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**The Increasing Significance of *Guanxi* in  
China's Transitional Economy**

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## **ABSTRACT**

How do we understand the increasing significance of guanxi (social connections) in China's transitional economy? Sociologist Yanjie Bian presents a theoretical model in which the fate of guanxi is considered as a function of institutional uncertainty and market competition. His Chinese data show that social networking is increasingly active when labor market competition increases, personal connections become extremely important when entrepreneurs start up their business or when they try to minimize negative consequences of economic crisis, and relational dependence decreases when business organizations gain a stable market position.

## **ABOUT THE AUTHOR**

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# The Increasing Significance of *Guanxi* in China's Transitional Economy<sup>1</sup>

## Introduction

In transition from redistributive to market institutions, China presents an array of facts pointing to diverse and probably growing roles of *guanxi*, the Chinese expression of social connections, in the building of a market economy. These facts cannot be fully understood in the notion of “embeddedness” that does not leave us with specific expectation on how institutional change is related to social networks, nor can it be explained by the theme of “declining significance of *guanxi*” that assumes a rational, non-relational market system to emerge in China. To understand these facts, I argue, one must consider macro-level dimensions of a transitional economy and how changes in these dimensions alter the relevance and activeness of social networks in that economy.

I propose a typology in which the transition from redistribution to markets is considered to occur in a two-dimensional space of changing degrees of institutional uncertainty and market competition. Institutional uncertainty is high when “rules of the game” (North 1990) are nontransparent, incompatible, and ambiguous, opening room for multiple and probably contradictory interpretations of the rules. Market competition, on the other hand, is high when a business or employment opportunity is open to and sought after by numerous competitors, whose comparative advantages become chiefly important.

China's redistributive economy in the 1970s was operated at lower degrees of both institutional uncertainty and market competition. The post-1980 market reforms changed the economic environment: institutional uncertainty was increased by the strategies of “reform without design” that left institution building legged behind emerging market activities, of piece-meal, gradual reform that co-existed incompatible redistributive and market institutions, and of trial-and-error reform that created room for local governments to act on their own powers and interests. Market competition, on the other hand, was increased by the decentralization of economic decision-making, property rights reforms, fast growing private and mixed economic organizations, and the globalization of Chinese economy. Entering the twenty-first century, while market competition is expected to continue to increase, China's accession to the WTO in 2001 began to put its certain industries and regions on a serious test by international standards of advanced market capitalism, conditioning the parameters of institutional uncertainty.

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The changing degrees of institutional uncertainty and market competition matter for the relevance and activeness of social networks in Chinese transitional economy. As informal mechanisms of economic coordination, social networks of ongoing relations are mobilized to flow information, build and maintain trust, and establish and enforce social norms; therefore, they are most relevant and active in a transitional economy that is full of information asymmetries, lacks formal mechanisms to ensure trust, and weak in legal enforcements to punish illicit behaviors. While these roles have made social networks an important source of social capital to help network users win increased competition in the labor markets, patron-client ties between state officials and entrepreneurs linked power to capital, connected opportunities to resources, and became a growth machine for China's economic takeoff under the models of "local state corporatism," "Communist commercialism," "network capitalism," or "making capitalism without capitalists."

In the remaining pages, I will first define and characterize *guanxi* in Chinese culture. I then will review previous studies about the roles *guanxi* plays in China's transitional economy. In an elaboration of my typological model, I will show, through a substantive analysis of the trajectory of China's market reforms, how the changing degrees of institutional uncertainty and market competition have altered the "networking space" in which *guanxi* plays an important role. I will conduct a preliminary empirical analysis to test hypotheses that are derived from the typological model.

### ***Guanxi* Defined and Characterized**

Of special relevance to this essay is *guanxi*, the Chinese expression of social connections. Students of China have found social connections there so culturally contextualized that they share the consensus that "[t]he Chinese *guanxi* is not a term which can adequately be expressed by an English-language equivalent of one word, the concept is too culture specific" (Parnell 2005: 35; also consult King 1985; Walder 1986; Hwang 1987; Smart 1993; Yang 1994; Yan 1996; Bian 1997; Kipnis 1997; Guthrie 1998; Lin 2001b; Gold et al 2002).

By definition, "*guanxi*" (or kuan-hsi) refers to a dyadic, particular, and sentimental tie that has potential of facilitating favor exchange between the parties connected by the tie" (Bian 2006: 312). In China, any blood or marital relationship is qualified for this definition, and persons connected by a non-kin tie can develop *guanxi* between them if they repeatedly invest sentiments in the tie and, at the same time, build up obligations to each other, making the tie mutually special and beneficial for both parties. It takes time, resources, and strategies to cultivate, maintain, develop, and redevelop *guanxi* ties (Yang 1994), and events of cultural significance, including festivals, holidays, weddings, and birthdays, and occasions of social drinking and eating are some of the opportunities of *guanxi* building (Bian 2001; Bian et al 2005). The deeply understood, widely accepted, and sometimes explicitly spelled out implication of

*guanxi* building is future favor exchanges between parties tied by mutually recognized *guanxi*. In short, *guanxi* culture legitimizes the expected obligations to provide a favor to someone when it is sought after through a *guanxi* tie; such a reciprocal outcome is an unintended consequence of social networking in Western cultures, in which no social capital would be generated by deliberate network building for instrumental values (Arrow 1998). For China, Walder (1986) has rightfully termed *guanxi* “particular-instrumental ties.” Despite this popular understanding, Lin (2001) believes that *guanxi* is asymmetrical social exchange, not peculiar to but concentrated in Chinese culture. In light of this argument, I characterize Chinese *guanxi* in terms of the following three theoretical dimensions.

The first is relational particularism. Relational particularism is defined as a strong tie that is highly personalized, ensures kin or pseudo-kin sentiments, is alive with sentimental interactions, and develops and redevelops through repeated favor exchanges (Lin 2001b; Bian 2001, 2006). The notion points to a social world of what Chinese sociologist and anthropologist Fei Xiaotong (1992) described as the “differential mode of association” (*cha xu ge ju*), in which a person builds his/her egocentric network of close and distant alters through repeated sentimental and instrumental exchanges. For the purpose of future favor exchange, Fei argues, efforts of network building by Chinese individuals are made to increase the degree of particularism (shortening distances) with resourceful alters and decrease the degree of particularism (lengthening distances) with less resourceful alters.

The second is tie-multiplexity. Tie-multiplexity refers to multiple functions and channels which a tie provides to connected parties. Substantively it is “the overlap of roles, exchanges, or affiliations in a social relationship” (Verbrugge 1979: 1286), and structurally it is a “multi-stranded tie” that connects two actors in multiple, however redundant, channels from which to rise fall-back opportunities as in “old boy networks” (Mitchell 1969). Chinese *guanxi* ties are characteristically multiplex ties, which mix qualitatively different norms of exchange, namely expressive with instrumental, social with economic, symbolic with material, personal with public, friendship with businesslike, familial with collegial. The habitus of norm mixing is exemplified in the Chinese notion of face or *mianzi*, a term whose very meaning is against differentiation of exchange logics (King 1994). *Guanxi* operates by the relational logic of asymmetrical exchange, because in each time of exchange receiver gains a substantial favor and granter increases prominence, network centrality, and the power for future favor returns (Lin 2001b). No wonder many Chinese entrepreneurs conduct businesses with friends, comrades-in-arms, former classmates, home village folks, or relatives.

The third is strong reciprocal obligation. While particularistic ties and multiplex ties connect persons closely in multiple role sets, strong obligation of reciprocity is the binding mechanism whereby connected parties become dependent upon and countable for each other in substantive and behavioral terms. When Confucius was asked what a son should do to his father who had stolen a sheep, he responded without a pause that

the son was obligated to conceal the misconduct of his father and not to report it to the authority. To Confucius, a father-son relationship is a higher moral order than a citizen-state relationship, and the standards of “uprightness” (zhi, or moral correctness) are based on the differentiated mode of association that Fei (1992) has described. Here, relational morale of obligation is clearly given primacy and above law, a case scenario that distinguishes Confucian from Christian tradition. Such relational obligations have continued into contemporary China, as evidenced in the studies about patron-client relationships between Communist party branch secretaries and political activists under Mao (Walder 1986), gift flows among villagers of differential social status in Mao’s and post-Mao eras (Yan 1996), and the allocation of jobs which are channeled through *guanxi* networks before and after post-1978 market reforms (Bian 1994, 1997, 2002a, 2009; Bian and Huang 2009).

In sum, *guanxi* refers to those social connections that facilitate repeated favor exchange. It is a particular tie of combining acquaintance (*shu*), intimacy (*qin*), and trustworthiness (*xin*), therefore special favors go to targeted beneficiaries of special relationships and cannot be transferred (Yeung and Tung 1996). Particularism is fortified by personalized sentiments, such as personal feelings (*renqing*), personal face (*mianzi*), and personal attachment (*ganqing*), which jointly impose relational obligation and exert social-psychological pressure on favor granter and favor receiver (King 1985, 1994). Finally, because *guanxi* ties provide multiple functions and cumulate reciprocal obligations between connected parties over time, they are multiplex ties – a *guanxi* tie between two involving parties may provide multiple functions for both parties.

### **The Roles of *Guanxi* in Previous Studies**

What is the fate of *guanxi* in a fast changing Chinese economy? More specifically, are the roles of *guanxi* in Chinese transitional economy going to be persistent without much change or alteration? Are the roles of *guanxi* going to be declining and, if so, why? And are the roles of *guanxi* going to be increasing and, if so, how do we understand this anticipation?

To the first question, if the logic of the embeddedness argument applies invariably to all economies (Granovetter 1985), then a theory-informed prediction is that the roles of *guanxi* in Chinese transitional economy will be persistent, unless otherwise Chinese *guanxi* culture is altered significantly by economic transition. Since cultural change is a long-term process, which takes several hundred years to occur (Williamson 2000), the persistence of *guanxi* in Chinese transitional economy is a theoretical plausible prediction.

Would the significance of *guanxi* be on the decline? There is in fact a hypothesis, inferred from case studies in Shanghai, about the declining significance of *guanxi* during transition: rational decision-making in the economic sphere has risen as a result of private property rights and hard budget constraints, which in turn diminish and will



eventually eliminate irrational, *guanxi*-facilitated favor exchanges in a rationalized and globalized Chinese economy (Guthrie 1998). Although Guthrie's case study findings are hard to be rejected, he has met serious challenge for the fit between his theoretical interpretation and the varying and diverse conditions of Chinese transitional economy (Yang 2002).

A much larger number of empirical studies have revealed the possibility of increasing significance of *guanxi*. This possibility is likely when the hierarchical structure of redistribution is giving way to horizontal ties which connect economic entities in a hybrid economy (Nee 1992); when political and corporate actors form symbiotic ties through which to energize local economic growth (Wank 1999); when kinships serve as property rights (Peng 2004) and governance structure (Lin 1995) in township and village economy; when market information is "uncodified" but channeled through kinship and social networks (Boisot and Child 1996); and when networks of interorganizational relationships are used as a seeding bed for developing business conceptions (Fligstein and Zhang 2011) under market state capitalism (Lin 2011). Because *guanxi* seems so central to Chinese transition economy that scholars have begun recognizing China as operating under the model of *network* capitalism (Boisot and Child 1996; Tung and Worm 2001).

In regard to *guanxi* effects on corporate performance in China, Luo et al. (2012) conduct a meta analysis of 53 studies encompassing more than 20,000 organizations. They find that *guanxi* ties to government officials increase an organization's "economic performance" (such as profit margins, market share, and sales growth), and that *guanxi* ties to company managers improve an organization's "operational performance" (customer satisfaction, customer loyalty, and support for local communities). An in-depth study of seven firms shows that *guanxi* networks are important in three critical stages of firm growth: a core kinship network of affection at the stage of firm creation, an extended exchange network of close ties at the stage of early growth, and a sparse network of opportunistic-weak ties at the stage of later growth (Guo and Miller 2010).

### **A Typological Model on *Guanxi* Dynamism**

How do we theorize about the persistent, and possibly increasing, significance of *guanxi* in Chinese transition economy? I propose a typology, shown in Table 1, in which transition from redistribution to market is considered to occur in a two-dimensional space of changing degrees of institutional uncertainty and market competition.

The notion of uncertainty refers to a situation in which economic actors, due to the lack of sufficient knowledge (Beckman et al. 2004), anticipate unmeasurable, uncodifiable, or non-quantifiable risks about the future status of their economic actions (Knight 1921:19). While scholars have identified and differentiated between firm-specific uncertainty and market uncertainty, I follow North (1990) to define institutional uncertainty as a set of economic rules and operational regulations that

contain the characterizations of ambiguity, non-transparency, and incompatibility. Institutional uncertainty is low when economic rules and operational regulations are specific, transparent, and compatible from one another, and institutional uncertainty is high when the rules and regulations are instead ambiguous, non-transparent, and incompatible from one another. Market competition, on the other hand, is low when entry to market is monopolized by the state or non-state oligarch, and market competition is high when entry to market is open to multiple competitors.

China's socialist redistributive economy from 1956 to 1978 operated at lower degrees of institutional uncertainty and market competition. Then, state planning was the single source of institutional arrangements through which to coordinate the allocation of material, financial, and labor resources for production, distribution, and consumption. This was made possible by a one-for-all public ownership in which all enterprises and institutions were put under the jurisdiction of government, leaving little space for economic activities of private nature (less than 1% "individual laborers"). As economic transactions between and within state and collective sectors were managed through administrative fiats, market competition was minimal. Labor allocation, for example, was controlled through state job assignments, and labor mobility was kept extremely low through the system of household registration and the work-unit ownership of workers (Walder 1986, 1992; Davis 1992; Bian 1994).

Post-1978 market reforms largely improved China's economic environment, but institutional uncertainty was also increased by reform strategies themselves. Three reform strategies are on the point. The first is the strategy of "reform without design," which legged market institution building behind emerging market activities, creating institutional non-transparency and institutional holes (Bian 2002a). The second is the strategy of piece-meal, gradual reform, which allows for the coexistence of incompatible institutions, redistributive and market, for decades and even today, creating enormous opportunities for official corruption and illicit business operations (Shirk 2007). And the third is the strategy of trial-and-error reform experiments, which created room for local governments to act on their own powers and interests, increasing institutional ambiguity and implementation variations across localities (Naughton 2007).

The above-described three reform strategies are all from central government, which is also a source of institutionalization. Every five years the Communist Party Congress is held to make regulative adjustments which minimize the institutional uncertainties generated by the reform measures that were experimented in the past five years. In the meantime, however, fast market growth generates new activities, to which the three reform strategies are to apply, and institutional uncertainty is therefore to increase to a new level. This pattern of reform-generating uncertainties continued as market reforms deepened during the 1990s. The World Trade Organization (WTO), to which China entered in December 2001, is expected to institutionalize Chinese economy by international standards. But the WTO's reach and influence have been

limited by China's large size and enormous interregional variations. At present, in localities and industries in which market activities have well developed and WTO influence has been felt, institutional uncertainty is expected to be decreasing; in other localities and industries in which new developments are concentrated under mixed institutional arrangements, institutional uncertainty is persistent or rising.

During the entire reform era since 1978, the degree of market competition in China increased, mostly as a result of reforms. In the first decade, it was mainly resulted from the decentralization of economic decision-making, experimented, quite successfully, with household responsibility system in villages and manager responsibility system in factories (Naughton 2007). Product market emerged and state industrial quotas shrank in great numbers, ultimately to nil. In the second decade, labor control policy was replaced by a two-way selection policy, in which employers and prospective employees chose each other at their own wills (Davis 1992). Migrant peasant labor flooded into the cities, but a large number of state workers lost jobs, becoming unemployed or becoming unprotected wage labor in the nonstate sector. In the third decade, property rights reforms finally were implemented, and a "grab big and release small" policy let many state factories go privatized, although the state retained about 160 largest industrial and commercial companies under a reformed state ownership. While the state has regained the monopoly in industries of strategic importance (Wu 2003), the post-WTO Chinese economy raises the level of market competition on a global scale.

The increasing degrees of institutional uncertainty and market competition matter for the relevance and activeness of *guanxi*. An economy of increasing institutional uncertainty is one that is full of information asymmetries, is lacking formal institutions to ensure trust between economic actors, and is weak in legal enforcements to punish illicit behaviors (Bian 2002). These institutional gaps or holes created space in which *guanxi* plays a large role of filling up the gaps and holes, and are the ultimate reasons for the rise of patron-client ties between state officials and entrepreneurs, which engineered China's economic takeoff under the models of local state corporatism (Walder and Oi 1999), Communist commercialism (Wank 1999), or network capitalism (Boisot and Child 1996; Tung and Worm 2001). On a micro-level, *guanxi* gives individual and corporate actors a competitive edge because of its bonding and bridging values within and between groups and organizations (Knoke 1999). Such values are more needed and more appreciated when an economy becomes more competitive. For Chinese transition economy, we offer two propositions: First, the higher the institutional uncertainty, the greater the roles that *guanxi* plays in maintaining individual and corporate actors' comparative advantage; and second, the higher the degree of market competition, the greater the propensity that *guanxi* is used to strengthen individual and corporate actors' comparative advantage.

The interaction between these two propositions gives us four empirical testable hypotheses depicted in the 2 by 2 typology in Table 2. The lower left cell represents

pre-reform Chinese economy, whose institutional uncertainty and market competition both were at lower levels. This means that pre-reform Chinese economy had relatively smaller space for the roles of *guanxi* (Hypothesis 1).

Moving up vertically, the upper left cell represents the initial reform period in which institutional uncertainty was rapidly increased by the three reform strategies we reviewed. In this period, market competition began to increase, but on a small scale, in forms of small commodity markets, incentive wages in state factories, and household farming and family businesses (Gold 1990). We expect that the roles of *guanxi* began to be relevant, active, and on the rise in the initial reform period (Hypothesis 2).

Moving horizontally, the upper right cell represents the later reform period after Deng Xiaoping's South China Tour in 1992. In this period, we observed the implementation of a whole-blow package of reforms measures, which opened labor markets and financial markets, attracted foreign direct investments, and allowed for private companies to grow on their own rights. This is an era when *guanxi* played the most significant roles in resource mobility and economic activities (Hypothesis 3).

Moving downward, the lower right cell represents the post-WTO era, in which Chinese economy became more competitive on a global scale. Institutional uncertainty is expected to remain persistent and perhaps rising in localities and industries where the WTO had a limited reach and therefore its influence had been minimal, but in other localities and industries institutional certainty, rather than uncertainty, tended to increase by international standards. Thus, our hypothesis is that the significance of *guanxi* in the post-WTO Chinese economy is conditional upon the effectiveness and influence of the WTO (Hypothesis 4).

### **Three Preliminary Tests**

#### Test 1: Findings from the CGSS

My first preliminary test is for the proposition that increasing market competition will increase the relevance, activeness, or significance of *guanxi*. The case scenario is the extent to which the use of *guanxi* ties to help with job turnovers will be increased while labor market competition is increasing. The findings are based on the 2003 Chinese General Social Survey (CGSS), as presented in Tables 2 and 3.

Table 2 shows rates of labor mobility from 1978 to 2002. Here, labor mobility is considered as an indicator of labor market competition: the higher the rates of labor mobility, and higher the labor market competition. While on the micro-level labor mobility is structurally constrained, on the macro-level an economy is competitive when workers are motivated to compete for more desirable jobs, thus increasing rates of labor mobility. As can be seen in Table 2, workers aged 18-30, who are the most active and mobile in all years, increased their overall mobility rates (job changes within and

between employers) from 4.6% in 1978 to 12.5% in 2002. In the meantime rates of job turnover, which measure job mobility between employers, increased from 2.8% to 10.3%. This means that both in terms overall job mobility and between-employer mobility Chinese transition economy since 1978 had increased its labor market competition. Had the use of *guanxi* ties for job mobility been increased during the same period?

Table 3 shows that this is indeed the case. In the CGSS data, the respondents were asked through what channels they changed their jobs. Among the three different channels – hierarchy (organized job changes by administrative orders), market (job changes by self-desirability and self-effort for locate a new job), and networks (job changes through the various kinds of assistance of *guanxi* ties), the use of network channels increased from 15.7% before 1979 to 31.0% in the 1980-1991 period, to 43.9% in the 1992-1999 period, and finally to 51.6% in the post-1992 period. While other factors might have played an important role in the increasing labor market mobility across the four periods, the rising use of *guanxi* ties for channeling employment opportunities over time is a clear finding in support of my typological model.

#### Test 2: Findings from the 1998-1999 Employment Survey

One question that has not been answered from the analysis of CGSS data is whether or not the increased use of network channels can be interpreted as the increasing significance of *guanxi* during labor market competition. Much of my elaboration about the rich cultural meanings of *guanxi* is that *guanxi* is not simply a connection through which to flow information, but a special kind of connection through favor exchanges are facilitated. While the CGSS data did not provide the possibility to differentiate between information and favoritism during job mobility processes, the 1998-1999 Employment Survey does so, to which we turn.

Figure 1 shows a summary of data obtained from this survey, a multi-city study about the roles of *guanxi* in employment processes in cities of varying degrees of market competition and institutional uncertainty. The X-axis is the percentage of respondents who have ever changed jobs. This is indicative of labor market competition: the higher the percentage of job changers, the higher degree of labor market competition. As can be seen, Changchun, a city that was only to begin market reforms in the survey year of 1999, is least competitive, and Hong Kong, a city economy that is capitalistically driven and most globalized among all Chinese cities, is in the highest rate of labor market competition. Other cities – Guangzhou, Shanghai, Tianjin, and Xiamen – are in market transition, and their labor market competitiveness varies from one another, but certainly much higher than Changchun and lower than Hong Kong. Among these city economies, the percentage of using *guanxi* ties help change jobs also varies (the Y-axis): Changchun and Hong Kong are about the same, around 50%, and other transitional city economies are higher, making a very interesting inverted U-shape

for increased “networking space” for transitional economies. If I were to have more cities, the inverted U-shape would look much smoother and nicer.

Is the increasing “networking space” as depicted in Figure 1 be interpreted as the increasing significance of *guanxi* in Chinese transitional economy? Once again, the key is to differentiate what kinds of resources that were flowing through network ties of the job changers. Was it information that helped? Or was it favoritism that made a difference? Table 3 provides an empirical answer. Based on the inland Chinese cities, excluding Hong Kong, among all respondents who used network ties to help them change jobs, 60.3% gained information and 75.3% gained favoritism. The survey used the following ways to differentiate between information and favoritism:

If a respondent checked any of the following items, gaining information is coded: my contacts “Gave me information about a job opening,” “Gave me information about the workplace where there are job openings,” “Gave me advice about how to apply for ‘that job’,” “Assisted me in preparing my job application,” or “Prepared my application.” Clearly the assistance described remains on the job seeker side, the helper has no contact or influence on the prospective employer. Therefore, the help or assistance is basically informational.

On the other hand, if a respondent checked any of the following items, then gaining favoritism is coded: my contacts “Delivered my application to the hiring organization,” “Recommend me to the hiring organization,” “Contacted ‘a relevant person’ of the hiring organization,” “Did something concrete to boost my chances of being hired,” “Arranged an informal meeting with a VIP of the hiring organization,” “Escorted me to visit the home of a VIP of the hiring organization,” “Solved a problem leading to my hire at the organization,” “Helped the organization resolve a concrete program,” “Promised to help with a proposal,” or “Directly offered me a job.” In sharp contrast to the items enlisted under “gaining information,” here these items indicate a certain degree of influence “my contacts” had on the prospective employers. Many items clearly indicate that a job opportunity under concern was treated as a piece of favor being exchanged. Thus, the assistance enlisted here is of the characteristic of favoritism.

The storyline of Table 3 is that *guanxi* functions increased both in terms of informational assistance and favor exchange during China’s market transition. A deeper look at the findings gives us a good sense about two patterns. First, weaker ties more frequently channel information, whereas stronger ties more frequently facilitate favor exchange. This finding supports a pair of long-standing hypotheses that weak ties are efficient for information flow (Granovetter 1973) and that strong ties are effective for exercising favor exchanges (Bian 1997). Second, the relevance of both information and favoritism increased overtime, and roughly on the same rate of increase. As far as favoritism is concerned, the findings from the 1998-1999 Employment Survey indicate that the hypothesis about the increasing significance of *guanxi* in Chinese transitional

economy is empirically rooted.

### Test 3: Findings from the 2003 Pearl River Delta Employer Survey

The significance of *guanxi* also can be tested at the organizational level, perhaps in three critical aspects of corporate performance in the context of Chinese transition economy: emerging from void, surviving a life-or-death crisis, and retaining a reputable market position.

When market reforms started at the end of 1970s, China's Communist party-state was in monopolistic control of economic resources, and Chinese people, by and large, lived under hardships, if not severe poverty. No financial capital, no market skill, but a long lasting Chinese culture, which couples material idealism with behavioral pragmatism, supplied a strong will for prosperity. But who is likely to become an entrepreneur and get rich first? Table 5 shows two sections of very interesting findings from the 2003 Pearl River Delta survey of 830 medium and small business enterprises. The first is about the nearly indispensable role of *guanxi* ties in mobilizing start-up investment capital: More than 97% of the financial capital was mobilized through *guanxi* ties, including family, kinship, and close friends. The second is about the almost equally important role of *guanxi* ties in securing a first business contract and had it continued: Three fourths had their first business contracts secured through a prior *guanxi* relationship, and more than half of these contracts continued and extended beyond the first year. Keep in mind that a new startup company, as well as its entrepreneur, lacks knowledge, experience, and skill that are necessary to beat the odds of market competition and future uncertainty. So the findings of Table 5 imply that a new startup company, when facing total future uncertainty and extremely high market competition, will have a very high relational dependence on *guanxi* networks. In a sense, during market transition Chinese private firms were born out of *guanxi* networks.

Would such relational dependence be on the gradual decline when a firm has survived longer or has secured its market position? This is indeed the case. Figure 2 shows that after one year's startup experience, the survived companies will decrease their relational dependence on *guanxi* ties significantly. Among the three leading business clients, the surveyed companies show that 35% of them obtained their business contracts through *guanxi* ties in their first five years of survival, but it gradually decreased to 10% for first aged 20.

What would happen to firms during a crisis time when they suddenly face extremely high uncertainty and perhaps competition? Economic transition is full of all sorts of crisis. The Communist party-state is still in power and can redirect the course of development, adjust reform measures, or terminate specific policies already in place, not just for economic reasons but mostly for social and political stability. Recall the Tiananmen Square Incident in 1989? How about worker strikes, peasant protests, high unemployment rates of college graduates, and marrying couples being unable to afford

skyrocketed housing prices? Politics aside, transition economy is risky in and of itself. In the context of rapid change and fast growth, personnel turnover is likely and can cause crisis inside organization. For example, a company's lead sales manager may abruptly quit the job and take his team and contractual partners, with whom favorable *guanxi* ties have been developed, to work for a competitor company. This kind of thing happens a lot in China. Money borrowing is another source of internal crisis, not just because state banks do not lend money to private investors, but also because long-term payment delays to contractual partners (as well as to wage workers) are highly likely, if not a norm already. In China it is a rare case if a business, new or well-developed, has not delayed its payments to a contractual partner. Finally, state and nonstate contracts can be terminated for various reasons beyond control, through quite likely involving official corruption and financial scandals. Close watchers of China may frequently notice suspended work projects and indefinite construction stoppages. Figure 3 shows that all of the 830 surveyed companies had experienced a "life-or-death crisis" at least once in their life history, and 70% of them managed their life-or-death crisis through the assistance of their *guanxi* ties.

### **Concluding Remarks**

The three preliminary empirical tests have confirmed my hypotheses that were derived from the typological model on *guanxi* dynamism. When labor market competition increased, so did the use of network channels to facilitate job mobility. The significance of *guanxi* ties increased over time, not just as a result of market competition, but also as a result of increased institutional uncertainty, which is a finding obtained in a comparative analysis among Chinese cities of varying institutional uncertainty. Finally, the 2003 survey of 830 firms presents a clear set of results that reveals that the changing significance of *guanxi* depends on organizational circumstances and the degree to which locales and industries are integrated into the global economy.

My ongoing research projects are designed to increase the sophistication of my theoretical model as well as that of empirical tests. Theoretically, what roles do cultural values and norms play in the story about the contingent significance of *guanxi* in Chinese transitional economy? That is, beyond institutional uncertainty and market competition, my typological model must include an additional cultural dimension to make it better fitted to the changing realities. Since cultural values and norms vary across sectors, regions, and countries, inter-sector and inter-regional comparisons are as important as inter-cultural and inter-societal comparisons. Analytically, empirical tests must be improved to include a series of tests about interactions between institutional uncertainty and market competition, which may jointly influence the ways in which *guanxi* plays a role in Chinese transitional economy. If culture is included, then estimation of a three-way interaction model would elevate statistical sophistication as well as present analytical challenges.



Table 1. A Typological Model on *Guanxi* Dynamism

Institutional Uncertainty	Market Competition	
	Low	High
High	II: Expanding space of <i>guanxi</i> Early reforms Post-1978	III: Great space of <i>guanxi</i> Later reforms Post-1992
Low	I: Limited space of <i>guanxi</i> State redistribution Pre-1978	IV: Conditional space of <i>guanxi</i> Globalized economy Post-WTO (2001)

Table 2. Rates of Job Change by Year: Increased Labor Market Competition

Year/Age	Overall Job change				Job Change between Employers			
	18-30	31-45	46-60		18-30	31-45	46-60	
			Male	Female			Male	Female
1978	4.6%	5.4%	--	0.0%	2.8%	3.3%	--	0.0%
1979	4.9%	4.9%	50.0%	0.0%	3.2%	2.5%	50.0%	0.0%
1980	6.1%	6.4%	5.1%	3.2%	3.3%	3.7%	2.6%	0.0%
1981	4.5%	3.4%	2.1%	2.0%	2.7%	2.0%	2.1%	2.0%
1982	5.3%	4.3%	4.5%	2.6%	3.4%	2.3%	3.0%	1.3%
1983	5.1%	4.5%	3.9%	2.0%	3.2%	2.7%	1.7%	2.0%
1984	5.8%	5.8%	8.6%	0.0%	3.8%	2.8%	3.3%	0.0%
1985	5.8%	4.8%	5.0%	5.1%	4.2%	2.5%	2.1%	1.3%
1986	6.0%	5.2%	4.3%	2.3%	3.4%	3.2%	1.8%	1.7%
1987	5.2%	4.7%	2.8%	3.1%	3.7%	2.8%	2.2%	1.5%
1988	5.5%	4.6%	3.4%	2.9%	3.8%	1.9%	0.3%	1.5%
1989	6.6%	4.0%	2.9%	2.2%	4.5%	2.2%	1.3%	0.4%
1990	7.0%	4.8%	6.1%	0.8%	4.9%	2.7%	3.4%	0.0%
1991	5.5%	3.8%	3.3%	3.9%	3.7%	2.7%	1.1%	1.2%
1992	6.7%	5.1%	3.4%	2.7%	4.3%	3.0%	1.2%	1.2%
1993	7.7%	4.5%	3.7%	2.7%	5.4%	2.8%	1.6%	1.6%
1994	8.3%	3.2%	2.7%	2.6%	5.4%	2.0%	1.4%	1.3%
1995	8.6%	5.1%	3.4%	2.7%	5.9%	3.1%	1.9%	1.2%
1996	6.6%	4.3%	3.7%	2.3%	4.4%	2.5%	1.7%	0.0%
1997	9.6%	4.1%	2.7%	3.0%	6.8%	2.6%	1.3%	1.9%
1998	11.3%	4.7%	3.4%	2.6%	9.1%	2.9%	2.9%	1.5%
1999	9.9%	5.9%	3.4%	1.8%	7.1%	4.1%	1.6%	1.1%
2000	11.1%	5.9%	4.1%	4.3%	9.1%	4.0%	1.9%	3.5%
2001	10.8%	6.6%	4.2%	4.2%	6.8%	4.5%	2.6%	3.1%
2002	12.5%	6.7%	4.9%	4.5%	10.3%	4.7%	3.6%	4.5%

Table 3. Job Search Channels by Period: Network Users Increased

	Total	Period			
		1956-1979	1980-1992	1993-1999	2000-2003
Total N	5094	1516	1772	1048	758
Search Channel					
Hierarchy	57.4%	77.7%	63.8%	40.1%	26.0%
Market	35.3%	21.7%	30.2%	47.7%	57.5%
Networks	32.2%	15.7%	31.0%	43.9%	51.6%
Users of Multiple Channels	23.5%	14.4%	23.5%	29.2%	33.0%
Market & Hierarchy	1.9%	2.5%	1.8%	1.5%	1.5%
Networks in Hierarchy	6.7%	6.5%	8.5%	6.0%	3.7%
Networks in Market	13.3%	4.7%	11.7%	19.2%	25.7%
Networks in H & M	1.6%	0.7%	1.5%	2.5%	2.1%

Figure 1: Increased “Networking Space” in Transitional Economy

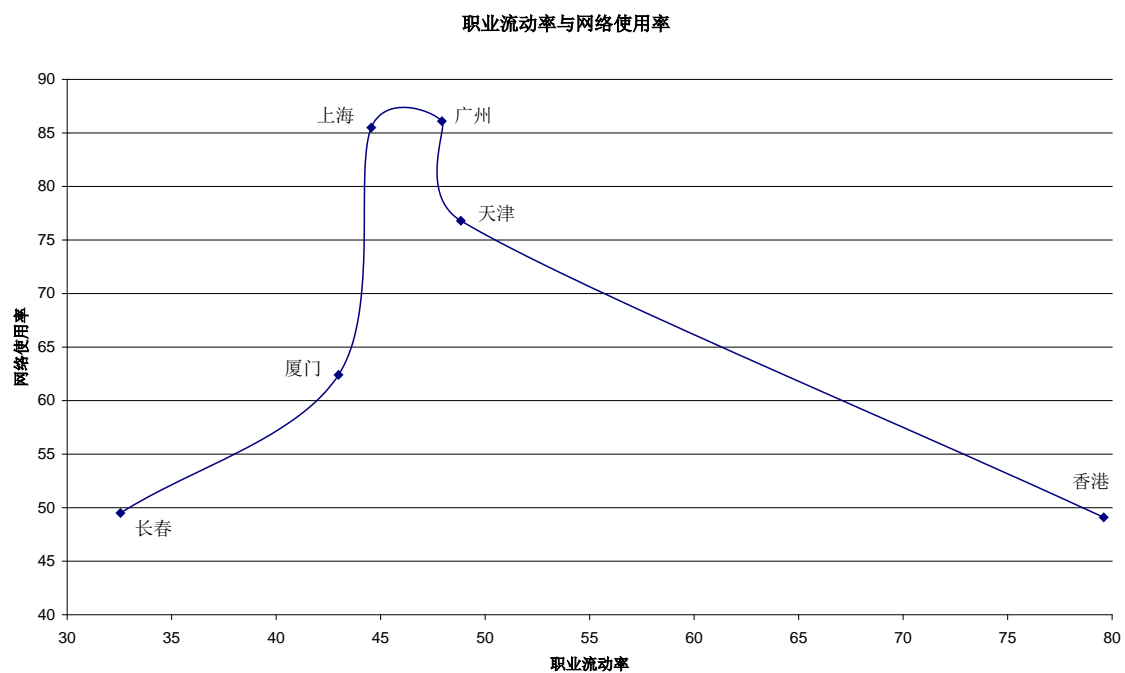


Table 4. Information and Favoritism by Ties & Cohort

	N	Gaining information (%)	Gaining favoritism (%)
Total	2566	60.3	75.3
Tie Strength			
Weak	336	80.1	56.3
Stronger	637	66.6	61.4
Strongest	1593	53.6	84.9
<i>F</i> -test (d.f.=2)		59.6***	124.0***
Labor cohort			
Pre-1980	516	53.7	69.0
1980-92	635	55.0	77.5
Post-1992	1432	64.8	76.8
<i>F</i> -test (d.f.=2)		14.7***	7.2**

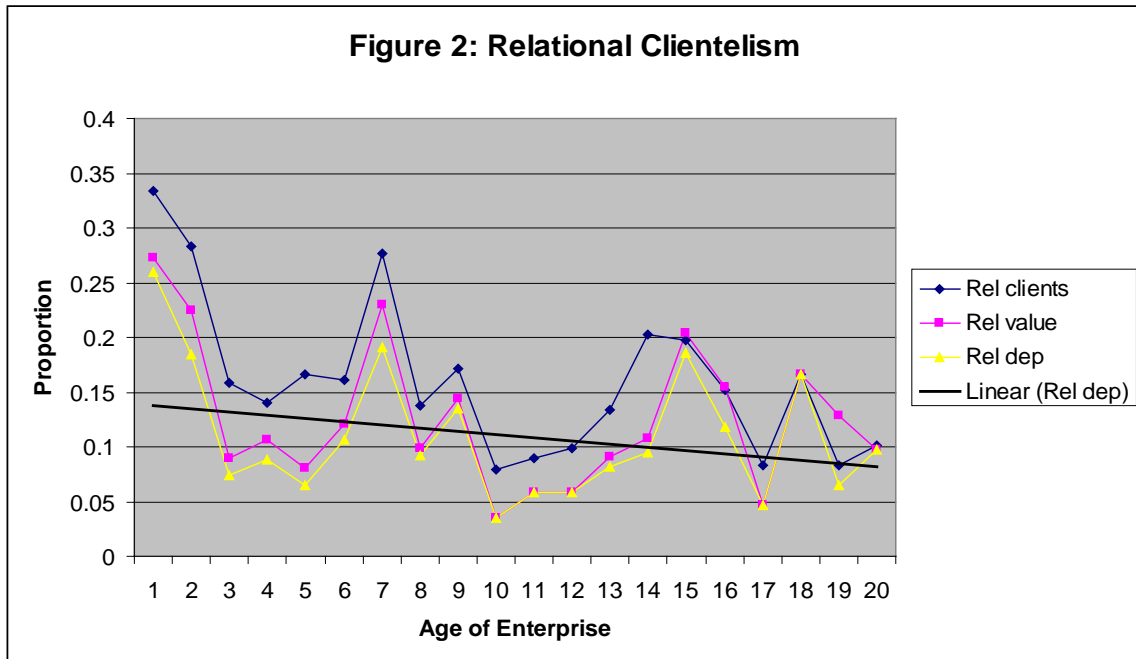
Table 5. Start-up Investment Capital and First Business Contract

Source of Investment		Mobilization of Investment via		Total
		Social Ties	No Tie	
(close kin, distant kin, friends, other)		61.8	0.0	61.8
Network				
Family/Self		28.1	0.8	28.9
Organization		7.2	2.1	9.3
Total		97.1	2.9	100.0

Prior Tie to Client		Form of Contract		Business Continuation	
		Written	Oral	Continued	Discontinued
Yes	73.5	32.5	38.6	53.9	17.8
No	26.5	16.2	12.7	19.2	9.1
Total	100.0	48.7	51.3	73.1	26.9

Figure 2: Relational Clientelism



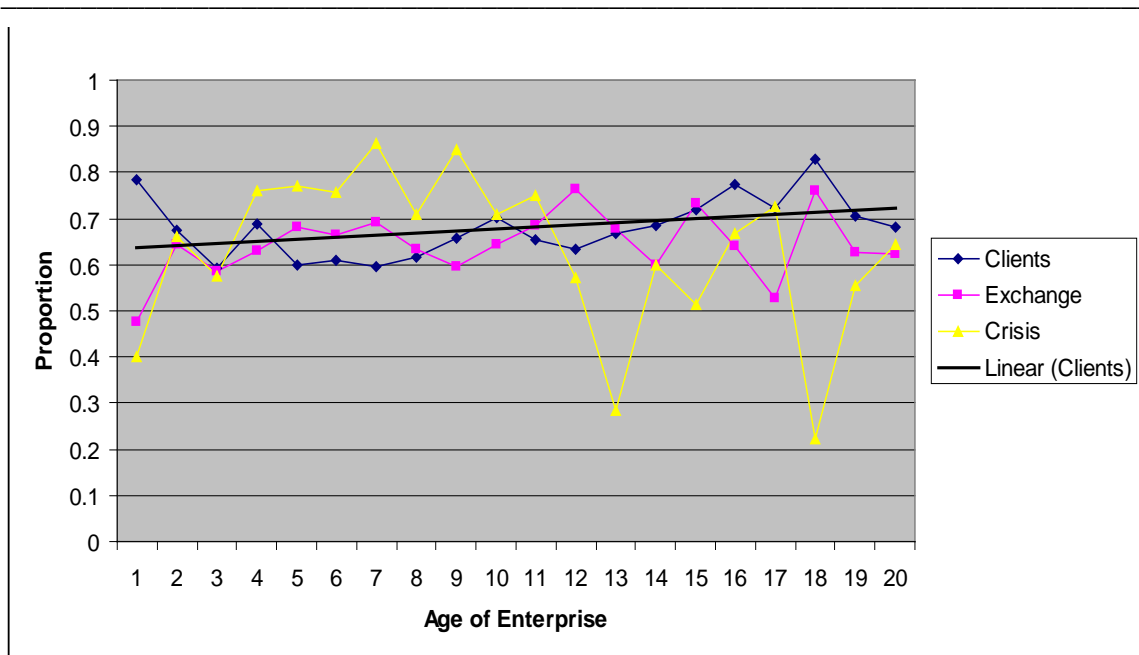
Notes on legends:

Rel clients: Proportion of enterprises that have prior relations with their clients.

Rel value: Proportion of enterprises that value relational clients as “most important.”

Rel dep: Proportion of enterprises whose production is dependent on relational clients.

Figure 3: Relational Dependence during Crisis Times



Notes on legends:

Clients: Proportion of production volume by three leading clients.

Exchange: Proportion of enterprises that engage in regular social exchanges with clients.

Crisis: Proportion of enterprises that use social relations to manage business crises.



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