniture), political *guanxi* networks come in handy. AB Furniture reflects how influence over quality control standards, access to key pieces of information and certain government awards can help an enterprise in a sector with fierce market competition. Indeed, Ms. A's case illustrates that the hand of the Chinese government reaches far enough into all sectors of the economy as to make the cultivation of *guanxi* worthwhile for entrepreneurs.

As will be elaborated in the next section, the lack of autonomous institutions outside the party-state's control, such as an independent judiciary, and continued deep government involvement in economic affairs gives local officials wide discretion. The power of local officials to intervene in society and economy, in turn, creates "deliberate ambiguity"—ambiguity over how economic rules and laws will be enforced, even in sectors, such as technology development, where the government is highly supportive, and institutional ambiguity tends to be lower.⁶⁶ Therefore, while formal legal mechanisms have been proliferating in China, the institutional logic of *guanxi* continues to hold sway. Just as with lawyers,⁶⁷ *guanxi* networks aid private entrepreneurs to navigate the "deliberate ambiguity" of China's emergent capitalism.

The cases of Ms. A and Mr. L further reflect how private entrepreneurs have attempted to gradually strengthen their formal links into the political sphere. They have actively sought to enter political advisory and legislative institutions, while also being active in semi-governmental business and regulatory advisory associations. Private entrepreneurs in China can now combine a business career with political advancement. Ms. A, for instance, has been able to launch an impressive political career that took her from the local district level to the level of the provincial capital. In both Mr. L's and Ms. A's cases, entry into formal Chinese political institutions allowed them to reinforce their *guanxi* networks with official positions, thus gaining both economic *and* political influence.

In contrast, Mr. H's *guanxi* ties into the political establishment have been of a rather informal character. Mr. H undoubtedly profited from taking advantage of China's ambiguous institutional arrangements to employ political *guanxi* networks for his benefit. However, H Real Estate also is illustrative of how capitalist development can disadvantage smaller private players. With new land auctioning systems, only large and well-capitalized real estate developers stand a chance to gain access to valuable plots of land in China. Recent reports, for instance, show how in early 2010 state-owned companies have been able to

⁶⁶ For further elaboration of this concept see Ho 2001.

⁶⁷ Michelson 2007.

outbid private developers consistently, paying an average of 27 percent more for an otherwise equivalent piece of land.⁶⁸ Not only do state-owned developers possess better access to local government officials than private developers, they also often have better *guanxi* ties to the state-owned financial system. “It’s a little like a son who borrows money from his mother” for a state-owned developer to ask for state-backed financing.⁶⁹ *Guanxi* practices thus remain significant, but they are moving up the echelons of the power structure, bridging the logics of Leninist control and relentless accumulation.

Concluding Remarks

The dynamics of China’s changing *guanxi* capitalism conveyed by the three case studies are reflected in recent works analyzing political change in China. Bruce Dickson, for instance, remarks that “Instead of engaging in conflict and confrontation, China’s political and economic elites are increasingly intertwined, cooperating on producing national development and colluding in accumulating personal wealth.”⁷⁰ Therefore, as China’s market economy and capital accumulation are progressing, private business interests are gradually gaining political leverage.

Guanxi capitalism is clearly creating deep structural changes in China’s political economy. On the one hand, the CCP has proven adaptive in integrating new elites.⁷¹ This has created a more inclusive and institutionalized polity that encourages large private enterprise owners to be engaged in formal political institutions. It also has changed the nature of the CCP’s political constituency and its basis of legitimacy. China now possesses a Leninist party structure that fosters the needs and interests of private capital accumulation to a considerable extent. On the other hand, private entrepreneurs have employed, as Kellee Tsai argues, a “diverse range of informal coping strategies.”⁷² These coping strategies have over time triggered responses from the Chinese party-state. The result: strategies that were often illegal or politically taboo at the outset were sanctioned post hoc.

Chinese entrepreneurs’ reliance on *guanxi* can therefore be seen as an effort to invoke “culture” as a tool-kit.⁷³ At first, private entrepreneurs faced insecurity in the absence or poor establishment of formal institutions facilitating entrepreneurship, such as legal systems, impartial bureaucracies and financial institutions. Various types of *guanxi* networks compensated for institutional

⁶⁸ Barboza 2010.

⁶⁹ Barboza 2010.

⁷⁰ Dickson 2008, 1.

⁷¹ Dickson 2008; Shambaugh 2008.

⁷² Tsai 2007, 207.

⁷³ Swidler 1986.

uncertainty and helped to create profit-making opportunities.⁷⁴ However, by the 2000s many private entrepreneurs had established themselves economically, and the Chinese party-state opted to incorporate them into the political sphere. As Tsai observes, “Capitalists have never had better access to the political system in PRC history.”⁷⁵

Nevertheless, the Leninist nature of the system remains intact, and the CCP has carefully selected those entrepreneurs it deems trustworthy and reliable.⁷⁶ Chinese entrepreneurs have therefore strategically adapted tradition to the specific circumstances in which they found themselves. Like Mr. L and Ms. A, increasing numbers are becoming members of People’s Congresses and Chinese People’s Political Consultative Conferences. And as Ms. A, some even hold multiple posts.⁷⁷ Arrangements whereby China’s richest private entrepreneurs are part and parcel of the political establishment are now common, not only at the local level but increasingly in Beijing. As Dickson notes, “The correlation between wealth and political influence is particularly noteworthy on the national level.”⁷⁸

Basically, the larger the firm, the more incentives its owners face to cultivate *guanxi* to influence officialdom.⁷⁹ Being a People’s Congress or People’s Political Consultative Conference member gives entrepreneurs “regular and recurring access to decision makers and the opportunity to influence laws and regulations.”⁸⁰ Delegates may even initiate investigations, cultivate personal relationships with top political leaders and gain protection from government predatory behavior.⁸¹ All of these benefits were mentioned by Ms. A, and, to a lesser extent, by Mr. L. Even membership in local Chinese People’s Political Consultative Conferences, positions that carry less direct influence, signify membership in the local elite, thus giving delegates and their companies a measure of prestige.⁸²

These contemporary dynamics of China’s *guanxi* capitalism entail several conclusions concerning its nature and logic. To begin, *guanxi* capitalism must be conceived of as one major, though not the only, element of China’s emergent capitalism. Strong influences emanating from the global capitalist system and China’s socialist legacy are additional major elements.⁸³ This multifaceted nature

⁷⁴ Wank 1999.

⁷⁵ Tsai 2007, 201.

⁷⁶ Dickson 2008, 197.

⁷⁷ See also Dickson 2008, 195.

⁷⁸ Dickson 2008, 171.

⁷⁹ Wank 2002, 111-13.

⁸⁰ Dickson 2008, 172.

⁸¹ Dickson 2008.

⁸² Dickson 2008, 176.

⁸³ McNally 2008a.

of China's emergent capitalism explains to some extent why *guanxi* and *guanxi* capitalism have been heavily debated and often misunderstood.

Even more importantly, *guanxi* practices are constantly undergoing change as they evolve with China's emergent capitalism.⁸⁴ Unfortunately, *guanxi* are sometimes conceptualized in a too essentialist manner.⁸⁵ In China's emergent capitalism, *guanxi* relations are constantly disrupted and reconstituted by institutional and value change. Affective aspects built on historical-cultural roots thus constantly meld with highly instrumental roles and strategies. Moreover, the same individual can possess a range of different *guanxi* networks.⁸⁶

This conception of *guanxi* capitalism further implies that *guanxi* are adapting to the structural needs of China's emergent capitalism and thereby infusing China's newly established formal institutions with *guanxi* practices.⁸⁷ As Ethan Michelson notes in regard to China's legal system, "There is no theoretical reason why formal adherence to the global institutional logic of the 'rule of law' must necessarily supplant contradictory institutional logics including the logic of authoritarian control and the logic of *guanxi*..."⁸⁸

As such, *guanxi* capitalism encompasses simultaneously deep tensions and symbiotic dynamics. Despite the increasing use of contracts, formal institutional arrangements and modern corporate forms in China's private sector, ambiguity in rules and institutions persists. Institutional ambiguity navigated by *guanxi* relations has actually been crucial in enabling private entrepreneurs to translate wealth into political influence. This "deliberate ambiguity" also contains benefits for the development of China's political economy in making the regime of economic governance more flexible. Peter Ho, for instance, argues that "deliberate institutional ambiguity" acts as a "lubricant" on which China's land tenure system is run. In his view, "this institutional indeterminacy is partly the result of efforts by the central leadership to create leeway for reacting to societal developments. For this reason, I speak of 'deliberate institutional ambiguity' as upheld by the state."⁸⁹

"Deliberate ambiguity," in turn, further aids the state in retaining a measure of control over society and economy. Although the Chinese polity has witnessed a degree of pluralization and institutionalization, a key component of maintaining state control is the deliberate lack of transparency about laws and rules.⁹⁰ Rather than establishing autonomous institutions outside the party-state's

⁸⁴ See Lo and Otis 2003 and Yang 2002 most forcefully on this point.

⁸⁵ Michelson 2007, 355.

⁸⁶ The variety of *guanxi* networks that can be cultivated by one individual is illustrated by the Overseas Chinese entrepreneur Robert Kuok Hock Nien. See Koon 1997.

⁸⁷ Yang 2002, 459.

⁸⁸ Michelson 2007, 357.

⁸⁹ Ho 2001, 400.

⁹⁰ Cartledge 2007.

purview, such as an independent judiciary, party-state officials continue to possess wide discretion. As Andrew Nathan puts it, "The regime is willing to change in any way that helps it to stay in power, but is unwilling to relax the ban on autonomous political forces."⁹¹

The combination of Leninist control and relentless accumulation therefore promotes a degree of "deliberate ambiguity" in governing China's private sector. Any private entrepreneur of considerable commercial success will inevitably have committed some illegal act during his/her career. The party-state can in this manner always find a business person guilty of a transgression, providing it with an effective deterrent to political challenges from economic elites.

Consequently, "deliberate ambiguity" has been essential to the CCP's quest of retaining power in the face of rapid economic change. "China's developmental model is actually predicated on weak rule of law, and this is unlikely to change in the foreseeable future."⁹² Indeed, *guanxi* capitalism has formed a link between the logics of Leninist control and capital accumulation, and actually created a dynamic efficiency that is strengthening both in mutually reinforcing cycles.⁹³ While the CCP has fostered rapid capital accumulation by private interests, it also has captured part of the newly generated capital for its own statist purposes, such as the expansion of military power and governmental infrastructure. *Guanxi* capitalism calibrates state-business ties, empowering both sides of the equation.

Put differently, the CCP's dual aims of maximizing wealth accumulation while retaining discretionary political power have created "deliberate ambiguity" and the conditions for *guanxi* capitalism to flourish. The result: a state-capital symbiosis in which large private businesses have gained in influence and been co-opted into party-state bodies. This dynamic of retaining an opaque and uncertain business climate for private firms while yielding particularistic benefits to individual entrepreneurs loyal to the political elite finds distinct parallels in China's late imperial history.

In late imperial China a reliance on *guanxi* ties to conduct business transactions was strongly reinforced by state officials. In David Faure's view, the imperial system "stressed collective rather than individual responsibilities, and private connections and interpersonal settlements in money or gift rather than strict terms of law."⁹⁴ Ultimately, imperial officials feared that impersonal economic exchanges could lead to large local concentrations of economic wealth.⁹⁵ In turn, this preference for interpersonal accommodation undermined

⁹¹ Nathan 2009, 39.

⁹² Studwell 2009, 11.

⁹³ This process of "mutual empowerment" has been conceptualized by Kohli and Shue 1994.

⁹⁴ Faure 2006, 16.

⁹⁵ Gates 1992, 32.

attempts to develop bureaucracies with formalized and universally applicable rules.⁹⁶ The dominant imperial state thus attempted to control both capital and markets for its own purposes. Private capital accumulation was “unrelentingly harnessed by tributary might, turned to tributary rather than capitalist purposes.”⁹⁷

China’s contemporary political economy differs in many respects from the late imperial system. There are enormous competitive pressures emanating from the global capitalist system that condition Chinese policies and, over time, have fostered a gradual improvement in the investment climate for private business. Nonetheless, historical antecedents to the “deliberate ambiguity” with which the CCP attempts to rule the economy are quite striking.⁹⁸

In the final analysis, *guanxi* capitalism allows capitalist interests to better assert themselves politically in formal institutions, thereby serving as a conduit for changes in the distribution of political and economic power in China. As in all cases of capitalist development, the powers of the private sector are gradually rising.⁹⁹ Nonetheless, this does not imply that China’s emerging form of capitalism is converging with standard Anglo-American capitalism. Rather, it is based on networks of small firms that rely on “personal trust rather than a legal system,” expressing “the importance of interpersonal and kinship relations rather than individual rights.”¹⁰⁰ A unique Chinese model of capitalism is developing in which *guanxi* networks allow private entrepreneurs to form symbiotic relations with various individuals and agencies in the party-state.

In addition, *guanxi* capitalism indicates a state-first system of capitalist accumulation. Although *guanxi* capitalism is playing a crucial role in enhancing the powers of private capital, its processes also directly benefit the state. Basically, *guanxi* capitalism has allowed the CCP to foster immense private wealth accumulation in an institutionally ambiguous and opaque environment. As a result, the Chinese party-state has been able to use “deliberate ambiguity” to maximize its ability to retain political power while capturing private wealth.

The future of China’s emergent capitalism, though, is indeterminate. Sustainable capital accumulation tends to be carried out by economic actors largely independent of direct state control. The tensions between Leninist control and private capitalist accumulation will therefore continue to shape China’s emergent capitalism. Nevertheless, this study of *guanxi* capitalism opens an analytical window into how *guanxi* practices, Leninist controls and capitalist accumulation are interacting, changing and adapting in China. Both

⁹⁶ Mann 1987; Boisot and Child 1996.

⁹⁷ Gates 1992, 8.

⁹⁸ For an analogous interpretation of how China’s historical-cultural heritage has informed its political system, see Zheng 2010.

⁹⁹ Heilbroner 1985; McNally 2008b.

¹⁰⁰ Yang 2002, 467.

complementary and contradictory dynamics have been detected, elucidating how *guanxi* are forming a bridge between the logics of Leninist control and capitalist accumulation. Processes of formal institutionalization juxtaposed with “deliberate ambiguity,” and the seemingly contradictory strengthening of both state and capital under China’s changing *guanxi* capitalism appear in this manner as more intelligible and logical. Hopefully, this study of *guanxi* capitalism can provide important insights into one central element of China’s emergent variety of capitalism.

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