Guanxi and Gift Exchange: 
A Study of Reciprocity Within Business Relationships in Contemporary China

by

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B.A. University of Victoria, 2008

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Supervisory Committee

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Abstract

Conditions that underlie contracts and cooperative agreements in business take different forms in different parts of the world. This research investigates the nature, structure and content of those informal relations that lie outside the formal contractual relations in the business community in contemporary China. Specifically, it addresses the role of gift giving in business relations, including the practical and cultural implications. This is a worldwide phenomenon, but my focus is on the relationships known in China as guanxi. Building and managing guanxi includes the exchange of gifts, therefore, discerning whether these exchanges are artefacts of the past or are rational and logical today is crucial. I argue that offering a gift symbolizes the desire to have cooperation within a close trusting relationship. Using an historical anthropological approach I present a systematic examination of pre collected data. The analysis looks for patterns to answer the following questions: What role, if any, does gift exchange play in creating guanxi relationships of trust that include reciprocal obligations? What role does guanxi play in China’s growing economy? I hypothesize that in the context of uncertainty in business it is important to be able to trust the person with whom one has business relationships. The research shows that gift exchanges create an atmosphere of trust that is time-and cost-efficient. Therefore, gift exchange has a rational motivation and facilitates advantageous business transactions within a guanxi relationship. Guanxi management is an important part of business strategy. This research will lead to a deeper understanding of the differences and similarities in contemporary business as it is practiced, both globally and locally, by people with different cultural backgrounds.

Key concepts are: Guanxi, gift exchange, business network, reciprocity, face, trust,
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Dedication

I dedicate this thesis to all the precious people in my guanxi-exchange.
Chapter 1 Introduction

Personal experience of guanxi

“Go to Shanghai” Was my advice to the owner of a private language school in Zhuhai, a small city in China: “you have a great program, a head teacher and office manager willing to relocate, Shanghai is beginning to boom and is in need of English speakers. It is the best place to open a branch school.” This was 1998. “Yes”, he replied, “I have the program, the people and the money but I don’t have any guanxi in Shanghai. Without guanxi I won’t be able to access the support services I would need to run a business. It will take years to develop the necessary guanxi.” That was the end of the matter. The new school was opened in Sanya in south China where the owner had once lived and where he had good guanxi. I was left wondering, what is this phenomenon called guanxi. Why does guanxi have so much power over business? This thesis is an attempt to understand guanxi and the logic behind it in business in contemporary China.

The analysis described in this thesis pulls together two lines of inquiry; one being an empirical study of business practice in contemporary China, and the other a theoretical study of market and gift exchange and reciprocity. The theoretical perspective of exchange theory helped me understand what I had observed in China, and provided the basis for conclusions on both empirical and theoretical levels.

What is this phenomenon called guanxi?

The answer to this question is elusive and hard to pin down definitively. Guanxi in general has been the subject of different kinds of analysis: structural, functional, and historical. One important aspect of guanxi is gift exchange and the specific role of gift
exchange has been the subject of ethical concern, as a glance over the bibliography shows. (e.g. Dunfee & Warren 2001; Fan, 2002; Ip, 2009; Su, Sirgy, & Littlefield, 2003).

_Guanxi_ is a system of relationships with a social context; therefore an overview of Chinese society is helpful when trying to understand it. Liang Sou-ming, comparing Western social systems with Chinese ones, stresses, “Chinese society is neither individual based nor society based but relations based...the focus in not fixed on any particular individual, but on the particular nature of the relations between individuals who interact with each other. The focus is placed upon the relationship” (Quoted in King, 1991, p. 65). _Guanxi_ is one particular type of those relationships.

It is always difficult to find an exact English translation of a Chinese word and never more so than one as multi-referential and yet so widely used as _guanxi_. In the classification of _guanxi_ Fan (2002), identifies three types: family _guanxi_ (expressive ties), helper _guanxi_ (instrumental ties), and business _guanxi_ (using personal connections to solve business problems) (p. 372). Fan extrapolates, “Ambiguity and subtlety are the very essence of _guanxi_ relationships as all three types of _guanxi_ could be intertwined, making it difficult to distinguish between them” (p. 374). Only a partial understanding of _guanxi_ is achieved through these various definitions because, to echo Fan, the meanings of _guanxi_ are subtle and variable. Appendix A shows some of the variation in the definitions found in the literature. Rather than trying to translate the concept, an analysis of how _guanxi_ operates will lead to a better understanding.

_Guanxi_ involves exchange. Marcel Mauss (1990) in his classic study on exchange in pre-modern societies gives a description of gift exchange that nevertheless captures the many facets of _guanxi_ in contemporary China:
Moreover, what they exchange is not solely property and wealth, movable and immovable goods, and things economically useful. In particular, such exchanges are acts of politeness: banquets, rituals, military services, women, children, dances, festivals, and fairs, in which economic transactions is only one element, and in which the passing on of wealth is only one feature of a much more general and enduring contract. Finally, these total services and counter-services are committed to in a somewhat voluntary form by presents and gifts; although in the final analysis they are strictly compulsory, on pain of private or public warfare (pp. 5-6).

Although, in the above quote, Mauss was referring to recognizable groups such as clans or tribes, I here show how obligations, gifts and counter gifts bind individuals in contemporary life. This research will show that guanxi likewise presents these facets. It involves the exchange of different forms of property that are economic and non-economic, and at the same time every exchange is part of an ongoing relationship. As Kipnis, (1996) stresses, “In Maussian terms, because guanxi unite material obligations and sentimental attachment, they are more “total” than purely economic relations” (p. 288). Furthermore, although the pain of conflict [warfare in the original] has transformed into pain of public or private humiliation or loss of ‘face,’ it is nonetheless a culturally compulsory practice disguised as voluntary.

Another way of thinking about guanxi is as social capital. Bourdieu and Wacquant (1992) state that: “Social capital is the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships, of mutual acquaintance and recognition” (p. 119). Furthermore guanxi also includes elements of symbolic capital, “Prestige and renown attached to a family and a name in a form of credit as a sort of advance which the group
alone can grant to those who give it the best material and symbolic guarantee” (Bourdieu, 1977, p. 179).

In this research I refer to guanxi as a personal resource consisting of a person’s long-term trusted relationships that are built into a network of obligatory-reciprocal exchange, hereafter called guanxi-exchange.

I use the term guanxi-exchange rather than guanxi network because it is not just a network; it is a network of people who engage in obligatory exchange. The exchange constitutes a personal association alongside the legal contract. It is not just a set of relationships but rather a separate structure parallel to the legal contract. Guanxi-exchange networks typically are centred on an individual and unique to each person. What results from the sum of these agreements is a network of relationships around every individual or family or company that provides them with support people accustomed to dealing with each other. There is predictability; they know who to go to for land, to get a job, to get some information. They are setting up a whole second structure. The three components of this structure are: gift exchange, guanxi, and guanxi-exchange.

As stated above, one of the main features of guanxi-exchange is the exchange of gifts. This research will address gift exchange theory, but for now it is enough to establish that gift exchange is a general concept including the following elements: It is an activity, the exchange of things that can be classified as gifts. One result of the exchange activity is the creation of a dependent relationship between the agents. One feature of the relationship is a sentiment or emotional attachment between the agents. The exchange could be a onetime cycle of exchange, or it could be an on-going cycle of exchanges.
As stated above, *guanxi* is multi-faceted with many definitions. The primary one I am concerned with is that it is a relationship. For instance, if I have *guanxi* with someone, I have a relationship with them because of some commonality between us. The relationship includes the activity of gift exchanges. It is an interdependent relationship with an emotional component. The persons I have *guanxi* with are automatically members of my *guanxi*-exchange. Thus *guanxi* is a membership in a network. *Guanxi*-exchange is explored throughout this research, but for now it is enough to know its main features. It is ego-centred in the sense that each subject has a set of ties around them, with the result being multiple sets of individual networks. Based on analysis of case material and descriptions, Figure 1 depicts the structure of the resulting exchanges. The first center is on A as ego, and the second on B as an ego to illustrate that A has a reciprocity network, which includes B who has his own individual network.

**Figure 1- Reciprocal gift giving in a *guanxi*-exchange**

My *guanxi*-exchange (A) is where I expect to receive gifts and favours.

My membership in B’s *guanxi*-exchange is where I expect to give gifts and favours.

My ego-centered network is a resource where I can go to ask for and receive something. Everyone I have *guanxi* with is in my *guanxi*-exchange and can be called on for a favour or gift. I could also expect to receive a favour or gift without asking.
Members of my guanxi-exchange are also running their own guanxi-exchange of which I am a member. The activity within the guanxi-exchange is gift exchange. These exchanges, although reciprocal, are not simultaneous.

Guanxi-exchange takes a range of forms. For example, it occurs within the family where it can lead to what are known as remittances between migrant workers and home communities. It also relates to all kinds of relationships in the past. What I am focussing on here, however, is the fact that guanxi-exchange is found among entrepreneurs themselves, between state-owned companies and private companies, and also between private businesses and government officials. It is this contemporary form, operating alongside commodity contracts and business contracts, which is of interest in this analysis.

**Government and guanxi-exchange**

The context of the exchanges under study here is contemporary China at the end of the 20th century and the beginning of the 21st century. A brief sketch provides an account of this setting and of the political and economic conditions of the times.

The official name of China is: The People’s Republic of China, also known as The PRC. For simplicity’s sake I will refer to The PRC as China, and in this analysis I will exclude Taiwan, because it has a different political and legal environment. The political system is autocratic in that one political party controls absolute power: The Chinese Communist Party (CCP). There are minority parties that have minor consulting roles in government but they have no access to political power (Lieberthal, 2004, p. 431).

China has traditionally been called a particularistic society. As Gold (1985) explains:

Friendship is a particularistic tie, where individuals do not treat all others equally, but rather have special friends in
whom they confide and to whom they can turn for help. They trust such people and enjoy bonds of personal commitment with them. (p. 657)

This quote shows the traditional aspect of guanxi relationships. The word guanxi is of fairly modern use but the practice is not.

Under the leadership of Mao Zedong, in the PRC’s first decades, 1949-1976, relationships were controlled; “Mao believed...The Confucian notions of civil identity based on networks of relationships precluded the broader class identity and ardent nationalism” (Lieberthal, 2004, p. 61). The new system was based on good classes: soldiers, poor peasants, and proletariat. And bad classes: landlords, rich peasants and the bourgeoisie. The Government controlled the way these relationships were managed. A bad class person could not have a relationship with a good class person. “During the land reform of 1950-52 many peasants found themselves struggling against landlords who were also their relatives. The struggle itself, through violence...weakened the old social network and Mao hoped, began to create a new social identity in the minds of the participants” (Lieberthal, 2004, p. 69). During this turbulent time relationships that were based on the old system did not disappear, but were relied on privately (Stockman, 2000).

Later, in the reform era, under the leadership of Deng Xiaoping, 1978-1997, the class system was ignored and the successful rich businessman became the ‘ideal type’. The government relinquished much control over relationships (Meisner, 1999). The businessman was left on his own to figure out the management of relationships within a business context. Even in the face of official condemnation, the custom of gift exchange in business continues. “The more criticism there is of the ‘gift-giving wind’ in newspapers, the stronger it blows.” (Yan, 1996, p. 149). This quote from Yan shows the ethical uncertainty of the custom of guanxi-exchange in so far as it is a form of gift
exchange. Undoubtedly, misunderstanding or mismanagement of the custom of gift exchange is a hindrance to building and maintaining a successful business; therefore, discerning what is a gift and what is a bribe is crucial in the management of guanxi-exchange. Alongside the partial market economy\(^1\) there continues to be reciprocity and informal relationships known as guanxi-exchange.

**The continuity of guanxi-exchange**

This research is an attempt at understanding gift exchange in guanxi-exchange, as it exists today, and to show the logic and pressure behind the relationship. The material shows the importance of the requirement to have non-contractual agreements with long-term obligations alongside the realm of finite contracts with no ongoing obligations.

China, in the period of a transition from command economy to partial market economy, is the particular historical context of the guanxi-exchange under examination here. Whether there is a rational role for guanxi-exchange in this context is a subject of debate. It is my argument that this historical period often presents ambiguous conditions. Guanxi-exchanges are a means of dealing with ambiguous conditions and circumstances. Ambiguity occurs when there is a lack of information and knowledge and/or lack of control and reliability. These conditions are observed in reference to issues of land, finances, and labour. It is in these conditions that guanxi-exchanges make sense.

The continuation of guanxi-exchange gift practices in the context of this transition further highlights the uses and value of guanxi-exchange in contemporary business life.

The continuity of the custom of guanxi-exchange is part of the problem examined here. Why does guanxi-exchange continue after thirty years of reform and transition; when

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\(^1\) The features of China’s partial market economy are covered in more detail in Chapter 3
now the workings of the economy are mostly capitalistic, and laws and regulations are being established to protect and facilitate business activities? What is the trend? In approaching this problem it is also important to address the differences between the official political economy of China and the actual political economy as it exists in various areas of China at various times, and to examine how people are adapting to the transition to a capitalist economy with Chinese characteristics.²

Method

In general terms, I use an historical-sociological approach using pre-collected data both qualitative and quantitative as well as theories to facilitate understanding of guanxi-exchange. My bibliography presents a survey of scholarship used in this research (the bibliography) to showcase the main perspectives on guanxi-exchange, covering such topics as: a comparison of guanxi-exchange to western business networking; ethics; prospects for the future of guanxi-exchange; the transformation of guanxi-exchange, etc.

Theories

1. The theory of reciprocity is used to understand exchange in general and guanxi-exchange in particular.

2. The theory of gift exchange and commodity exchange is used to understand gift exchange in general and the particular form of guanxi-exchange in a market economy.

3. Decision theory or game theory is applied in the analysis to understand the logic behind guanxi-exchange.

²Capitalism with Chinese characteristics is addressed in Chapter 3
Data
I bring into my analysis a number of different kinds of data to show how guanxi-exchange is operating. Some of theses are quantitative and sociological in form and come from questionnaires done by Leung & Yeung, (1995) and Bian (1997) among others.

Some of these are descriptive observations; qualitative case studies showing the way people conduct themselves in guanxi-exchange. There are also generalized statements about guanxi as a contemporary phenomenon. Some of the data are in mathematical models showing the results from experiments in sociology and psychology and testing theories on gift exchange and cooperation.

Thesis
Based on the data and method applied, I set forth and examine the following main propositions.

1. Gift-giving is an essential, ethical and rational component of guanxi-exchange.
2. Reciprocity (mutual obligation) is the underlying foundation of guanxi-exchange
3. Ambiguous space (lack of perfect knowledge i.e. uncertainty) is a natural occurrence in any society and people find ways of dealing with it.
4. Gift exchange in the framework of guanxi-exchange underwrites risk-taking in ambiguous conditions and circumstances. Rather than being an irrational carry-over from the past, or even simply a system of bribery, these guanxi-exchanges are rational as a means to deal with ambiguous circumstances. It is not replaced by rational legal systems in a capitalist economy. There are two parallel economic methods – market and gift – complementing and supporting each other leading to business opportunities and successful economic development.
**Organization of chapters**

The thesis discussion flows in the following order.

Chapter 1 **introduces** the problem and the questions this research addresses.

Chapter 2 **reviews** the theories that are applied to understand how *guanxi*-exchange works and examines the literature comparing gift exchange and commodity exchange as well as an outline of *guanxi* in general.

Chapter 3 **describes** how *guanxi*-exchange works - who the agents are, where and when it is used.

Chapter 4 **shows** *guanxi*-exchange in the past and **how** *guanxi*-exchange has transformed as the workings of the economy of China has become more capitalistic. An analytical survey of the bibliography highlights perspectives on *guanxi*-exchange.

Chapter 5 **analyzes** the roles of gifts, trust, ambiguity, and the particular role of ‘face’ in the logic of Chinese reciprocity; to demonstrate the rationale behind *guanxi*-exchange in today’s China— why it works, and why it continues.

Chapter 6 presents **conclusions** in empirical and general conceptual terms.
Chapter 2: Gift Exchange & Reciprocity

The goal of this research is to understand guanxi-exchange in a commercial setting. I will argue that guanxi-exchange entails principles of reciprocity that operate alongside commodity and gift transactions. The purpose of this chapter, therefore, is to review the literature to get a picture of what the terms gift, bribe and commodity mean in order to establish key points in the theories of gift exchange and market exchange in general. I begin by defining exchange, followed by definitions of commodity and gifts. An examination of elements of reciprocity theories relative to guanxi-exchange is followed by a survey of the literature on the comparison of gift exchange and market economy.

In this chapter I review and discuss elements from the literature on gifts and commodities to develop my line of approach. Commodity is defined by Gregory (1982, 1997), as a thing that has a value because it has some use. How valuable that use is to someone else determines the terms of which it could be exchanged or not for something else. Gregory uses a mirror image to compare commodities to gifts, pointing out the relationships that arise according to the context of the transactions. The social construction of the relationship-building aspects of gift exchange is well put by Sahlins (1972), “If friends make gifts, gifts make friends” (p. 186). How reciprocity in gift exchange develops as one of the main strategies for creating and maintaining a relationship in a guanxi-exchange is one of the topics of this thesis. I look at the concept of balanced reciprocity in exchange as the type I expect to find among peers in the Chinese business community.

Balanced exchange is distinguished by three features:
1. The relative status of the actors, which is broadly equal.
2. The exchanges are made in a relatively clear period of time.
3. What is exchanged is of relatively equal value.

I will look for these principles in the guanxi-exchanges in China.

**Principles of gift and commodity exchange**

In order to explore and explain guanxi-exchange I first set forth the basic structure of exchange that I will develop later in the analysis in Chapter 5.

Economic anthropologist Robert Hunt (2002) gives a definition of transfers:

> The shift of a valued (X) from one social unit (A) to another social unit (B). The valued can be tangible, a service, or knowledge. The shift can refer to changes in possession, as well as to shifts in ownership. The social units... can include individuals, corporate groups, corporations, or polities. (p. 108)

Guanxi-exchange sometimes includes transfers that are changes in possession rather than ownership. e.g. as in the case of land use rights. The social groups listed by Hunt, as well as extended families, and even whole villages, can be found engaged in a guanxi-exchange. In the definition of economic exchanges or gift exchanges where the transfer of values is mutual, there might be multiple transfers. The whole series amounts to a long-term process of reciprocal exchanges involving obligation and return obligation. Nevertheless, as described in Chapter 3, the agents in a guanxi-exchange need to keep track of the cycle in any relationship in play at any one time. It is impossible and even unnecessary to have all points of the network active at all times. Therefore the active relationships would be those involved in the actual process of either a gift giving or reciprocal gift giving stage.
The exchanges that are the focus of this research on guanxi-exchange are those that can be classified as gifts. An object or service that can be classified as a gift or a commodity sometimes transforms from one classification to another. Not every object, however, can be classified as either a gift or commodity, e.g. a star, the sun, etc.

**Gifts and commodities**

Gregory (1982) defines commodity relations, and gift relations in mirror-image terms, with reference to components of the definitions; these being: 1. The relations of people to things. (alienable vs. inalienable) 2. The relations of people to people. (independent vs. interdependent) 3. The relation of ‘things’ to ‘things’. (quantitative vs. qualitative)

Commodity exchange is an exchange of alienable objects between people who are in a state of reciprocal independence that establishes a quantitative relationship between the objects exchanged (p. 100).

Gift exchange is an exchange of inalienable objects between people who are in a state of reciprocal dependence that establishes a qualitative relationship between the transactors (p. 101).

The above general definitions of gift and commodities are useful as a way of describing, with broad strokes, who does what and when. See also Gregory (1997, pp. 52-53) for a more detailed analysis of gifts and commodities in exchanges. Gifts are inalienable, meaning they leave the possession of, but still remain associated with, the giver, unlike a commodity, which is alienable because once it changes hands it is no longer associated with the seller. This is an important point in the development of dependent relationships, which is the focus of guanxi-exchange. The structure of society as clan based, without the control of a central state and without the separation of
members into classification according to economic power, is loosely analogous to an extended family or cooperative group (such as those in a *guanxi*-exchange) where economic power is established from within the group itself, and gift exchanges are more common than commodity exchanges. Broad strokes, however, cover up the details that are needed to analyze why people do what they do. For instance, in contemporary China, the employer class pays the wage and therefore controls the worker class, thus a person could be classified as a commodity. The worker sells his labour for a price. Moreover, as will be discussed in Chapter 3, vague land ownership regulations might establish those same workers as having control over the land, and therefore control over part of the means of production that, according to the theory, would ideally be under the control of the employer. These two classes are in a relationship of reciprocal dependence. The employer may be a member of the same clan as the village workers. In China, a person could be classified as a member of the clan and quasi family because of having a common paternal ancestor, even if that person was a stranger in the village. The exchange of gifts is characteristic of relationships between people in the same clan, and also is characteristic of people forming relationships with outsiders. The development of *guanxi*-exchange relationships of this type is described in greater detail in Chapter 3.

This research on *guanxi*-exchange is concerned with those relationships as they function in a commercial setting where the exchange of commodities is the goal. Therefore, I now turn to a summary of commodities and exchange before turning the focus to gifts and exchange.
Commodity exchange

I continue the description of commodities with broad strokes. Gregory (1982) states that:

A commodity is defined as a socially desirable thing with a use-value and an exchange-value. The use-value of a commodity is an intrinsic property of a thing desired...exchange-value on the other hand is an extrinsic property...refers to the quantitative proportion in which use-values of one sort are exchanged for those of another sort. (pp. 10-11)

R.C. Morgan (2000) points out that, “Being a commodity is not an inherent quality of a thing or a service or a person. Rather it is a socially attributed form of value that applies in specific historical conditions” (p. 1). The exchange of things that are considered commodities are carried out in an explicit agreement as to the exchange-value, whether or not the two agents agree on the use-value is irrelevant. A thing is classified as a commodity when an exchange-value is assigned to it whether or not it is actually exchanged, and independent of any use-value it may have. Any service, any thing, or even any person that is exchanged according to principles of objectivity, independence and alienation, can be categorized as a commodity. Once exchange takes place, the commodity comes under the control of the recipient. The relative prices of objects define exchange values. In principle, commodity transactions are finite, independent and objective.

When a thing is a commodity, the price is negotiated by both participants and any objective observer could witness to the agreed upon price. There is no mystery as to when the price should be paid; the timing of the return exchange (payment) is set by negotiation, and payment closes the relationship. Both items are given a monetary value,
and that value is constructed and agreed upon by the participants. Once a relationship of monetary value is established, the commodities can be exchanged, and there is no further expectation on either side. This finite nature of transactions is a principle of commodity type exchanges and contrasts with gift exchange and reciprocity that features ongoing interdependence.

Gregory (1982) compares a commodity to a gift by looking at a comparison of values that arises from the transactions, “Commodity exchange establishes objective quantitative relationships between the objects transacted, while gift exchange establishes personal qualitative relationships between the subjects transacting” (p. 41). ‘Everything has its price’ is a comment on modern society lamenting the commoditisation of many aspects of modern life. A commodity has a price, but a gift transcends mere price.

**Gifts**

Cheal (1988) describes some of the criteria for gifts:

For a gift to be a gift it must be experienced as something extra—something beyond what we normally expect to receive...transactions that fall outside the range of legitimate expectation are redundant in a normative sense. (pp. 12-13)

The above quote highlights the point that a gift is outside what is required to be exchanged according to local custom or laws. This makes the initial gift and the reciprocal gift both voluntary. In the analysis of guanxi-exchange in Chapter 5 one effect of this voluntary aspect of gift exchange is shown to be a feeling of trust between the partners in the relationship. Cheal also argued that to be a gift, a thing must be under the exclusive control of the giver. This is an important point in understanding some of the
constraints on guanxi-exchange under Mao. During the extreme collective system there was public ownership over things, and therefore there was a scarcity of things that could be used in a gift exchange. You cannot give someone something they already have part ownership of. Part of the understanding of gift exchange, then, must include an understanding of when something can be classified as a gift and a social understanding of the use of the word ‘gift’.

Hunt (2002) calls the term ‘gift’ “complex” (p. 113). He makes some distinction among borrowing, lending, donating, charity and gifts:

In my natural English I do use the term gift: birthday gifts, wedding gifts, housewarming gifts, Christmas gifts, Hanukkah gifts, anniversary gifts. (In my household, transfers of money to universities, United Way, etc, are not marked as gifts, but as donations. Transfers to beggars are marked as charity, not as gifts.) ...and we have a category named borrow, as in “may I borrow a cup of sugar?” which almost never involved the return of the same item and rarely involved the return or transfer of the same kind of item. (p. 113)

The above quote showcases some of the features that are found in the gift giving of a guanxi-exchange. Traditional occasions for gift giving, such as weddings etc., are an important component of guanxi-exchange. It is necessary to wait for an excuse to give a gift or a return gift in order to follow the social custom of downplaying the instrumental aspect of the exchange and at the same time emphasizing the expressive sentiment of good wishes that will strengthen the personal relationship between the partners. Gifts of money are not usually considered suitable for a guanxi-exchange except at special occasions where the money is presented in a ritualistic way, e.g. in a red envelope at Spring Festival, weddings, or funerals. The category of borrowing is similar to the long-term cycles of extending help when needed that is found in a guanxi-exchange.
Exchanges of the type that might be classified as borrowing are usually found in a balanced reciprocity. Exchanges of gifts then are found in many different forms, but always entail a social custom, as Smart (1993) states:

The distinctiveness of the gift is constituted through the need to conform to the demands of the gift as a social form with its own etiquette. For the gift to succeed as a gift, it must follow the social forms that usually prescribe that it be an unconditional offer of a prestation in which explicit recognition of instrumental goals is excluded from the performance. (p. 389)

The ritual and etiquette of gift giving is an important part of guanxi-exchange and is found in the occasions for gift giving as well as the types of things given. All of these features of gifts; what is given, who gives, and how it is given, are used to focus on gift exchange.

**Gift exchange**

In gift exchange, further expectations are a fundamental part of the transaction, and what is expected is that a relationship between subjects will emerge. The value to the giver, and the receiver, of the personal sentiment that a gift affects on them will establish the quality of the relationship that arises between them from that transaction. A gift is ambiguous, in the sense that the value of a sentiment cannot be expressed in monetary terms, nor is it explicitly agreed-upon by the participants, and therefore the qualitative value of the relationship that arises out of the gift exchange can only be determined subjectively but not definitively. The giver and the receiver each determine the quality of the relationship, and the evaluation could change, for example, if the gift turned out to be of less or more value to either of the participants. When a thing is a gift, its value is negotiable; the focus is less on the expected return than on the developing relationship.
The timing of the return exchange may also be unknown. Carrier (1995) paraphrases Noonan, in his assessment of the value of the gift: “Its material form and especially, its monetary worth themselves are beside the point, because they are transcended in the sentiment the present contains” (p. 146). A gift functions as a facilitator of relationships because, even though it comes into the possession of the recipient, it remains connected by association to the giver. Therefore, a gift is “inalienable”, in a social context. The recipient has received a gift, and yet the gift still echoes the identity of the giver and the two subjects are bound together by the joint interest in the gift.

Cheal (1988) argues that, “The gift economy is in fact constituted by redundancy, and it is this principle which distinguishes it from other economic systems” (p. 14). In this quote Cheal is expressing the idea that the gift is redundant because it is outside the realm of what one should receive. It is something extra. From this argument Cheal asks the question, “If gifts are redundant, what social value could they possibly have which would account for the great importance most people attach to them?” and answers, “Gifts are used to construct certain kinds of voluntary social relationships” (p. 14). I argue that the relationships of a guanxi-exchange are also ‘voluntary social relationships’ and can be analyzed along the same lines as to the importance of gift exchange for those relationships. I also argue that gifts given as part of a guanxi-exchange relationship in business are not always redundant, but are sometimes necessary to a successful business transaction. This aspect of the gifts is described in Chapter 3. The need for something might lead to the perception of pressure around the obligation to reciprocate which can in turn be misinterpreted as a bribe. I.M. Lewis (1985) focuses on the obligation entailed in the exchange:
The utilization of the implicit obligation to repay a gift is acknowledged when we stigmatize embarrassingly inappropriate presents as ‘bribes,’...the difference between acceptable ‘gifts’ and improper ‘bribes’ depends upon arbitrarily and delicately poised cultural conventions, which, moreover, vary according to context. (p. 197)

In business knowing what is a bribe and what is a gift is a necessary skill, but it is difficult to master because the nuances between the concepts change from one context to the next. What is a gift and ethical at one time and place may be a bribe and unethical at another. When discerning the boundary between a gift and a bribe in the case of Hong Kong businessmen, Anthropologist Alan Smart (1993) considered trust as part of guanxi-exchange:

A critical social capital of trust, not just obligation, is created through the repeated exchange of gifts and favors. Where the concern of the exchange is not to create such relationships, but simply to achieve some immediate objective for which the relationship would be a useful means, then although the form of the gift may be outwardly followed, its content is different – a deal or a bribe rather than a gift exchange...Manipulation and exploitative use of gift exchange is made possible only by the existence of forms of gift exchange that attach priority to the relationship as opposed to the instrumental objectives. Were all exchange partners to attempt to exploit the form of gift exchange, their attempt would necessarily fail, because the trust that is a crucial component of the relationship would not emerge. (p. 211)

The point to remember is this: exchanges can be classified as commodity exchange, gift exchange, or bribery, according to whom, where, when and what is involved. ³

³ Judging whether or not a particular bribe is part of a corrupt practice and whether or not it is ethical is outside the scope of this research.
To summarize briefly the dichotomy of gift exchange and commodity exchange: Commodity exchange is buying and selling to exchange goods, labour, and services; and it maintains independence between the actors. Monetary capital can be accumulated and can be used for economic development. In contrast, gift exchange is giving and receiving, followed by return giving and receiving, exchanging things, people, favours, and services of equal or unequal value, not necessarily monetary, in order to create sentiment and interdependent obligations between the partners. Gift exchange does not directly create monetary capital; however there is a creation of social capital and symbolic capital that are useful in business, as will be seen in the analysis in Chapter 5. Although there appears to be a clear distinction between gift exchange and commodity exchange, in reality the borders are blurred. The buying and selling relationship could be a dependent one where the supplier (seller) depends on and trusts the retailers (buyers). Token samples of products or gift incentives to gain the contracts may also extend to the gift of ‘trust’ in the form of credit, to the retailer. Indeed both types of exchange are part of economic development. The exchanges between the two businesspersons in a guanxi-exchange include gift exchange and commodity exchange, and it is this complex interaction that facilitates the commercial transactions.

There is a sociological aspect to the transactions. Marshall Sahlins (1972) in his work on pre-modern societies explores the sociology of exchange:

A material transaction is usually a momentary episode in a continuous social relation. The social relation exerts governance: the flow of goods is constrained by, is part of, a status etiquette....Yet the connection between material flow and social relations is reciprocal A specific social relation may constrain a given movement of goods, but a
specific transaction—“by the same token”—suggests a particular social relation. If friends make gifts, gifts make friends... the material flow underwrites or initiates social relations. (p. 186)

The main focus is on the long-term relationship, which is developed, strengthened, and maintained through the gift exchange.

Sahlins (1972) pointed out that, “Reciprocity can establish solidary relations, insofar as the material flow suggests assistance or mutual benefit, yet the social fact of sides is inescapable” (p. 189). Later in the same section he expands on the idea of sides. “The spirit of exchange swings from disinterested concern for the other party through mutuality of self-interest.... the initial transfer may be voluntary, involuntary, prescribed, contracted; the return freely bestowed, exacted, or dunned; the exchange haggled or not, the subject of accounting or not” (p. 193). A part of the “spirit” of an exchange is the timing of its reciprocal component. This feature of reciprocal obligations is observed in guanxi-exchange, as described in Chapter 3, when a person must wait for the opportunity to give a return gift.

**Gift exchange and time**

In a guanxi-exchange, where the main objective is a long term relationship, the self-interest aspect must be partly ignored, which is more easily accomplished if the return takes place at some future time and place. The time difference in gift exchange makes it possible for the exchange to be termed a gift exchange. It is only an exchange if it goes two ways with a pause in between. That is, if each person gives and each person receives in turn. Bourdieu (1997b) pointed out that it is the lapse of time that makes it possible for each action of giving to be experienced as a “free and generous act” with no history of giving and no future giving to taint it with the “common knowledge” of the obligation of
reciprocity (p. 232). If you give me a gift and I immediately give you the identical thing in return, it amounts to a refusal or rejection of the gift. In order to avoid having that happen, the recipient must first fulfill the obligation that Mauss (1990) identified as the obligation to receive the gift (p. 13). The acceptance stage of the gift exchange process must have its allotment of time so that it can be recognized and acknowledged by all parties. Only after the act of acceptance has been proven by time lapse can the reciprocation stage take its turn in the cycle. The pause in the process allows the receiver and the giver time to think about their *guanxi*-exchange relationship.

Each giver wants to give something that will be valued by the recipient, but must guess as to what that thing might be and should not ask because, “Otherwise, both giver and receiver risk violating the rules of surprise, mystery, and premeditation, for both pretend that they do not attach any importance to the price of the gift” (Joy 2001, p. 250). In this case the self-interest aspect for the receiver is disguised because the gift was not asked for explicitly, while the lapse of time creates the illusion of a pure and free gift, thus enticing the two actors to have a relationship. S. Chen & Choi (2005) point out that “In reciprocal exchange, the contributions of each actor are separable and distinguishable, given the time lapse between giving and receiving” (p. 4). These principles guiding the reciprocal nature of *guanxi*-exchange are complemented by other principles influencing the decisions made on why to reciprocate, thus an examination of literature on reciprocity is next on the path to understanding *guanxi*-exchange.

**Reciprocity**

In any exchange the initial offering entails risk. That is, there may be no return, and the result is a loss. But if the risk is unavoidable then it must be reduced as much as possible.
A belief in the principle of the obligation to reciprocate is therefore necessary. Reciprocity is the power that enables the market to work and society to function in a civilized or humane manner. Mauss (1990), writing about the development of modern economics, looks at gifts and reciprocity:

Now, the gift necessarily entails the notion of credit. The evolution in economic law has not been from barter to sale and from cash sale to credit sale. On the one hand, barter has arisen through a system of presents given and reciprocated according to a time limit. This was through a process of simplification, by reductions in periods of time formerly arbitrary. On the other hand, buying and selling arose in the same way, with the latter according to a fixed time limit, or by cash, as well as by lending. (pp. 46-47)

Mauss (1990) is describing the transition from exchanges without regulated reciprocity, such as are found in a gift exchange, to a commodity exchange, where the reciprocal exchange is agreed upon, regulated and immediate in the form of payment. In gift exchange the risk involved is greater because the return is not immediate and therefore the receiver has a debt that must be repaid. In this “notion of credit” the idea of trust, in the obligation to reciprocate, is seen in full force. Without that trust, the transactions would need to be simultaneous and therefore, as stated above, they would not be gifts. This reliance on trust is an important feature of guanxi-exchange, as observed in the trust that a debt will be repaid in full. The component of reciprocal trust building from gift exchange is analysed in Chapter 5. In guanxi-exchange, credit and debt is balanced out in an ongoing cycle of reciprocity.

Sahlins (1972) describes balanced reciprocity (A\rightarrow B, B\rightarrow A) in this case A gives to B with every expectation of not only return but return of equal value. This may apply to any
direct exchange such as the simultaneous exchange of identical things. Sahlins extrapolates:

Balanced reciprocity may be more loosely applied to transactions which stipulate returns of commensurate worth or utility within a finite and narrow period. Much “gift exchange,” many “payments,” much that goes under the ethnographic head of “trade” and plenty that is called ‘buying-selling” and involves “primitive money” belongs in the genre of balanced reciprocity. (pp. 194-195)

In this quote on balanced reciprocity, Sahlins (1972) is pointing out the wide range of transactions where a balance in exchange is desired. In guanxi-exchange in business the commercial transactions as well as the gift exchanges would all be expected to have a relative balance in reciprocity and even though the commercial transactions would have a definite period of time for the payment, in gift exchange there would also be a cultural understanding of when a return could be implicitly asked for or offered. Although Sahlins researched general reciprocity, where no return is expected, and negative reciprocity, where something is taken with no intention of making a return offer, for the purpose of understanding reciprocity in a guanxi-exchange in business, my research concentrates on exchanges of a two-way nature. Sahlins has provided a structure of reciprocity, and now the focus of the review turns to the motives behind the structure. Mauss (1990) poses the question, “what force impels one to reciprocate the thing received, and generally to enter real contracts” (p. 7)? Although Mauss (2011) focussed primarily on the spiritual component of the thing given as his answer, he did acknowledge social and political forces at work and noted that these exchanges appear voluntary but are actually compulsory (pp. 3-6). In this research I seek out other answers to the same question. The actions, sentiments, and motives of the giver and the recipient
are each considered even though it is the initial recipient who is the focal point of reciprocity. Kolm (2008) stresses, “Indeed, the most important thing about reciprocity is its motives” (p. 97). Therefore in order to understand how guanxi-exchange works it is important to understand why the partners would trust in and follow the norm of reciprocity. In the following section the motives and morality behind reciprocity are explored.

**Gift exchange and the need for reciprocity**

In gift exchange, reciprocity is affected by the sentiments induced by the initial gift, and also by the motive of the recipient in respect to a desired future relationship with the initial giver. For example under the motive of ‘induce liking’ the initial gift induces a sentiment of liking because it sends a signal to the recipient of ‘I like you’. The recipient is inspired to like the giver because we tend to like those who like us; we like to be liked (Kolm, 2008, p. 121). In this case it is reciprocal liking even though no return gift has been offered. But taken a step further we see that a return or reciprocal gift is a confirmation to the initial giver that the initial recipient does in fact like him, and therefore the reciprocal liking is acknowledged and confirmed. The following sections examine the motives for balanced reciprocity, then liking reciprocity and finally continuation reciprocity to discover how these motives function in gift exchange.

**Motives for Balanced reciprocity**

Balanced reciprocity, as the name implies, is based on evaluating the initial gift in order to make the return gift of equal value. Kolm (2008) identifies the basic motives for
balanced reciprocity by first identifying three categories to examine. In the first category there is a balance between the two partners that the initial gift disrupted. In the second category the value of the initial gift must be determined in order to assess the extent of the imbalance. That new imbalance creates a desire to put things back the way they were. The reciprocal gift must match the value of the initial gift in order to restore balance. In the third category the individual partners’ situation is examined to see what effect the initial gift had on them. The initial gift constitutes a cost or loss of some kind to the giver. In order to make up that loss a reciprocal gift must be offered. The initial gift is a gain for the recipient, and in order to restore balance, he must give away some of what he has, that is, he must make a reciprocal gift (Kolm, 2008).

The above considerations that restore balance in an exchange do not require that the exchange be gift exchange. It could just as easily be commodity exchange. The difference is that commodity exchange has explicit and legal backing for reciprocity, while to be considered a gift exchange, the act must be recognized as an action unconstrained by law and therefore, there is only an implicit and cultural requirement to make a return gift. In the case of a *guanxi*-exchange the initial giver has a purpose for giving the gift and that purpose is to develop a relationship. The return gift is the affirmation of the relationship. In other words, it is not the return gift itself that is important, but the fact that there is reciprocity. The reciprocity is not forced or required legally. Alain Testart (1998) in his critique of Mauss suggests:

That does not mean that the giver might not hope for one... It is a question of rights: according to what everyone understands by a gift, the giver has no right to claim a return. The giver cannot oblige the recipient to reciprocate. (p. 103)
But for the sake of fairness if one has suffered a loss for the benefit of another then that loss should be rewarded. If there is a desire to maintain the status quo then a reciprocal gift of equal value is offered. These motives have a sense of equality. Sahlins (1972) extrapolates:

Balanced reciprocity is willingness to give for that which is received. Therein seems to be its efficacy as social compact. The striking of equivalence, or at least some approach to balance, is a demonstrable forgoing of self-interest on each side, some renunciation of hostile intent or indifference in favour of mutuality. (p. 220)

This is an important point in establishing a guanxi-exchange in business. The partners must trust that each of them has a desire for the interdependent relationship.

The partners must have the desire for balance in their interactions, and for the sake of ‘face,’ that balance must be observable by society. The analysis of the equality of the balance in reciprocity is not from the viewpoint of the partners alone but is also considered by society. Kolm (2008) extrapolates:

Since the moral judgement in question is based on impartiality and objectivity, it is bound to be shared by all members of the society who know and understand the relationship in question.... This tends to make the demands of balance reciprocity a social norm. (p. 111)

The opinion of society can induce feelings of gratitude for benefits and shame or guilt if one does not respond in an appropriate manner. In Chapter 5 the concept of ‘face’ is used to address how society has an effect on reciprocity. An inappropriate response creates an imbalance.
Imbalance in reciprocity

In society a debt is owed when there is an imbalance in an exchange relationship. The judgment of society on the recipient in debt can lead to disagreeable sentiments, such as shame or guilt, but it could also lead to feelings of gratitude. The giver of the gift is judged by society to have a credit and the sentiments that are brought on could be, pride, power, or the unpleasant feeling of having been cheated out of what is due. All of these sentiments can have an effect on the relationship between partners. Either or both of the partners, through the process of reciprocity leading to an imbalance, therefore can manipulate the quality of that relationship. Being in debt on the material level, the recipient finds himself compelled to return the favour on another level, in ways that enhance the giver’s ‘face’. Subordination is created and perpetuated because the obligation to reciprocate, which is a burden, cannot be relieved by means of a return gift equivalent to the initial gift (Offer, 1997). In the case of the business environment, competition in the market place is echoed in competition for status, honour, and power. Undoubtedly in gift exchange, it is better to have balanced reciprocity to maintain balance in the business relationship and balance in the personal relationship. Keeping the balance would be seen as fair and proper. However the desire to be fair is but one motive for reciprocity; another motive is liking.

Liking reciprocity

In the case of gift exchange in business, liking reciprocity would seem to be of little concern. As stated earlier, liking someone who likes us is human nature. In business gift exchange the motive to give a gift would not be to have someone like you, nor would that be the motive for giving a reciprocal gift. But if the gift is appreciated, and an appropriate
gift is reciprocated, then it is not unusual for the partners to view each other favourably. It is not a case of giving a gift to prove I like you, but rather giving a gift to prove I like you well enough to desire a working relationship with you. ‘Liking reciprocity’ could be analogous to ‘holding one in high regard’. The concept of ‘regard’ is similar to sentiments of respecting or honouring and I suggest that we tend to regard, respect or honour those who pay us the same regard, respect or honour. Undoubtedly these positive sentiments would have a good influence on a business relationship.

**Continuation reciprocity**

The third basic motive for reciprocity is the desire for the continuation of a cycle. Reciprocating in order to induce a repetition of the initial gift or favour requires some set conditions. Both partners must desire it, it must be possible, and the initial giver must believe that it will be carried out (Kolm, 2008, p. 135). This cycle of giving could ideally go on forever, though this is of course unrealistic. It must be pointed out that this type of reciprocity has some aspect of balance, because giving too much is a waste of resources, and not giving enough would not induce the reciprocity, and therefore the cycle would cease to operate, and any relationship between the partners would suffer.

The focus of this section on reciprocity has been on the partners in the transaction. The focus now turns to include the partners and their relationships.

**Things, agents and relationships**

Although Mauss (1990) posed the question as to what compels the “the thing received” to be reciprocated, Emerson poses the fundamental question of whether to focus on the thing given or the relationship between the giver and receiver or the interconnections between the gifts and the relationship
This research follows the latter route and focuses on the gifts and the agents, and on how they come together in a relationship of *guanxi*-exchange.

Gift exchange and commodity exchange both entail choices. Bourdieu (1997a) poses the idea of choice as an interaction between equals with the possibility of violence. Bourdieu created a diagram (Figure 2), which “reduces exchange to a series of successive choices (p. 193).

**Figure 2- Exchange and choices**

<table>
<thead>
<tr>
<th>CHALLENGE</th>
<th>HONOR CALLED INTO QUESTION</th>
<th>LACK OF RIPOSTE</th>
<th>RIPOSTE COUNTER-GIFT RETORT</th>
<th>ETC.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIFT</td>
<td>(potential dishonour)</td>
<td>as refusal (snub)</td>
<td>as incapacity (dishonour)</td>
<td></td>
</tr>
<tr>
<td>INSULT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Adapted from: Bourdieu, (1997a, p. 193)*

In this diagram the choice of reciprocity leads to the next thing (etc), which is the possibility of a continuation of a cycle (back to column 1, challenge, gift, insult). Lack of reciprocity is not without its consequences. This concept is expanded on in Chapter 5 Figure 7 showing the choices in a *guanxi*-exchange. This research is about these kinds of choices in business in contemporary China as encountered by those persons in a *guanxi*-exchange. The *guanxi*-exchange relationship of businesspersons is part of both a gift economy and a market economy.

Bourdieu (1997b) cautions:

It is not possible to reach an adequate understanding of the gift without leaving behind both the philosophy of mind
that makes a conscious intention the principle of every action and the economism that knows no other economy than that of rational economic interest. (p. 234)

The above quote is a reminder of the self-interest and the drive for economic gain that is the focus of commercial transactions, in contrast to a gift exchange, where self-interest must be moderated in the quest for an interdependent relationship. A gift that is given to strengthen a relationship with someone in a position of authority in order to facilitate economic development is described by Yan (1996):

On the one hand the instrumental gift is transformed into a quasi-commodity, because it is transacted only for maximizing personal interests and is reciprocated by another similarly instrumental return (good, favour, service etc.) rather than a gift. On the other hand the instrumental exchange relations facilitated by the gifts in turn become personalized to some extent, and further commodity transactions can be arranged through the ‘back door’ by mutually trusted, more or less dependent partners. Hence a gray area is created between the poles of gift relations and commodity relations, in which the commoditization of the gift leads to the personalization of commodity exchanges. (p. 212)

In the above quote the role of gifts is found to occur in conjunction with commodity exchange and economic development, under circumstances where resources needed for development are scarce and competition for them is high. This type of gift exchange interaction is an example of the workings of a guanxi-exchange. The following section gives an overview of the literature on guanxi-exchange and its practice in contemporary China.

**Models of guanxi-exchange**

Y.H. Wong, a professor in the Department of Business Studies in University of Hong Kong used survey data from over 1000 Chinese business people to develop a model of
the key constructs of *guanxi* showing four main components: Dependence, Adaptation, Trust and Favour. Figure 3 shows these components affecting the quality of *guanxi* which feeds back and affects performance (sales) and outcomes which in-turn affects *guanxi*. (reproduced in Buttery & Wong 1999).

**Figure 3- The key constructs of guanxi**

![Diagram of guanxi components](image)


**Dependence** is seen as a response to uncertainty in resource acquisition and, “firms are expected to adapt to each other according to the degree of their mutual dependence.” **Adaptation** implies “a commitment by both parties.” **Trust** is important in, “understanding expectations for co-operation in planning in relational contract.” **Favour** is “preferential treatment which implies reciprocal behaviour with mutual obligations” (Buttery & Wong 1999, p. 151).

As stated above, there is an emotional component to the motives for reciprocity; likewise there is an emotional component to *guanxi*-exchange. *Guanxi*-exchange includes two types of sentiment: *ganqing* and *renqing* therefore a basic understanding of those words is helpful. X.P. Chen & C.C. Chen (2004) explain the components and interpret the meanings:
Qing by itself means feeling but takes on different meanings when put in different contexts. For instance, the compound of ganqing emphasizes the affective attachment between two people but the compound of renqing emphasizes the sense of obligation owed to each other...renqing is built up through the exchange of gifts for events such as marriages, birthdays, and funerals. (p. 314)

These sentiments affect the quality of the guanxi-exchange, which is developed and maintained as the following sections show.

As stated in Chapter 1, guanxi is a relationship. It is a relationship that a person has either acquired or achieved resulting from a base. Guanxi-exchange represents a range of foundations. Tsang (1998) identified two types of guanxi bases. They are “blood bases” including relatives as well as members of the same clan, and “social bases” including having lived in the same area or gone to the same school (p. 65).

Jacobs (1982) extrapolates: “In Chinese culture...the ultimate importance of any particular guanxi base to any individual varies with the importance of that base to the identity of the person concerned” (p. 211).

If a person went to Beijing University, that might be a very important guanxi base because it is a famous school, or if a person attended a small village school that might also be important because of a sentimental attachment, on the other hand, having worked for a company in a township may not hold any importance if no strong feelings of belonging were experienced and no long-term friendships formed. In the Chinese culture ancestors play an important part in identification. It is not unusual to ask someone what their hometown is and to get the answer of a where their father’s ancestors came from; even if the person was born and raised somewhere else. This idea is illustrated in the keeping of ancestral records and the building and maintaining of ancestral halls in
villages. (G.C.S. Lin, 1997). Thus having a hometown in common is a strong base for guanxi.

Jacobs (1982) shows in Table 1, the interaction of a base, emotional attachment (ganging), and guanxi-exchange.

<table>
<thead>
<tr>
<th>Guanxi Base (Independent Variable)</th>
<th>Affect (Ganqing) (Intervening Variable)</th>
<th>Value of Guanxi (Dependent Variable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present</td>
<td>Good</td>
<td>Close</td>
</tr>
<tr>
<td>Present</td>
<td>Absent</td>
<td>Distant</td>
</tr>
<tr>
<td>Absent</td>
<td>Absent</td>
<td>Non-existent</td>
</tr>
</tbody>
</table>


“The existence, or non-existence, of a guanxi base determines the existence or non-existence of guanxi. However, guanxi may vary according to the “closeness” or “distance,” and this variation depends in turn upon a third variable, affect or ganqing” (Jacobs, 1982, p. 210).

There can be no guanxi-exchange between persons if there is no base on which to build. Because guanxi-exchange is dynamic it can be manipulated and even borrowed. For example another way of creating guanxi-exchange is called, la guanxi, or ‘pulling’ guanxi which is a way of borrowing or using the guanxi of a third party to establish guanxi between persons with no base. “For example, if, person A wants to make a request of person C, with whom he does not have any guanxi, he may seek out a member of his guanxi, person B, who also has guanxi with C, and ask B to introduce him to C. By doing so, a guanxi base is established between A and C” (Tsang, 1998, p. 65). Fan (2002) offers the observation, “This is exactly what guanxi means: as a multi-path process, guanxi refers to a network of social connections” (pp. 371-372). This is not the end of the
process either, but only the beginning. “A guanxi base alone is insufficient to establish strong guanxi. The individuals must interact, exchange some favours, build trust and credibility, and work over a period of time to establish and maintain, the relationship” (Dunfee & Warren 2001, p. 192). A guanxi-exchange takes time and effort to build and maintain and the quality of the relationships must be attended to in order for the resource to be useful and reliable. One measure of the quality of a guanxi-exchange is of its strength.

Tsang (1998) explains, “An important dimension of guanxi whether blood or social, is the degree of closeness, which is determined by ganqing” (p. 66). Because guanxi is dynamic, the ganqing can be strengthened by investing time and attention in the relationship and by the exchange of gifts and favours. For example if two businesspersons worked for the same company in the past they might have a weak base and no ganqing but with some effort that base could be put on a more solid footing through the positive emotions induced by reciprocity. Bian (1997) stresses, “The most important characteristic of guanxi is reciprocal obligation. In popular discourse, obligations to reciprocate are often translated into emotional feelings of attachment (ganqing)” (p. 369). The obligation is acceptable because of the emotional attachment.

Guanxi-exchange relies on personal interaction to develop. Researchers in organizational management X.P. Chen & C.C. Chen (2004) explain those interactions:

Expressive interactions refer to more social-oriented activities such as celebration parties of marriages, births, birthdays and promotions. Instrumental interactions...refer to pragmatic transactions and exchanges related to work or business. Mutual help in finding employment, information exchange, work place cooperation, business transactions ...are examples of such instrumental interactions. (p. 316)
Gifts can also be classified as expressive or instrumental. Befu (1967) explains that expressive gifts are given to maintain a relationship, and it is the status of the relationship that determines the value and nature of the gift. Instrumental gifts on the other hand are given to either build or strengthen a relationship, and it is the quality of the gift that determines the status of the relationship (Quoted in Yan, 1996, p. 45). In the case of an instrumental gift, Yang (1994) points out that it should be given through a third party or it could be interpreted and rejected as a bribe. Therefore in this case one would have to have a guanxi-exchange relationship with the intermediary and they would have to have the guanxi-exchange relationship with the target. Yan (1996) extrapolates, “In other words, short-term, instrumental gift giving cannot be accomplished without the initial support of long-term relations constructed through years of expressive gift giving (the key to developing social networks)” (p. 73).

Bian (1997) uses the terms weak ties and strong ties to describe the quality of relationships created by expressive and instrumental exchanges. Hwang (1987) uses the terms instrumental ties, expressive ties, and mixed ties. A mixed tie includes both instrumental and expressive exchanges depending on the situation. These terms are used in the tables and figures throughout this thesis.

Developing guanxi-exchange takes time and money to create and to maintain therefore it is natural for a person to have a strategy in the building of his network. “He considers who will be able to help him in reaching goals, but, of course he must also consider if the other person will regard their commonality a sufficiently important guanxi base on which to build a guanxi” (Jacobs, 1982, p. 228). In the business community ‘time is money’ is a reasonable incentive to monitor one’s guanxi-exchange in order to make the most of the
resource. It is not practical to have all the points of the network active at the same time. Therefore, it is smarter to focus on the ones that are most useful in a particular situation. Keeping active and non-active guanxi-exchange points viable is a practiced “art”.

Guanxi-exchange is developed through stages. Figure 4, shows the process of moving from the position of an outsider or stranger to an insider or trusted member of a guanxi-exchange. In this model the term “fencer” is analogous as a sword fencer as the two sides parry and thrust to expose strengths and weaknesses before deciding whether or not to pursue a relationship. The term ‘fiancé’ is the second stage in the process, and is analogous to the parties entering an engagement to marriage, with the expected outcome of a long-term commitment. These first two stages are the outsider while the final two are the insider. The final stage is from new friend to old friend.

Figure 4 - The development of guanxi

![Diagram showing the development of guanxi]

An old friend is one who has proved himself/herself over time as being loyal and trustworthy, it is someone in whom one can confide and there is no real reason for legal contracts as one’s word is one’s bond. At this stage it is easy to do business, and in the Chinese culture, it adds tremendous flexibility to doing business especially in a society where the alternative is excessive bureaucracy or formal hierarchies. (Buttery & Wong, 1999, p. 152)

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4 Yang (1994) uses the term “the art of guanxi” p. 35
The advantage to doing business with an ‘old friend’ is both monetary and psychological, because, although the uncertainties of business still exist, at least one knows whom one is dealing with, and therefore some of the risk of the unknown is eliminated. X.P. Chen & C.C. Chen (2004) developed a model, Table 2, showing three stages to building guanxi-exchange.

<table>
<thead>
<tr>
<th>Guanxi stages</th>
<th>Guanxi objectives</th>
<th>Interactive activities</th>
<th>Operating principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiating</td>
<td>Setting up bases</td>
<td>Familiarizing</td>
<td>Mutual self-help</td>
</tr>
<tr>
<td>Building</td>
<td>Enhancing quality</td>
<td>Expressive/instrumental</td>
<td>Dynamic reciprocity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>transactions</td>
<td></td>
</tr>
<tr>
<td>Using</td>
<td>Getting benefits</td>
<td>Exchanging favors</td>
<td>Long-term equity</td>
</tr>
<tr>
<td></td>
<td>re-evaluating</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>guanxi quality</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Adapted from Chen & Chen (2004, p. 310)*

In Table 2 the first stage, initiating, begins with either determining the base or establishing a base. The activities of familiarizing (socializing together) include eating together, visiting the home, etc. The second stage, building, includes the exchange of both instrumental and expressive gifts. The third stage, when it becomes a reliable resource, is the most important to a business guanxi-exchange.

Guanxi-exchange encompasses economic capital, social capital, and symbolic capital (Wong, Leung, Hung & Ngai, 2007). Li (2007) introduced the term ‘guanxi capital’ and ‘total guanxi’ to illustrate the nature of guanxi-exchange:

If we focus on the similarity between social tie (social capital) and guanxi (guanxi capital), we can adopt the notion of weak guanxi. If we focus on the distinction between [them] ... the notion of strong guanxi... If we study both ... the notion of total guanxi. (p. 65)

This quote highlights the multi-faceted nature of guanxi-exchange.
Guanxi relationships within a guanxi-exchange are not created equal. “Those in power and authority possess most of the social resources...guanxi partners may be less affectionately attached...and less motivated to contribute resources” (Su, Mitchel & Sirgy, 2006, pp. 304-306). There are many different types of guanxi-exchange; Fan (2002) concentrates on family, helper, and business to government guanxi, as shown in Table 3. I suggest that, in row 1, ‘helper’ guanxi, businessperson to businessperson should be included. Row 3 describes the nature of the guanxi, showing the influence of emotional and instrumental for family, while helper guanxi drops the emotional, keeps the instrumental and adds utilitarian, bringing it into the realm of business guanxi which is purely utilitarian. This highlights the ‘mixed’ nature of helper guanxi and is what is found in interdependent relationships between peers, for instance, two entrepreneurs. Included in this category is business-to-business guanxi, (see Figure 4 organizational guanxi, this chapter). In row 6, core values, helper guanxi includes ‘face’ and trust, both of which are important features of business guanxi that are discussed in more detail in Chapter 5. The concepts of ‘old friend’, ‘new friend’ and ‘insider’, ‘outsider’ are shown in row 11, relation. Row 13 highlights the downside to a guanxi-exchange. Under column 3, helper guanxi, the problem of renqing means the decisions made regarding giving and receiving are influenced by sentiment and obligation and, therefore, cannot be strictly based on a cost-benefit analysis. (The decisions involved in guanxi-exchange are shown in greater detail in Chapter 5 Figure 7) In column 4, Business to government, any reciprocal interaction could be open for interpretation and accusations of bribery and corruption, which would lead to loss of ‘face’ and status. This downside of guanxi-exchange is discussed in Chapter 4.
Table 3 – A comparison of three types of guanxi

<table>
<thead>
<tr>
<th>1. Guanxi type</th>
<th>Family guanxi extended family</th>
<th>Helper guanxi business to business</th>
<th>Business guanxi Business to gov’t</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Definition</td>
<td>Special relationship, the expressive tie</td>
<td>Process of exchange favours</td>
<td>Process of finding business solutions through personal connections</td>
</tr>
<tr>
<td>4. Cultural/social root</td>
<td>Chinese cultural values</td>
<td>Cultural values and contemporary socio-economic factors</td>
<td>Current political/economic structures, e.g. weak legal system</td>
</tr>
<tr>
<td>5. Base</td>
<td>Mostly blood base, some social base</td>
<td>Social base</td>
<td>Social base, or through intermediary</td>
</tr>
<tr>
<td>6. Core values</td>
<td>Qinqing/affection, obligations, empathy</td>
<td>Renqing, face, trust Credibility</td>
<td>Renqing, face, power/Influence</td>
</tr>
<tr>
<td>7. Motivation/Purpose</td>
<td>Mutually dependent, emotion-driven</td>
<td>“To get things done” utility-driven</td>
<td>To overcome bureaucratic obstacles, to get special treatment/protection</td>
</tr>
<tr>
<td>8. Function</td>
<td>Ends and means</td>
<td>Means</td>
<td>Means</td>
</tr>
<tr>
<td>9. Exchange</td>
<td>Love/affection, support, gifts</td>
<td>Gifts Favour</td>
<td>“Money and power deal”</td>
</tr>
<tr>
<td>10. Condition</td>
<td>Reciprocal not necessary, can be altruistic</td>
<td>Reciprocal expected, but the weaker party benefits more</td>
<td>Strictly reciprocal, “gain and loss” bargaining</td>
</tr>
<tr>
<td>12. Quality/closeness</td>
<td>Strong and stable</td>
<td>Medium, normally unstable</td>
<td>Varies (depends on the existence of other bases)</td>
</tr>
<tr>
<td>14. Ethic</td>
<td>Generally ethical, even desirable</td>
<td>Depends</td>
<td>Widely regarded as “evil”, unacceptable</td>
</tr>
<tr>
<td>15. Time</td>
<td>Long term or permanent</td>
<td>Temporary or long term</td>
<td>Varies</td>
</tr>
</tbody>
</table>

Source: Adapted from, Fan (2002, p. 373).
As stated in Chapter 1, *guanxi*-exchange is a resource. Smart (1993) points out that: “Subordinating immediate interests to the cultivation of the relationship creates a resource that can be utilized repeatedly over the long term...so long as sufficient reciprocity results on both sides” (p. 402).

*Guanxi*-exchange is essentially a personal resource but it can also be a company resource. Organizational *guanxi* has to be based on individual *guanxi*; all business transactions are initiated and implemented by individuals (Tsang, 1998, p. 69). If company A wants to take advantage of the personal *guanxi*-exchange that an employee has with the senior management of company B then the manager of company A needs to take steps, as Tsang (1998) explains: “To transform individual *guanxi* into organizational *guanxi*...could be achieved through organizing regular meetings and social activities for the staff of the two companies. Organizational *guanxi* was strengthened by the multiple personal *guanxi* among the staff” (p. 69).

Organizational *guanxi*-exchange needs a base as much as any other, and some of the terminology of individual *guanxi*-exchange is useful in understanding those foundations.

A social *guanxi* base exists when there are regular transactions or a formal collaboration agreement between two organizations. The relationship can be supplier-purchaser, producer-customer, banker-client...A blood *guanxi* base exists when there is an ownership connection between organizations...one is a subsidiary of the other, or both are subsidiaries of a third organization...the parent companies of a joint venture have social *guanxi*...The *ganqing* in this example is the extent to which past interactions of the organizations concerned are cordial and trouble-free. Disputes and litigation definitely damage *ganqing*. (Tsang, 1998, p. 69)
Business *guanxi*-exchange can be considered a resource of individual employees, which are used to the advantage of that employees’ employer, or it could be a resource that becomes accessible to the employer even if the original contact person leaves the company. This outcome would depend on how strong the *ganqing* is between the original contact person in company A and the most powerful person in the target company B in his *guanxi*-exchange. If the *ganqing* is strong and the *guanxi*-exchange powerful, then the employee could take the resource with him when he leaves, and conceivably give the resource to a future employer. If, on the other hand, the employer has managed to transfer the *ganqing* to the company, then even if the original employee leaves, the resource would still be accessible. Having more than one set of contacts is another insurance that the resource will remain accessible, hence the strategy of arranging opportunities for the workers of both companies to have social interaction. Tsang (1998) created a map of individual and organizational *guanxi*-exchange see: Figure 5. The type of *guanxi*-exchange between the individuals is classified as: base, i.e. blood ties or social ties, and the quality of the relationship, i.e. weak or strong. The individual *guanxi*-exchanges existing between individuals may or may not establish an organizational *guanxi*-exchange; that would depend on the actions of the management of the two organizations. It is important to note that organizational *guanxi*-exchanges cannot develop without the individual *guanxi*-exchanges.

The complexities of *guanxi*-exchange are especially difficult to negotiate in the case of government department to private organization *guanxi*-exchange. Or state owned company to government department. Or state owned company to private company.
Figure 5 - Organizational guanxi map

Organizational guanxi

Strong individual blood guanxi

Weak individual blood guanxi

Strong individual social guanxi

Weak individual social guanxi

Source: Adapted from, Tsang (1998, p. 71)
This chapter has examined the literature on exchange and has explored the question of what a gift is. The literature establishes the following points.

- The relationship between the partners is affected by whether the exchange good is a commodity and therefore involves an independent relationship, or is a gift and therefore involves a dependent relationship.
- The difference between a gift and a bribe is determined by culture and the social context of the transaction.
- The sociology and psychology behind reciprocity in an exchange informs the motives for different types of reciprocity.
- The difference between balanced or imbalanced reciprocity is based on sentiments such as liking or a sense of fair play.
- Concern over the judgment of society is a factor in deciding how to respond to a gift.
- The steps to developing a *guanxi*-exchange include determining if there are any commonalities between the partners, while the quality of the *guanxi*-exchange is determined by the sentiments that exist between them.

This chapter has reviewed the theories that inform development and maintenance of *guanxi*-exchange between individuals or companies. In the following chapters I will demonstrate that the exchanges that are occurring in the context of *guanxi*-exchange have the characteristics of gift exchange as a theoretical type: they show an obligation to give, to accept, and also to reciprocate. The following chapter describes gift exchange and *guanxi*-exchange within a business community.
Chapter 3: The Custom of *guanxi*-exchange

With the goal of understanding *guanxi*-exchange, this chapter describes who the partners are, what they do, and where and when they use *guanxi*-exchange. To begin with, a brief summary of the official and unofficial political economy is given in order to put the practice of *guanxi*-exchange into context. The next section shows the role of gift exchange in *guanxi*-exchange. Empirical data, case studies and representations are used to show gift exchange and *guanxi*-exchange in action, while the quantitative data will establish the importance of *guanxi*-exchange. Seasonal, personal and business gift giving occasions are examined to describe those occasions that could be used as an excuse to send a gift as part of a *guanxi*-exchange. The importance of *guanxi*-exchange for establishing a business, for gaining business opportunity, and for gaining access to land, labour and capital are each described. Ahlstrom, Bruton, & Yeh (2008) point out:

> For example, the importance of *guanxi* and maintaining good connections with key stakeholders in the region in which a firm is doing business cannot be overstated. Several interviewees in both China and Taiwan reminded us that *guanxi*...can help protect the firm against interference by the government and secure the firm’s position in the local market. (p. 397)

To understand the role of *guanxi*-exchange in reference to government; the political structure of China is described. Then the economic system is explained in order to understand the context of doing business. The various levels of government and the governments of different regions each have agendas and goals in regards to business. How local situations impact business is described later in this chapter.
China's political economy

The PRC’s political system is a one-party state in that the Chinese Communist Party, (CCP) controls absolute power. All government officials are chosen from the members of the CCP but somewhat unusually, for a one-party state, China has term limits for political office. China is a republic with a president and a prime minister. The sitting president chooses a designated successor. There are however, open and democratic elections at the lower levels of government such as the village councils and township government, although these organizations are under the control of the CPP and the CPP has representatives within the organizations. Membership in the CCP is by invitation only (Lieberthal, 2004).

After the CCP came into power in 1949, China introduced a command economy in various forms and experimented with communism, but in 1978 it began re-introducing market economy institutions. Communism implies no private ownership in means of production. However, in 1999, under president Jiang Zemin, Amendment Three of the constitution gave guarantees to private ownership stating, “The State protects the lawful rights and interests of individual and private economies and guides, supervises and administers individual and private economies” (Lieberthal, 2004, p. 434). Under the same amendment private enterprises were labelled “major components of the socialist market economy” (Lieberthal, 2004, p. 434). In 2002, also under Jiang Zemin, successful private entrepreneurs were invited to apply for membership in the CCP (p. 204).

Guanxi-exchange exists in the context of the official and the unofficial economy of China. The term “capitalism with Chinese characteristics” evolved from the original “socialism with Chinese characteristics”, proposed by Deng Xiaoping in 1978. Both
concepts are an attempt by the CCP to bring in economic reforms under a communist political framework. Included in this system are privately owned businesses which have played a major role in China’s economic development. Also included are the state-owned enterprises (SOEs) and collectively owned township village enterprises (TVEs). This multi-faceted system is credited with the high growth rates in GDP during the last decades (Huang, 2008). The state has tried to control the non-state economy through indirect control of the financial systems, which lends according to state priorities. The ambiguity in access to capital is addressed in this chapter. However some of the biggest changes from the fully planned economy have come from the restructuring of the SOEs into commercial ventures, including the abandonment of lifetime employment for workers, and the restructuring of the rural economy into independent farmers after abandonment of the commune system. The result has been under-employment and unemployment, which has led to the necessity of self-employment. Entrepreneurs created jobs in the private sector. Migrant workers went to the urban centres to seek employment. The beginning of a labour market was formed entailing competition for jobs and workers (Wang, 2002). The uncertainties in land, labour and capital are addressed in this chapter.

**Gift exchange in guanxi-exchange**

The importance of gift exchange in guanxi-exchange is evident in the literature in that the very existence of gift exchange is stated as a fact; see among others (Ahlstrom, Burton, & Yeh, 2008; Dunfee & Warren, 2001; Li, 2007; Stockman 2000). Gifts are given on important occasions such as weddings, birthday celebrations, and even funerals. Material gifts and intangible non-material gifts are both included in business gift exchanges. The role gifts play in the business context of guanxi-exchange is to act as a
communication tool. They help the recipient focus on the giver and ponder such questions as: How do I know you? What is our relationship? How shall I respond? These questions are the building blocks and the supports of guanxi-exchange. For example: A guanxi-exchange is managed through the exchange of gifts as part of social interaction which has an effect on the quality of the guanxi as measured by ganqing as Jacobs (1982) makes clear:

Thus any effort to make guanxi close must involve social interaction...A township leader wishes to make his guanxi with a village leader closer, the township leader will invite the village leader to banquets on such occasions as weddings in the township leader’s family and festivals in his home village. Should a wedding occur in the village leader’s family the township leader will be sure to send a wedding gift...If the township leader receives an invitation to attend a banquet at the village leader’s home, the township leader will attend and thus give prestige or “face” to the village leader. Provided the social interaction continues, ganqing between the township leader and the village leader will occur and become better. (p. 228)

The strategy in the above example sets up the opportunity to exchange material gifts, which is the easiest and fastest way to start a guanxi-exchange. The village leader, although not the one instigating the ‘closeness,’ is the one who must give the first gift, but in this case the village leader gains ‘face’ by the invitation. The township leader would not need to wait for a wedding in his own family because he could take advantage of his superior position in society to send a gift to the wedding in the village even if he himself is not actually invited to the banquet. This would be enough to set the wheels of reciprocity in motion as the village leader would usually take advantage of the opportunity to enter a guanxi-exchange with someone in a higher social or political position. Now the two leaders could be said to be in a guanxi-exchange where mutual
help will be expected. “The township leader can expect the village leader’s support in an
election...the village leader can expect the township leader’s help at the township level”
(Jacobs, 1982, p. 228). In this case the two leaders would have a base of locality to start
the process.

**Gift giving – Material gifts**

There are three different types of occasions for gift giving in the business world.
First — seasonal occasions, such as Spring Festival or Chinese New Year and Mid-
Autumn Festival. Second — personal occasions, such as weddings, birthdays, funerals.
Third — occasions particular to the business relationship such as new contacts, grand
openings, labour negotiations etc.

**Seasonal gift-giving**

It is the custom in many cultures to give token gifts at special times of the year. In
the West it is not unusual to send boxes of chocolates or bottles of fine wine to clients
and business associates at Christmas or New Year. Similarly gift giving at Spring
Festival, also known as Chinese New Year, is a chance to send bottles of good brandy
and cartons of imported cigarettes to those in one’s guanxi-exchange. In China, another
important occasion to send gifts is Mid-Autumn Festival, when the traditional moon-
cakes are exchanged, usually in elaborate gift presentations including brandy, cigarettes,
and other giftware.

**Traditional gift giving**

These traditional occasions of gift giving are more complicated than the case of the
Mid-Autumn Festival or the Spring Festival, because the gifts are given at a time of
public ceremony and ritual. The actual receiver of the gift may be a family member, such
as a child or a parent of a business associate, but it is the relationship with the business associate that is considered in determining the value of the gift, and it is the business associate who is considered the recipient. The family will record the type and value of gifts given at weddings, birthdays and funerals. Yan (1996) describes gift record keeping:

Checking the gift list is among the first things that a host does after the ceremony....to know exactly who attended and who did not and the value of the gifts....any changes in personal relationships will be reflected in the gift list. The host will keep the list in a safe place and treat it as a catalogue of social connections and a record of incoming personal favors. He will consult the gift list frequently when he needs to determine how much he in turn should give to someone in similar circumstances. (pp. 50-51)

In principle, the value of the gift given should be in accordance with the relative rank of the giver to the recipient, and it must also be in line with what the recipient had previously given at a similar occasion to the current giver (Kipnis, 1996). ‘Face’ is considered at these very public occasions, and it can be lost or gained depending on the gifts. “Under such conditions, one must calculate carefully the appropriateness of one’s gift, because social reward or sanction is verbalized right on the spot” (Yan 1996, p. 52).

Gift lists are memorials and function as a written testimony to the quality of an individual’s or a family’s guanxi-exchanges. (Yan 1996, Kipnis, 1996)

**Business gift giving**

Every opportunity should be taken to send a gift to a business associate or a potential business associate. Observations made in China during my residence there along with the descriptive sources (movies, TV) illustrate the following practices. At the opening of a business it is common to see large wreaths of flowers, which have been sent by other
businesses. Because these wreaths are on display, often out in front of the building, it is important for the size or quality of the gift to be appropriate according to the rank or quality of the business relationship that is desired or that already exists. A more private occasion is when one person is trying to establish a relationship with another person or is hoping for a favour. In this case the giver would have to determine what gift would be appropriate. When one is trying to establish a long-term relationship the early steps are usually small, as are the gifts, for instance, seasonal food such as a basket of fruit (Kipnis, 1996). It was observation of these practices during my residence in Shanghai, in 2007 that first gave rise to this study.

In all three of these occasions when material gifts are given, it is not just the gift that is important, but also the presentation and ritual that must be observed. For instance, a gift should be presented with both hands and accepted with both hands. The giver should apologize for the smallness of the gift, and the receiver should at first refuse a gift as being unnecessary between friends before finally accepting it. The gift should not be opened in front of the giver. Ritual is easily observed in a banquet setting, one of the most common forms of gift exchange, and a formal representation of that very basic social interaction, eating together. (Yan, 1996, Yang, 1994)

**Banquets**

Pitta, Fung and Isberg (1999) call banquets “inevitable” and “mechanisms for learning.” The seating at a banquet is very important because it shows the rank and status of the participants. A guest must wait to be shown where to sit because the host is making a display of rank not only to the honoured guest but to everyone involved. For example, the seating plan will show who has power within a company. Blum (2007) elaborates:
Banquets are important for the establishing and nurturing of relationships, or *guanxi*, in a cycle of reciprocal gifting that in many ways forms the backbone of Chinese society. Written records are kept of invitations and gifts, especially at life-cycle rituals such as weddings and funerals. There is a competitive dimension to these banquets, since giving is a way of being owed as well as a way of gaining status. One way of upping the ante in the cycle of gifting is to provide unusual meats and ingredients. (p. 184)

These expressions of status, rank and competition are highly characteristic of gift exchange in a flexible social hierarchy. (Mauss 1990, Morgan 1989)

**Intangible gifts**

Favours, information, opportunities, personal guarantees, etc. are all types of gifts and as such are included in *guanxi*-exchange. Carmichael & MacLeod (1997) found:

> In the business world, despite the obvious reliance on explicit contracts to ensure performance, the beginning of new relationships is often marked by gifts of various kinds. Overpriced dinners and the donation of time from people whose time is expensive are examples. (p. 501)

Although a gift can take many forms in a *guanxi*-exchange, the most important is the exchange of “symbolic capital in the form of face, moral advantage, social debt, obligation and reciprocity” (Yang 1994, p. 203).

The importance to business of gift exchange and hospitality can be seen in Table 4 from the Hong Kong researchers Leung & Yeung (1995). Their survey results show that the largest percentage of respondents reported using ‘social meetings in restaurants’ (73.2%) and ‘sending gifts’ (67.9%) as strategies for *guanxi*-exchange in the development stage of the business negotiations. Leung & Yeung report that these results showing gift-giving and social meeting in restaurants were consistent with research conducted by the Independent Commission Against Corruption in Hong Kong. The
commission found, “Hong Kong businessmen allocated 3 to 5 percent of their operational expenses to build up “guanxi” and “send gifts” to their business partners in the PRC” (quoted in Leung & Yeung 1995, p. 73). The allocation of wealth to guanxi-exchange is a calculated part of financial distribution in business. As established in Chapter 2, organizational guanxi-exchange is developed and maintained through individuals representing their companies at social functions.

Table 4 - Pre-Negotiation process

<table>
<thead>
<tr>
<th>Types of Pre-Negotiation contacts with the PRC</th>
<th>Percentage of total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receiving requests for:</strong></td>
<td></td>
</tr>
<tr>
<td>Samples</td>
<td>66.1</td>
</tr>
<tr>
<td>Preliminary proposal for budgetary purposes</td>
<td>63.7</td>
</tr>
<tr>
<td>Formal quotation bid</td>
<td>51.8</td>
</tr>
<tr>
<td>Technical information</td>
<td>43.5</td>
</tr>
<tr>
<td><strong>Regular Sales Calls to the PRC on:</strong></td>
<td></td>
</tr>
<tr>
<td>Trading corporation</td>
<td>58.3</td>
</tr>
<tr>
<td>End-users</td>
<td>48.2</td>
</tr>
<tr>
<td><strong>Extending Hospitality</strong></td>
<td></td>
</tr>
<tr>
<td>Social meetings in restaurant</td>
<td>73.2</td>
</tr>
<tr>
<td>Sending gifts</td>
<td>67.9</td>
</tr>
<tr>
<td>Sight seeing</td>
<td>27.4</td>
</tr>
<tr>
<td>Giving a seminar</td>
<td>35.7</td>
</tr>
<tr>
<td>Attending exhibitions/trading fairs</td>
<td>23.8</td>
</tr>
<tr>
<td>Visited by PRC representatives</td>
<td>22.6</td>
</tr>
<tr>
<td>Advertising/direct mail</td>
<td>14.9</td>
</tr>
<tr>
<td>Others</td>
<td>3.6</td>
</tr>
</tbody>
</table>

*Source: Leung & Yeung (1995, p. 75)*
Reciprocal gift giving in *guanxi*-exchange

Yan (1996) asks: “Why do people want to participate in gift giving?” and answers, “It is the prestige of receiving that motivates villagers to give” (p. 148). The real power then is not in the initial gift but in the return gift. There is recognition that is gained from receiving a gift; for instance, when a subordinate gives a gift to a superior it is the receiver who gains validation of ‘face’ or prestige, while the donor retains ‘face’.

The donor must then wait for the opportunity to host a ceremony and hope that the superior will give a return gift, which is a public display in recognition of some good quality of the receiver, ‘face’ (Yan, 1996, p. 148). Yan created a diagram (Figure 6) illustrating the social relations resulting from gift exchange.

**Figure 6 - Power and prestige in gift relations**

<table>
<thead>
<tr>
<th>Social relations between X (donor) Y (recipient)</th>
<th>Horizontal (peers)</th>
<th>Vertical (hierarchy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of gift exchange</td>
<td>Expressive</td>
<td>Instrumental</td>
</tr>
<tr>
<td>Direction of gifts</td>
<td>X→ Y, Y→ X</td>
<td>X→ Y, Y→ X</td>
</tr>
<tr>
<td>gains power</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>gains prestige</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Become Superior</td>
<td>&quot;</td>
<td>X</td>
</tr>
</tbody>
</table>

Note: Solid arrows indicate material gifts; dotted arrows indicate favors, services etc.


Figure 6 column 4 illustrates a subordinate X giving an expressive gift to a superior Y; the superior gains power and prestige. In the case of an instrumental gift (Column 5) the subordinate X gains power when the gift is reciprocated as a favour, but the prestige is gained by the donor Y, as recognition of Y’s ability to do the favour. The one-way gifts in column 4 illustrate the recipient Y gaining all and the donor X nothing (although ‘face’
is retained). The donor must wait for the reciprocal gift before prestige or power is obtained.

The more effective approach would be to let the debt lie until a large opportunity arises; a Chinese proverb advises that ‘a favour of a drop of water deserves the reciprocation of a stream.” Paying a debt with something of equal value will balance the reciprocity, while repayment with something larger tends to continue the guanxi. If there is no favour and repayment, negotiations may default to the more formal set of procedures and more formal language used for outsiders. (Movius, Matsuura, Yan & Kim, 2006, pp. 409-410)

Continuation reciprocity leading to uncertainty is avoided as the agents are taking turns at being in debt, and the relationship grows along with the exchange of gifts and favours.

**The importance of guanxi-exchange**

**The importance of guanxi-exchange in establishing a private business**

Researchers from business schools in Hong Kong, Taiwan, and the USA found that interviewees listed guanxi as a strategy to create the acknowledgment of a company’s legitimacy:

Private firms have reported selecting an area in China where their managers’ significant long-standing relations or clan ties confer some initial legitimacy. The firm’s legitimacy can be further strengthened in these situations through reciprocal relation-building by conducting exchanges and networking activities including gift-giving and banquets to build relationships with key individuals in that region. (Ahlstrom, et al. 2008 p. 390)
The importance of guanxi-exchange in – conflict resolution

China is going through a period of transition, and organizational infrastructure is not fully established. Ahlstrom et al. (2008) found that respondents reported on the usefulness of guanxi to facilitate conflict resolution under these circumstances.

Hiring or working closely with local respected advisors that are in good standing with the government, party cadres, local village committees, and the judiciary can help to confer legitimacy, particularly during disputes over firm resources, land ownership, employment issues, payment of tax and commercial and legal issues. (Ahlstrom et al. p. 391)

Guanxi-exchange includes a consideration of ‘face’ in resolving disputes: Movius, et al. (2006) describe one strategy:

Many new proposals and concessions will be made in small group banquets or parties, away from the negotiation table. Many of the executives we interviewed cited the importance of ‘side meetings’ as a way of maintaining face while addressing sticking points. (p. 417)

The importance of guanxi-exchange in gaining business opportunity

Guanxi-exchange can facilitate a win-win situation when a company can give a gift of employment and prosperity to an impoverished community and therefore gain not only business opportunity but ‘face’ (mian-zi) as well.

For example, well-known Chinese beverage producer Wahaha successfully took over and operated a major state factory near its hometown of Hangzhou in eastern China partly as a favour to local municipal officials that did not want to continue to subsidize it. That successful acquisition not only helped Wahaha meet its goal of connecting with local officials, but it also earned the firm national attention as one of the first private firms to acquire and effectively operate a larger state enterprise (Sull, 2005). This led

\(^5\) ‘face’ (mian-zi) is explained in detail in chapter 5
government officials from around China to offer Wahaha the opportunity to take over failing state factories in their regions, for which they were able to negotiate favourable terms (Ahlstrom et al. 2008, p. 390).

In the above case study the owner of Wahaha gave a favour to the local official from his hometown; the owner and the official were already in a previously established guanxi-exchange relationship because of the hometown connection. The guanxi-exchange was strengthened by the transaction and the official reciprocated by giving the gift of business opportunity via his own guanxi-exchange with other government agencies.

**The importance of guanxi-exchange in land, labour and capital**

**The importance of guanxi-exchange in access to land**

Land ownership is one area of ambiguity where local officials have the decision making power. Harold Demsetz (1967) uses the concept of “a bundle of rights.” This bundle refers to those rights that a person or institution is empowered to exercise over an asset. The core of these rights comprises the: right to utilize the asset, the right to enjoy the profit or suffer any incurred debt arising from the utilization right, and the right to transfer those rights to another person or institution through sale, gift or inheritance. (pp. 104-116) This model is a good example of the multiplicity of property rights in China. The ambiguity in land rights found today springs from a system in which these divided rights are exercised in different ways in different regions by different institutions although official ownership of the land resides with either the state or local village. A brief review of the history of land ownership sets the stage.
As China moved away from the central planned economy, the provincial and local institutions became more important to rural economic development. The various institutions have designed different property rights relations relative to location or opportunity for development (Lin, 1997). W.X. Chen (1999) asks the question, “What are the specific property rights arrangements of rural enterprises in Chinese reforms? How should we understand the variations of property rights relations across regions?” (p. 8).

These are the types of questions facing someone hoping to start a business, or hoping to enter into a business partnership with an existing company. Getting land use rights is a matter of getting the person or persons who have the control rights to agree that the land can be used for a certain purpose. The ambiguity comes in when it is not clear whether they have agreed to a particular use of the land and have transferred only the right to profit from the land used in that particular way, or they have actually sold the right to control the land use rights. This is a precarious position for a business developer because even after the transfer of land use rights the lack of a clear legal title to the land means the land transfer could be disputed.

Basically, the constitution assigns the urban land to the government and the rural land to the collectives, which are the modern villages.... this has serious implications for the urbanization process because the latter leads toward a reassignment of land rights...Often a mix of quasi-privatization and nationalization emerges...transforming rural land into urban land (hence nationalization), to the benefit of certain groups who actually control the related business (hence privatization)....this process implies that the system of regional property rights is further strengthened, because one of the most precious assets in China, scarce land, remains under political control. (Herrmann-Pillath, 2006, p. 561)
In this situation having a trusted *guanxi*-exchange contact will give a level of legitimacy and security to the negotiations. The transfer of land use rights has been called a land grab with agricultural land lost when industrial development in the countryside expanded in the 1980s and is increasing rapidly (Huang 2008, p. 284). One of the effects of the land grab has been the forcing of millions of peasants off the land. Along with the redundant rural labour there is redundant urban labour from the restructuring of SOEs, which has created a large pool of unemployed.

**The importance of *guanxi*-exchange in labour**

*Guanxi*-exchange plays an important role in the connection between a job applicant and an organization’s personnel selector. The following quote from The Research Group for Social Structure in Contemporary China (2005) from the Institute of Sociology, Chinese Academy of Social Sciences, shows four aspects of employment strategy using social networks.

1. The first aspect is delivery of information. The organizational selector...always attempts to collect relevant information about applicants for jobs, while social networks can help applicants deliver their unique personal information to the ...selector and attract particular attention.

2. The second aspect is the explanation of one’s resources status....Social networks can help applicants present his or her image in an optimal way and explain how [he/she] meet the requirements of a position to the organizational selector.

3. The third aspect is the influence of power. Ethical norms in China endow the both sides in social connections with the power (or right) to...ask for

---

help from one another and with the obligation to accept the other side’s request and offer corresponding help. An applicant’s request is delivered to decision makers in the organization through such a power-obligation relationship.

4. The fourth aspect is social exchange. Social networks enable individual applicants to transfer various “personal goods” to organizational selector and help an individual with social resources obtain the desired position. (2005, pp. 340-341)

In the above assessment the job applicant would use his guanxi-exchange to find a go-between who was in a guanxi-exchange with someone in a position to influence employee selection. The job applicant’s guanxi-exchange is his “social resources”. This strategy is similar to pulling guanxi (la guanxi) described in Chapter 1. The difference is that the intermediary is facilitating the acquisition of a job and not necessarily matchmaking two individuals to develop a guanxi-exchange.

Bian (2002) conducted 100 interviews asking questions on strategies used to search for employment – Table 5. In the numbered columns for job search and job change methods the highest percentage (52%) are under column 2, indicating the use of strong ties for successfully getting a job. The one exception, getting a job in a foreign firm, is column 1 indicating state job allocation. The highest number (72%) for migrant workers is under column 2 for strong ties.

Migrant workers have the greatest difficulty getting jobs because of their quasi-legal status in cities or towns. G.C.S. Lin (1997) describes the situation in Guangdong province:

Many of these immigrants were brought by their countryfolk through an incredibly well-organized underground network extending from the railway station in Guangzhou to nearby suburban counties...through the
underground networks, newcomers were introduced to possible employers and began work as factory workers, babysitters, waitresses or even prostitutes. (p. 164)

The migrant workers are usually from the poor, less-developed regions of China, and very often they are young women. It is not unusual for a factory to have groups of workers from the same small village. The workers go home once a year at Chinese New year and at that time they can recruit new workers for the factory. This system gives a sense of security to the one leaving home for the first time because she would be working and living with people from her own guanxi-exchange (G.C.S.Lin 1997).

Guanxi-exchange is also used to control workers as Walder and Oi (1999) point out:

The use of kinship and personal or particularistic ties to control labor, and to supervise the management of collective village enterprises was instrumental to the success of the corporate endeavour....the costs of monitoring labor discipline through a combination of material incentives and punitive sanctions, coupled with appeals to normative sentiments of affect, propriety, and reciprocity embodied in concepts such as ganqing, renqing, and guanxi....tardy, or unconscientious [workers] have been admonished by relatives on the enterprise staff for causing the latter to “lose face.” (p. 39)

The above quote highlights the effect of society on a person’s ‘face’ and the role that ‘face’ plays in constraining and encouraging behaviour desired by society. The role of ‘face’ is discussed in more detail in Chapter 5.
Table 5 - Job changes experienced by a sample of 100 interviews

<table>
<thead>
<tr>
<th>Sector of Job Destination</th>
<th>Number of Jobs</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>392</td>
<td>15</td>
<td>52</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td><strong>Reforming Public Sectors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government agency</td>
<td>25</td>
<td>28</td>
<td>48</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>State non-profit organization</td>
<td>48</td>
<td>13</td>
<td>42</td>
<td>21</td>
<td>24</td>
</tr>
<tr>
<td>State enterprise</td>
<td>66</td>
<td>6</td>
<td>66</td>
<td>17</td>
<td>11</td>
</tr>
<tr>
<td>Collective enterprise</td>
<td>33</td>
<td>6</td>
<td>45</td>
<td>30</td>
<td>19</td>
</tr>
<tr>
<td><strong>Emerging Market Sectors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidiary establishment</td>
<td>53</td>
<td>38</td>
<td>49</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>International joint ventures</td>
<td>37</td>
<td>54</td>
<td>27</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>Foreign firms</td>
<td>25</td>
<td>0</td>
<td>44</td>
<td>24</td>
<td>32</td>
</tr>
<tr>
<td>Domestic private firms</td>
<td>26</td>
<td>0</td>
<td>35</td>
<td>31</td>
<td>35</td>
</tr>
<tr>
<td>Mixed property entities</td>
<td>32</td>
<td>0</td>
<td>69</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td><strong>Floating Population</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Migrant peasant labor</td>
<td>47</td>
<td>0</td>
<td>72</td>
<td>17</td>
<td>11</td>
</tr>
</tbody>
</table>

1=job allocation by state or work-unit authorities...little personal freedom to search for jobs.
2=Use of predominately strong ties
3= Use of predominately weak ties
4= direct application, use of formal employment services.

*Source:* Adapted from: Bian, Y. (2002, p. 121)
The importance of guanxi-exchange in access to capital

Access to capital is a very important dimension of doing business at any time, and in China this is a particularly ambiguous domain. Business today is a global activity and therefore factors outside China affect the business practices of even very large corporations.

An example of how Guanxi works is provided by the case of Oriental Overseas Container Line which is one of the world’s largest container lines but faced the threat of bankruptcy in the 1980s, owing to world-wide shipping recessions of that era. The company that was owned by the Tung family was saved by a network of Chinese businessmen because of the good Guanxi of the Tung family. After the recovery of the organisation, Mr. C.H. Tung became the first Chief Officer of Hong Kong Government in July 1997 and is well known for maintaining very good Guanxi with many well-known Chinese business people. (Buttery & Wong, 1999, p. 153)

The above quote indicates the company, Oriental Overseas Container Line, needed to use guanxi-exchange to gain capital but it does not indicate where the money came from. For a smaller firm the situation can be very difficult too because access to formal banking is restricted and controlled by the state, and one’s close family might not have the resources to make contributions. If one cannot get money from a legal source they must resort to other means. That may seem like a precarious way to run a business let alone a country and yet that is the situation in China. Tsai (2002) explains:

It is not surprising, therefore, that entrepreneurs have created a wide array of nongovernmental financing mechanisms and institutions. Many of these financing practices are not officially sanctioned; indeed, some are explicitly illegal. While casual lending among friends and relatives is generally seen and condoned by banking
officials as an innocuous form of mutual assistance (*huzhu xingshi*), such practices as rotating credit associations and short-term trade credit reside within the gray area of quasi-legality in China. (p. 35)

One factor in the ambiguity of informal credit associations is the attitude of local authorities as shown in Table 6, where the legality of such a transaction can change or be unclear.

### Table 6 - Overview of curb market activities in China

<table>
<thead>
<tr>
<th>Legal</th>
<th>Quasi-Legal</th>
<th>Illegal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpersonal lending</td>
<td>Rural cooperative foundations (illegal since 1999)</td>
<td>Professional brokers and money lenders (loan sharks)</td>
</tr>
<tr>
<td>Trade credit</td>
<td>Shareholding cooperative enterprises</td>
<td>Private money houses</td>
</tr>
<tr>
<td>Rotating credit associations (in some areas)</td>
<td>Red hat/hang-on enterprises</td>
<td>Rotating credit associations (in some areas)</td>
</tr>
<tr>
<td>Pawnshops (in some areas)</td>
<td>Financial societies/capital mutual assistance associations/pawnshops (in some areas)</td>
<td>Pyramid investment schemes (scams)</td>
</tr>
</tbody>
</table>

*Note:* None of the practices/institutions in the second and third columns are sanctioned by the People’s Bank of China. Those in the first column are “legal” only if they do not entail the use of interest rates. ‘Quasi-legal” practices are those that are registered by a bureaucracy outside of the financial hierarchy.


Rotating credit associations are legal in some areas and illegal in other areas. The entrepreneurs must be knowledgeable about the situation in their own area and also be aware of the situation in the area of a potential working partner. A person’s *guanxi*-exchange can act as a sort of collateral for a loan. Having powerful or successful friends is a sign that a person has more than basic social skill, and also has good backing.

Tsai (2002) summarizes the economic realities in the political structures of China: “The uneven occurrence of informal finance suggests that central banking regulations are not being enforced consistently across localities” (pp. 10-11). Under these circumstances it is
important for the participants to have a well-managed *guanxi*-exchange because that is where the decisions pertaining to financial negotiations are made. Tsai (2002) stresses, “Private entrepreneurs within the same locality exhibit wide variation in their financing behaviour.... have varying social and political identities.... these mediate their access to noneconomic resources and networks, which in turn affects their economic strategies” (p. 19). Tsai (2002) points out that economic considerations are not the only reasons for entering into an informal financial arrangement, “Sometimes people participate in rotating credit associations simply because they have been invited to join one by a relative, a neighbour, a friend, or a friend of a friend” (p. 260). Interdependence is a feature of a *guanxi*-exchange and therefore if a friend is a member of, or is operating a financial institution, an entrepreneur is obliged to consider his friend’s needs as well as his own. The informal financial market has little protection from the legal system; however, the transactions are carried out according to local rules that Tsai (2002) found are:

Not written in contractual terms or even systematically articulated. They evolve and are reinforced in the course of everyday transactions. They become habits, however practical or impractical.⁷...To the debtor, however, the possibility that defecting from a curb market transaction could carry long-lasting personal consequences is powerful motivation for complying with the terms of the agreement. (p. 259)

*Guanxi*-exchange in the informal financial market has the protection of society in the sense that ‘face’ would be the collateral and assurance, facilitating mutual trust. This concept is explained in more detail in the analysis in Chapter 5.

⁷ The author compares this to Pierre Bourdieu’s notion of *habitus: The logic of practice* (Stanford, Calif.: Stanford University Press, 1990)
The importance of *guanxi*-exchange in negotiations

Gifts also are made as part of negotiations towards a business agreement. Thomas Leung from Polytechnic University of Hong Kong, and L.L. Yeung, an independent researcher from Hong Kong, did a survey on the importance of *guanxi*-exchange in business negotiations. The following Tables 7 and 8 show the results of that research.

The highest reason for success, listed in Table 7, is ‘personal relations’ which I suggest is *guanxi*-exchange. In table 7: Knowledge of PRC business practice would include knowledge of *guanxi*. The ‘use of an “old friend” is consistent with the language of *guanxi*-exchange. Moreover the use of gifts and a tour (a type of hospitality or gift) is part of the practice of *guanxi*-exchange.

I extrapolate from Table 8 to show the importance of *guanxi*-exchange in avoiding failure in negotiations. In Table 8, ‘Good personal relations’ is not listed at all in the reasons for failure. I suggest that some of the vague reasons listed below for failure are in fact connected to personal relations and undoubtedly a combination of those reasons for failure would contribute quite highly to failure. For instance ‘PRC insincerity’ is an indication of lack of trust between the negotiators. Trust is one of the characteristics of *guanxi*-exchange. In fact the following list (from Table 8) of reasons for failure would all have been improved with a *guanxi*-exchange relationship:

A breakdown in communication
Difference in business practices
Cannot cope with “stress” created by PRC team
Not knowing any ‘old friend’
Our firm’s lack of good reputation in PRC
Lack of patience by our team
Not using an intermediary/agent
Differences in negotiation styles
Table 7 - Factors for successful negotiation with the PRC

<table>
<thead>
<tr>
<th>FACTORS RESPONSIBLE FOR SUCCESS</th>
<th>Average rating:</th>
<th>S.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Listed in order of importance)</td>
<td>sample size 168</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(7 = extremely important, 1 = Not at all important)</td>
<td></td>
</tr>
<tr>
<td><strong>High Importance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good personal relationship</td>
<td>6.006</td>
<td>1.069</td>
</tr>
<tr>
<td><strong>Moderate Importance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our knowledge of PRC business practices</td>
<td>5.804</td>
<td>1.016</td>
</tr>
<tr>
<td>PRC’s requirement being clear</td>
<td>5.310</td>
<td>1.243</td>
</tr>
<tr>
<td>Our use of the “old friend” approach</td>
<td>5.268</td>
<td>1.164</td>
</tr>
<tr>
<td>PRC’s need for our product</td>
<td>5.256</td>
<td>1.362</td>
</tr>
<tr>
<td>Uniqueness of our product</td>
<td>5.107</td>
<td>1.393</td>
</tr>
<tr>
<td>Our willingness to offer good financing</td>
<td>5.065</td>
<td>1.248</td>
</tr>
<tr>
<td>PRC’s foreign exchange availability</td>
<td>5.024</td>
<td>1.677</td>
</tr>
<tr>
<td><strong>Low Importance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our willingness to sell at a good price</td>
<td>4.821</td>
<td>1.319</td>
</tr>
<tr>
<td>Gift and tour service</td>
<td>4.726</td>
<td>1.562</td>
</tr>
<tr>
<td>Preparation of our team</td>
<td>4.458</td>
<td>1.543</td>
</tr>
<tr>
<td>Patience on the part of our team</td>
<td>4.452</td>
<td>1.644</td>
</tr>
<tr>
<td>Our firm’s technical expertise</td>
<td>4.179</td>
<td>1.595</td>
</tr>
<tr>
<td>Our ability to meet delivery requirement</td>
<td>3.982</td>
<td>1.538</td>
</tr>
<tr>
<td>Our familiarity with PRC social customs</td>
<td>3.940</td>
<td>1.507</td>
</tr>
<tr>
<td>Our firm’s past reputation in selling to PRC</td>
<td>3.857</td>
<td>1.537</td>
</tr>
<tr>
<td>Our knowledge of the PRC’s political economy</td>
<td>3.768</td>
<td>1.630</td>
</tr>
<tr>
<td>Sincerity on the part of our team</td>
<td>3.679</td>
<td>1.718</td>
</tr>
<tr>
<td>Our use of an intermediary/agent</td>
<td>3.286</td>
<td>1.497</td>
</tr>
<tr>
<td>Good interpreter on our side</td>
<td>2.804</td>
<td>1.368</td>
</tr>
<tr>
<td>Our willingness to arrange countertrade (buyback)</td>
<td>2.750</td>
<td>1.247</td>
</tr>
</tbody>
</table>

*Source: Leung & Yeung (1995, p. 74)*
Table 8 - Factors for negotiation failure with the PRC

<table>
<thead>
<tr>
<th>FACTORS RESPONSIBLE FOR FAILURE</th>
<th>Average rating:</th>
<th>Sample size 168</th>
<th>S.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Listed in order of importance)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Moderate Importance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRC’s lack of budget</td>
<td>5.536</td>
<td>1.183</td>
<td></td>
</tr>
<tr>
<td>PRC’s insincerity</td>
<td>5.196</td>
<td>1.506</td>
<td></td>
</tr>
<tr>
<td><strong>Low Importance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRC did not really need our product</td>
<td>4.857</td>
<td>1.381</td>
<td></td>
</tr>
<tr>
<td>A breakdown in communication</td>
<td>4.768</td>
<td>1.716</td>
<td></td>
</tr>
<tr>
<td>Our unwillingness to meet financing demands</td>
<td>4.726</td>
<td>1.383</td>
<td></td>
</tr>
<tr>
<td>Difference in business practices</td>
<td>4.708</td>
<td>1.606</td>
<td></td>
</tr>
<tr>
<td>Cannot cope with “stress” created by PRC team</td>
<td>4.643</td>
<td>1.521</td>
<td></td>
</tr>
<tr>
<td>Not knowing any ‘old friend”</td>
<td>4.613</td>
<td>1.401</td>
<td></td>
</tr>
<tr>
<td>PRC’s shortage of foreign exchange</td>
<td>4.339</td>
<td>1.500</td>
<td></td>
</tr>
<tr>
<td>Lack of preparation by our team</td>
<td>4.095</td>
<td>1.549</td>
<td></td>
</tr>
<tr>
<td>Our firm’s lack of good reputation in PRC</td>
<td>3.845</td>
<td>1.448</td>
<td></td>
</tr>
<tr>
<td>Disagreement on contract terms</td>
<td>3.810</td>
<td>1.547</td>
<td></td>
</tr>
<tr>
<td>Our inability to lower price</td>
<td>3.798</td>
<td>1.387</td>
<td></td>
</tr>
<tr>
<td>Our inability to meet delivery requirements</td>
<td>3.792</td>
<td>1.331</td>
<td></td>
</tr>
<tr>
<td>Too many competitors offering the same product</td>
<td>3.697</td>
<td>1.411</td>
<td></td>
</tr>
<tr>
<td>Lack of patience by our team</td>
<td>3.625</td>
<td>1.467</td>
<td></td>
</tr>
<tr>
<td>Not using an intermediary/agent</td>
<td>3.315</td>
<td>1.489</td>
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<tr>
<td>Differences in negotiation styles</td>
<td>3.196</td>
<td>1.635</td>
<td></td>
</tr>
<tr>
<td>Different objectives</td>
<td>3.054</td>
<td>1.525</td>
<td></td>
</tr>
<tr>
<td>Difference in social customs</td>
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</tr>
<tr>
<td>Language problems</td>
<td>2.369</td>
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Summary showing the importance of *guanxi*-exchange

There are many uncertainties in the fast changing current political economy of China. One area of change is decentralization of decision-making. Lieberthal (2004) commenting on the 2002 Government report calling for priority to be given to development, stresses, “Rapid growth requires greater flexibility at all levels of the political system. The Center allows flexibility, as long as growth and stability are the outcomes” (p. 317). This is important in the understanding of *guanxi*-exchange because in China as well as other developing countries there is a need for the informal institutions created as a consequence of the ambiguities found in the formal political and economic systems (Walder & Oi 1990). Ambiguity does not mean there are no consistencies or guidelines to follow. These principles and practices are dynamic, however, and must be agreed on case by case, according to negotiations. A political system that supports ambiguity allows for flexibility. This allows for faster responses to economic opportunities, which may need local adjustments to regional circumstances (Lieberthal, 2004, pp. 318-320). *Guanxi*-exchange works, “As the strong form of informal exchange, strong *guanxi* is related to other informal elements (for example friendship, sentiment and trust), but distinctive from formal ones (for example legal contract, market place and hierarchy authority (Li, 2007). The informal nature of *guanxi*-exchange gives it the unique ability to work alongside and supplement the institutionalized formal systems, and therefore to create a stronger united front for economic development.
This chapter has described *guanxi*-exchange as the personal approach to business. The data shows the following points:

- Gift giving goes on at seasonal, personal and business occasions and these presentations are included in *guanxi*-exchange networks in a business setting.
- Banquets are part of business negotiations as well as personal celebrations.
- The importance of *guanxi*-exchange is shown in access to land, labour and capital.
- A *guanxi*-exchange can help a company establish legitimacy and overcome conflicts.
- *Guanxi*-exchange is used in job seeking.
- *Guanxi*-exchange is a business strategy used to cope with uncertainty.
- Exchange that occurs in the context of *guanxi*-exchange relates to the general notion of gift exchange.
- The relations of people to objects relays the idea of identification of non-alienation.
- That the relationship between the people is one of interdependence or inter-reliance which is part of the definition of gift exchange as opposed to the independence of commodity exchange.

The next chapter shows how *guanxi*-exchange has transformed and adapted to changing economic and political conditions.
Chapter 4: Trends in *guanxi*-exchange

The previous chapter described *guanxi*-exchange and established the form and purpose of *guanxi*-exchange today. I now extend the argument to show that there is continuity and transformation on past patterns and practices. This chapter will highlight the transformations in aspects of *guanxi*-exchange and how these changes relate to the changes in society and the political economy of China. A brief summary of the history of gift giving in China illustrates how important it is in Chinese culture as well as the importance of relationships such as those in a *guanxi*-exchange. *Guanxi*-exchange has been transforming and adapting to new situations in general and to new circumstances in the business community both domestically and globally. Documentation of these trends leads to the observation that there is growth in *guanxi*-exchange along with growth in commodity agreements, demonstrating that it is another layer in the transactions of the market economy. Gift exchange as part of *guanxi*-exchange is examined to demonstrate some of the trends. A survey of the literature highlights some of the perspectives on *guanxi*-exchange under discussion in recent scholarship.

The history of gift giving and *guanxi*-exchange

The history of gift giving is the history of relationships. Chan, Denton, & Tsang (2003) suggest that: “The basic premise is that gift giving is not merely a material transaction but also a form of ritualistic behaviour that conveys rich symbolism in Chinese culture” (p. 48). Even though China is now a thriving modern nation, like any other nation, elements of its history have helped shape its culture and traditions. For instance, it is
possible to relate guanxi-exchange to Confucian values,\textsuperscript{8} to political instability, and to other uncertainties in China’s past.

In China the history of relationships must consider the legacy of Confucianism. As Lieberthal (2004) explains, “The most enduring legacy from traditional society is the pattern of social obligations created by the Confucian value system...that is, the mutual obligations-attendant on each type of social relationship” (p. 15). Confucianism teaches that there are five hierarchical relationships: father-son; ruler-subject; elder brother-younger brother; husband-wife, and friend-friend. In Confucian doctrine every human relationship is analogous to one of the five basic relationships, and even the relationship between friends is hierarchical. Social harmony relied on each person knowing both his place in the relationship and the obligations inherent in that position. Confucianism stresses doing the right thing; that is acting in the appropriate manner, which therefore, “led naturally to an emphasis on ritual, the formal expression of the correct way” (Lieberthal 2004, p. 8). Throughout China’s history this thread of conduct in relationships has included gift exchange.

In Confucian philosophy a moral person knows li (propriety and ritual) and from that knowledge a person also knows the proper way to conduct himself and will conduct himself in that fashion. Giving and receiving a gift is a ritualized recognition of a person’s relational position in the relationship (Mote, 1989). The word for gift is \textit{liwu} made up of the character \textit{li} and the character \textit{wu} meaning material thing. In his ethnographic account of gift exchange in China, anthropologist Yan (1996) points out, “The Chinese term indicates that a gift is more than a material present - it carries cultural

\textsuperscript{8} Confucius was a Chinese scholar of the 6\textsuperscript{th} and 5\textsuperscript{th} centuries B.C.E. whose teachings provided a basis for China’s official state Philosophy during the imperial era. Their influence is still felt today.
rules (proprieties) and also involves ritual. So, *wu* without *li* is just a thing, not a gift” (p. 44). Throughout China’s political history *guanxi*-exchange relationships have emerged and transformed to meet the challenges of a changing society.

**The Imperial era pre 1911**

The two concepts of propriety and obligation is often seen to have operated in the history of China’s international trade. Lieberthal (2004) describes what happened: “The Chinese tried to broker relations with foreign peoples by fitting them into a ritualized system of exchange of goods and pledges of loyalty that Westerners dubbed the ‘tribute system’” (p. 8). Envoys from peripheral countries brought gifts to the court of the Emperor and presented these tributes with a kowtow (stylized bow). In order to be allowed to trade with China they must first show respect as a younger brother would to an elder brother. Lieberthal (2004) points out, “It was structured so that the conduct of relations with neighbouring people would utilize rituals that would bolster China’s official political cosmology” (p. 8).

The Emperor reciprocated with elaborate gifts and more importantly with permission to conduct trade. The ritual showing respect was carried out and then the new partner was included in the exclusive group that could do business in China.

The tribute system showed relationship building in business at the highest level with *guanxi*-exchange being modeled from the imperial court. *Guanxi*-exchange could also be found in the cities in voluntary associations with social control and welfare benefits e.g., native place associations, lineage associations and guild associations. These associations were hierarchical in structure with explicit ritual and moral expectations based on Confucianism. According to this system, Stockman (2000) explains: “If everyone held to
the expectations associated with their status, social stability and harmony would be maintained” (p. 71).

A person doing business in the city would belong to his own associations where he could receive help and would be expected to offer help to others. Guanxi-exchange in family/lineage and regional loyalty grew in importance after the fall of the Qing dynasty in 1911.

**The Republican/Warlord era 1911-1949**

With the fall of central authority in the early 20th century, China entered an era of political instability, public and private welfare insecurity, and widespread uncertainty. Stockman (2000) explains:

> China fragmented into a large number of more or less fluid regimes dominated by military leaders, the so-called ‘warlords’... control over territories could change hands frequently.... The local dominance of a warlord depended on personalized and hierarchical relationships between himself and a followership. (p. 125)

Local elites had their own guanxi-exchanges with roles to play in the struggle for political legitimacy. X. Zhang(2000) explains:

> The local governing unit...the gentry played a decisive role ...Through their relatives and friends, they could have their opinion heard by local government officials...other local elites organized themselves among villages to protect the local interest, often against entrepreneurial brokers. (p. 251)

The struggles for power and security went on in the context of the war with Japan and also the civil war between the Nationalist government of Chiang Kai-shek and the Communist Party of China (CCP) under Mao Zedong. The defeat of Japan and the
victory of the CCP in 1949 brought a return to effective central authority. However, the new ideology of communism did not mean the end to uncertainty and insecurity.

**The Mao era 1949-1978**

The People’s Liberation Army is the military basis for the political power of the Communist Party and the state that in 1949 was established as the People’s Republic of China. “Consequently, armed force was available if needed in the elimination of the dominant economic classes of the old regime: the landlords and the owners of private businesses” (Stockman, 2000, p. 128). One of the early policies to be implemented throughout China was the land reform policy, which was the beginning of the struggles and public condemnations against the previously dominant classes, turning them into the newly designated “bad class” citizens. When a person was designated a rich landlord his land was confiscated and redistributed to poor peasants and landless peasants. Stockman (2000) points out that, “The atmosphere surrounding land reform was deliberately confrontational...to mobilize poor peasants...to dissolve their customary attitudes of deferece towards the gentry” (pp. 128-129). This quote is an illustration of the CCP trying to break up traditional *guanxi*-exchange relationships. Public condemnation later spread to include any person found to be lacking in the correct attitude toward the communist ideology.

In such conditions of uncertainty, people would seek relative stability within a narrow circle of personal relationships, relying not on formal procedures and explicit criteria but on personal ties and networks of patronage between party officials and their clients. Despite the official rhetoric that revolutionary virtue and commitment to the party should override personal interests and private relationships, the uncertainty generated by vagaries of revolutionary transformation reinforced traditional cultural
predispositions to particularistic relationships. (Stockman, 2000, p. 135)

This situation could be described as a reliance on guanxi-exchange where the obligations to trust and help each other would insure against attack in a struggle session. During the difficult early years, both in rural and urban settings, there was a scarcity of food and other goods. “It became necessary to seek irregular channels to acquire a wide range of goods and services…people relied on establishing guanxi with the cadres or others who could provide these things” (A. Chan, Madesen, & Unger 1992, p. 668).

Guanxi-exchange in the final years of the Mao era are described by X.P. Chen & C.C. Chen (2004), “Asking special favors is itself a sign of faith and trust in the parties being asked…. The Cultural Revolution from 1966-1976, tragic as it was, recorded great legacies of guanxi that withstood extreme conditions of persecution and betrayal” (p. 318).

The Reform (Deng) era 1978-1995

The early reforms were carried out in the rural sector. The commune system was abandoned and control over the economy returned to the individual households under a system called household responsibility. The head of the household, usually the eldest male, signed a contract for the lease of a section of land, and agreed to supply a certain quota of grain to the state, after which all other surplus could be kept or sold at market prices. At the same time, the government encouraged other economic activities alongside farming, the so called sideline production. Under this system some households engaged in various small scale industries, such as handicrafts, or added to their income with the raising of pigs or goats etc. “Within the villages there is a strong correlation between the wealth of a peasant household and its labour resources” reported Croll (1988, p. 89).
One strategy for increasing the labour pool was to keep families working together rather than dividing as family members matured and married. Another strategy was to cooperate between families.

Households have also been encouraged to contribute to the joint purchase of and share in means of production and cooperation in enterprises.... there is some evidence to suggest that kin ties have once more become a very important basis for these forms of exchange and cooperation. (Croll, 1988, p. 93)

At the same time as the dismantling of the collectives revealed the excess labour in the countryside, there was a reluctance to hire labour because of the stigma of the bad class distinctions of landlord or rich peasants. It was safer to keep the labour under the umbrella of family.

There were few established guidelines for resolving a whole host of complex economic issues never before confronted.... In this situation, the successful entrepreneur...had to have a high degree of cooperation from key people in many different units who were willing and able to go beyond routines...at a critical juncture he might have to call on friends...The times required a bold and well-connected scrambler. (Vogel, 1989, p. 317)

The guanxi-exchange that was strengthened and developed during these early days of reform grew to include the types of exchanges discussed in Chapter 3.

This custom continues today in guanxi-exchange as explained by marketing professors, A.K.K. Chan et al., (2003): “Although contracts have become more common in the country, the Chinese consider these kinds of social business transactions as instrumental bonds. They do not easily award trust to ‘mere business partners’”(p. 47). There is a requirement and expectation to have additional strands of relationships entwined with the
contract. The family business is the ideal and the members of a guanxi-exchange are part of an abstract family as it grows to include people not actually related.

**Gifts – inflation in value and form**

China’s economic and political transformation has taken society from an environment of scarcity of material goods to abundance of consumer products. This change is evident in the types of gifts people exchange. During the Mao era food was rationed so any food item that could be spared would be reserved for making or maintaining a guanxi-exchange. For example, if a family member in Hong Kong sent a food package to relatives in the mainland those special food packages would not be eaten by the relatives but would be used to give as gifts. Chairman Mao was idolized in the early years of the PRC, and “at this time of ideological euphoria, the most commonly and enthusiastically exchanged gifts were badges bearing the image of the great helmsman” (Luo, 2007). In the 1970s thermos flasks, and New Year pictures were common gifts, but by the 1980s food gifts began to emerge. Cereal was the main gift in the countryside, as a farmer from Hunan province relates:

> The amount of grain a farmer had at his disposal was a measure of his wealth. When there was a wedding in my immediate family, relatives would present us with two baskets of grain, transported on a shoulder pole. We would reciprocate in kind at other clan weddings. (quoted in Luo, 2007, p. 13)

Gifts of candies, oranges, tea, and mooncakes were very useful as these items were scarce but yet not too ostentatious. These items also had symbolic value and were used in traditional gift-giving situations so having some on hand to give at the appropriate times was a way of gaining ‘face’.
By the early reform era food items were becoming more available but there was still a scarcity of consumer goods. Gifts of household decorations and ornaments as well as bedding became popular. By the early 90s “the big three”, watches, bicycles, and small electric appliances such as electric rice cookers, became the most popular gifts for exchanging. Things that were hard to get were highly prized. A popular saying: “three rounds and a sound – watch, bicycle, sewing machine and radio” reflected that scarcity. When someone went abroad he would be expected to bring back those things that were unavailable in China. But by the late 90s things had changed, Luo (2007) relates the story of a returning student:

After three years in the US studying for his Ph.D., Yuan Ping was all set to visit his parents in China. Before leaving he contacted his classmates [back in China] asking their advice on what presents to bring with him. The unanimous answer was none because anything he bought in the US would be available in China. And at a far lower price. (p. 17)

Electronics, such as ipods and televisions have become popular gifts. Packaging started to play a part in the presentation of gifts as disposable income increased to allow for the purchase of decorations. In fact packaging has become so elaborate for the presentation of mooncakes that cities have set up special recycle depots for those boxes and tins. This emphasis on presentation reflects the importance of ritual in gift exchanges. The public focus has moved away from consumer goods to health giving gifts such as vitamins, tonics, and Western products such as dried milk, which are perceived to be “healthy” (Luo, 2007).

Now there is no scarcity, and “Gifts, as an extension of consumer goods, have become a necessary item at national events, political and business activities, and market
promotions” (Luo, 2007). One negative change, however, is that women’s sexual services are sometimes treated as objects that can be exchanged. Yang (2002) describes an unfortunate example in recent guanxi-exchange transactions:

No longer are gifts or banquets sufficient in these guanxi rituals, but a long night sharing the pleasures of masculine heterosexuality and giving women’s bodies and sexual services as gifts will cement guanxi. This new form of guanxi culture brings China’s business practice much closer to those in Taiwan...where guanxi and trust are strengthened through masculine bonding, and real business gets transacted. (p. 466)

I know from personal observation during my stay (1997 to 2000) Zhuhai city Guangdong province that this is true but I also observed and was told that it was becoming more and more socially unacceptable. I also observed a large fancy hotel in Zhuhai being closed down by the government because of this illegal practice.

Guanxi-exchange is widespread in China but not everyone agrees on how it works or if it will continue. The following review illustrates some of the issues under discussion.

**Perspectives on guanxi-exchange**

Writing in 1985 Thomas Gold found:

There is a resurgence throughout society of the importance of particularistic ties, distinguishing us from them (neiwai youbie, literally, ‘there is a difference between inner and outer’). Such particularistic ties function as a valuable entrée for the establishment of guanxi to be used to other ends. (p. 664)

Yang (1994) writes about guanxixue or (guanxi practice). “Both official and popular discourse associate guanxixue with official corruption, but the former speaks of
guanxixue solely in terms of corruption, whereas popular discourse harbours multiple strains and interpretations of guanxixue besides the theme of corruption” (p. 63).

Guthrie & Wang (2007) explain the difference between guanxi and guanxixue (guanxi practice):

Of the two types of guanxi that shape action in China today (that is guanxi and guanxi practice), guanxi practice lies in conflict with the rational-legal system emerging at the state level...while guanxi, more broadly conceived, is often viewed as a necessary part of the market reforms and business transactions in a market economy. (p. 112)

Many articles have focused on the ethics of guanxi:

Controversy surrounds the ethical status of guanxi although there has been virtually no normative analysis of the practice in the academic literature, it has been both condemned and defended in the popular media. To some “guanxi” is a Chinese word synonymous with corruption. Seen as one of the forms of “Asian values” contributing to the abuses of crony capitalism, guanxi is both righteously condemned and reluctantly accepted as an unfortunate, though necessary, evil for those wishing to succeed in business in China. Others defend the morality of guanxi claiming that it is “no more equivalent to corruption than social drinking is to drunkenness. (Tsang, 1998, p. 66)

Dunfee & Warren (2001) argue that:

As China opens its doors to competitive markets, organizations will be more conscious of their competitive advantage. This awareness will lead organizations to value economic transactions over social obligations because the former are more efficient for the organization. The claims for efficiency lie in the appeal of the certainty of monetary debt over the ambiguity of a future social obligation imposed by guanxi. This logic suggests that as competition rises in China, businesses will find it easier to pay debts with money rather than favors. (p. 195)

In the above article the authors imply that the ethics of guanxi has not yet been determined but that the usefulness of guanxi is coming to an end. But in their conclusion
they state: “We conclude that there are many different forms of guanxi that may have
distinct impacts on economic efficiency and the well-being of ordinary Chinese citizens”

In other research on gift giving in China, Millington, Eberhardt & Wilkinson (2005)
found:

The results suggest that gift giving is perceived to be a
significant problem in UK-owned companies in China.
However the relationship between those payments and the
established understanding of gift giving within guanxi-
networks appears to be weak.... Although guanxi has
popularly been connected with illicit practices, the case
evidence does not suggest that illicit behaviour is
associated with guanxi networking.... Companies are seen
to draw a clear distinction between gift giving within the
guanxi-network, which is designed to build business
relationships, and illicit payments, a finding which is
consistent with earlier work by Brand and Slater. (2003)
(p. 265)

Professor King (1991) of the Sociology department at the Chinese University of Hong
Kong observes:

There is no sign that kuan-hsi building as an
institutionalized mode of behaviour is disappearing in
modernizing Chinese societies, like Taiwan or Hong Kong.
In the modernizing Chinese societies where market
rationality and law are becoming the predominant value,
the scope of kuan-hsi practices has been narrowed and
circumscribed and its strategy subtly transformed. (p. 80)

King (1991), looking at mainland China, argued that:

During this rapid transition stage when the socialist
universalistic values are cast into doubt and the market not
yet fully opened, kuan-hsi blossoms to play an instrumental
role...there are, however, clear signs that people in

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9 Kuan-hsi is a different transliteration of the word guanxi.
mainland China are condemning the devious use of kuanhsi for personal or organizational gains. Nevertheless, the widely cursed phenomenon of “walking through the back door” will not go away easily, not until the day when market rationality is fully operational, and law becomes the rule of everyday life. (p. 80)

Earlier in this same article King (1991) opined that, “Kuan-hsi building is the Chinese version of network building which is a universal phenomenon among cultures” (p. 79). If it is found in other cultures with fully operational laws then there is no reason to assume that it will disappear in China whether or not its laws follow the same path as other market societies. King was writing in 1991 and now in 2011 it seems that his prediction of guanxi transforming is the right one. What is the trend in guanxi-exchange? In this research I have found that it has continued for decades after researchers said it should be declining. For instance, in a January 2011 newspaper article in the National Post titled “In China business is all about guangxi [sic]” T. Wanless, a certified management consultant reported that he had, “found out the hard way that...Without guangxi,[sic] I received polite smiles and rebuffs all around” (Section F p. 4). The fact is that it is still here.

Appendix B shows the results of a survey of the literature from the bibliography of this thesis to highlight the perspectives on guanxi. I identify the author’s year of research: before or after 2000 (to show any changes in opinions over the last 30 years)

The questions I examine are:

- Will expressive guanxi continue or decline in importance?
- Will instrumental guanxi continue or decline in importance?
- Is guanxi different from or similar to Western business networks?
- Do you have an opinion as to the ethic of guanxi: ethical, unethical or unstated.
I examine this set of writers as a sample for predictions of where the trend is going in the future.

The results from the survey show:

• The majority of authors believe that expressive *guanxi* will continue.

• A smaller majority believe instrumental *guanxi* will continue.

• The authors are divided on the question of whether *guanxi* is similar to or different from Western business marketing.

• Of the authors who expressed an opinion on the ethics of *guanxi* the majority say it is ethical

This shows that further interpretation of the issue is necessary.

My own perspective is as follows:

*Guanxi* is an acquired, cultivated and deeply personal, interdependent long-term relationship.

*Guanxixue* is the use or misuse of *guanxi* for business. It is a personal, long-term interdependent commitment including: favouritism for business advantage and corruption in the breaking or bending of regulations, and it is considered an unethical practice.

Business networking is a system of cultivated and acquired, impersonal, independent relationships used for business: These include favouritism for business advantage, as well as ethical and unethical business practices; and they may sometimes include corruption in the breaking and bending of regulations.

*Guanxi*-exchange includes both *guanxi* and *guanxixue*. It therefore is a set of cultivated and acquired, deeply personal, interdependent relationships used for business including: favouritism for business advantage, as well as ethical and unethical business
practices; and it may sometimes include corruption in the breaking and bending of regulations.

Business networking is created quickly with no long-term personal requirements, reflecting the Western business catch phrases; ‘time is money’ and ‘business is business’. It involves aspects of the theoretical concept of gift exchange: obligations to give, to accept, and to reciprocate creating dependent relationships between the agents. This type of structure is wide and shallow, and although it is fast and efficient it is also unstable and somewhat unreliable.

*Guanxi*-exchange is created slowly with a long-term highly personal requirement reflecting the Chinese respect for family structure. It involves aspects of the theoretical concept of gift exchange; the obligations to give, to accept and to reciprocate create interdependent relationships between the agents. This type of structure is narrow and deep, and although it is stable, reliable, and efficient, it is also slow and could account for loss of business opportunities in the short term. Both types of business structures, business networks and *guanxi*-exchanges are rational systems to use in the competitive uncertain environment of a partial market economy functioning within global capitalism.

Although one might hope that the unethical and corrupt elements will diminish, a quick glance at the news shows that it is not happening yet. It is, moreover, hard to believe that government or corporate laws and regulations relating to anti-corrupt practices will accomplish that goal in the near future (Thompson, 2008). I therefore predict that *guanxi*-exchange and Western business networking will both continue alongside the expansion of the market economy and global capitalism.
In this chapter the role of guanxi-exchange throughout China’s history has been examined, and the following points established:

- *Guanxi*-exchange is a strategy for coping with uncertainties.
- Gift exchange is used to solidify relationships and show respect.
- Gift exchange was used during times of scarcity to share goods and services.
- *Guanxi*-exchange is both expressive and instrumental.
- The future of *guanxi*-exchange is the subject of an on-going discussion over its function and practicality as well as its ethical standing.

In the next chapter I continue to examine why *guanxi*-exchange is useful in the context of contemporary business.
Chapter 5: Analysis of *guanxi*-exchange in the market place

China is expanding its market economy, and constructing rational legal systems to manage parts of the economy. The contemporary economic context is the larger structure within which *guanxi*-exchange continues.

This chapter uses both theoretical and empirical material in an analysis of the issues linking the economic methods of gift exchange and market exchange in order to gain an understanding of why *guanxi*-exchange works and why it continues to have a role in combination with commodity activities. The issues in focus first are: ‘face’, reciprocity, *guanxi*-exchange and trust. After I look at these issues, the focus turns to the role that ambiguity (uncertainty) plays in the market place as it pertains to the relationship between gift exchange, market exchange and *guanxi*-exchange.

‘Face’ and *guanxi*-exchange

In 1935, Y.T. Lin, when discussing the psychology of ‘face’ wrote, “Abstract and intangible, it is yet the most delicate standard by which Chinese social intercourse is regulated” (1935, pp. 199-200). When you think of a person, the image that comes to mind is of a face. Cheng (1986) explains, “Face is what presents a person... [it] stages his social existence and communicates its meaningfulness” (p. 329). There is more to the role of ‘face’ than the identification of the physical face. There is also, “the crucial role [face] plays in development and maintenance of social relationships” (p. 230). In this research aiming to understand *guanxi*-exchange, a summary of what is meant by ‘face’ helps in understanding why Chinese people feel they can rely on *guanxi*-exchange. To define the one English word ‘face’ requires the translation of two Chinese words – *lian*
and *mian zi*. I begin by defining the words, and then I look at the Confucian roots; finally I explore how the two Chinese concepts, *lian* and *mian-zi*, influence gift exchange and reciprocity.

*Mian-zi* needs to be thought about from both the subjective perspective — the individual’s own view of his *mian-zi* — and from the objective perspective, that is, society’s view (Cheng, 1986). I examine *mian-zi* to determine how ‘face’ affects gift exchange and how *mian-zi* is enhanced by success in business. On the other hand, *lian* may be understood as inner moral character. Cheng (1986) explains:

> It can never be lost or broken without suffering a disgrace in the eyes of others or oneself; it is therefore identified with the sense of honor, integrity, and shame of a person...It is the protective mask (persona) that a person wears for communicating with other persons in society... [it]must be maintained by one’s conformity to social decorum and social mores of decency, and good taste. (p. 336)

As established in Chapter 2, on the gift exchange and reciprocity theory, as well as in Chapter 3’s empirical studies, reciprocity in gift exchange is a form of social decency that one must conform to.

Confucianism provides a philosophical and ideological foundation of the concepts of ‘face’ (*mian-zi* and *lian*). Confucianism teaches that self-cultivation is of the utmost importance, and that this can only be achieved within a context of society. Cheng (1986) explains, “*Mian-zi* can be said to be the claimed accomplishment and/or hoped for accomplishment of a person’s self-cultivation...that [it] is always made in reference to a social context is a common sense in Confucian heritage” (p. 338). Success in business is an accomplishment that would enhance one’s ‘face’ (*mian-zi*), and if that success was not tainted with immoral activity then ‘face’ (*lian*) would not be lost.
Smart (1993 explains the effect of ‘face’ on guanxi-exchange:

Someone who has a reputation for having a great deal of face, has a general aura of being a person with whom it is worth developing contacts. This symbolic capital makes it easier for such people to develop relationships with any particular individual. (p. 402)

The two concepts of mian-zi and lian come together in the individual’s social life: “It is the social extension of the moral propriety of a person in the Confucian system,” Cheng reports (1986, p. 339). It is from this understanding of the Confucian roots of ‘face’ that I examine just how the concept of ‘face’ affects gift exchange.

‘Face’ - Mian-zi and gift exchange

What to give to whom is a major part of gift exchange, and that is where a consideration of ‘face’ as mian-zi comes into play. Not only must a gift be appropriate in kind, it must also be appropriate according to the point of view of both the giver and receiver. The giver must give recognition to his own ‘face’ and as the ‘face’ of the intended receiver as well their relative hierarchical positions in society. ‘Face’ is ‘the (Chinese) social ideology which legitimizes status rectitude” (p. 868).

For the sake of discussion of ‘face’ as mian-zi in the context of the market place, the word ‘regard’ is a useful alternative. Offer (1997), in his discussion of the difference between gifts and market exchanges Offer points out that in both forms “interaction is driven by the grant and pursuit of regard” (p. 451 emphasis in original).

How can gift exchange help in the endeavour to gain “regard”? A gift communicates the giver’s attitude toward the recipient. It both symbolizes and confirms the hierarchical
relationship between the two. Therefore, the gift must be appropriate. It is a material manifestation of the ‘face’ of the persons involved in the exchange. Keeping the perception of the recipient in mind D’Souza (2003) extrapolates, “It should be made very clear that in any gift-giving transaction the recipient should view the gift as appropriate to the relationship between the giver and the receiver” (p. 33). For example: In the case of a person with a weaker ‘face’ (mian-zi) giving to a person with a stronger ‘face’ (mian-zi), the giver should give a token gift while the recipient should give a more valuable gift in return. The person with the weaker ‘face’ (mian-zi) will gain ‘face’ (mian-zi) because he received a gift from a superior, and he therefore can claim a relationship with that superior. The person with the stronger ‘face’ (mian-zi) will gain ‘face’ (mian-zi) because his position in society will be acknowledged not just in receiving a gift but in receiving an appropriate gift, and also by having the resources to give a more valuable gift in return. This element of ‘face’ is parallel to ‘power and prestige,’ illustrated in Chapter 3 Figure 6. If a person with a stronger ‘face’ (mian-zi), however, gives a gift that is not very valuable to a person with a weaker ‘face’ (mian-zi) then the giver would lose ‘face’ (mian-zi). In this case the giver is not acknowledging his own position in the hierarchy. It is even worse if the superior gives a very valuable gift to a subordinate. It would look like he was either showing off his wealth, which would bring loss of ‘face’ (moral character-lian), or it would convey to the subordinate that a relationship is very desirable, which would give much too ‘face’ (mian-zi) to the recipient. Therefore the giver would lose ‘face’ (mian-zi), because someone in a high position in society should not need the help of someone in a lower position.

10 D’Souza here is extending the research of DePaulo et al on the effects on recipients after receiving appropriate help. (DePaulo, Brittingham and Kaiser, 1983)
As the research shows, the goal in every case is to give the perfect gift. “An overriding characteristic of the perfect gift is that it must be appropriate for the relationship” (Ruth et al. 1999, p. 399). Gifts need not be expensive but, “The selected gift should be expensive enough to match the income of the giver, but not luxurious enough to make the receiver liable to be considered greedy” (Chan, et al. 2003, p. 50). It is the recipient’s evaluation of the gift that counts. When a businessperson ‘gets it right’ the gift can do its job, according to Pitta et al., (1999) “Presentation of a small, carefully chosen business gift conveys a great deal of respect and is a sign that the business relationship is valued by the giver” (p. 243). If a gift is accepted it is assumed that there will be some kind of reciprocity. The concept of reciprocity will be addressed later in this chapter, but first I will address the question of how the concept of ‘face’ (lian) gives an assurance of reciprocity.

‘Face’ - Lian as assurance of reciprocity

In Confucianism to know or understand what is right or moral can only be true if one actually acts according to that understanding.11 The reciprocal gift is an obligation, but also a response. If the initial gift is the symbolic offering of a relationship, and the gift is accepted then the reciprocal gift is the manifestation of the acceptance of the offer of a relationship. Steidlmeier (1999) observes that, “China is one of those societies where reciprocity is a foundational pillar of social intercourse...To accept a gift and not reciprocate is perceived as morally wrong” (p. 121). In this case a person would lose ‘face’ (lian.) Loss of ‘face’ (lian) would make it difficult for a person to function in society. “Lian is both a social sanction for enforcing moral standards and an internalized

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11 From the Confucian teaching “rectify the names” it implies that to claim knowledge of something is to actually live by the knowledge. Mote, 1989, p. 44
sanction” (Hu, 1944, p. 45). Through gift exchange, ‘face’ (lian) can force a person to enter into or maintain a relationship, even if that relationship is not advantageous to good business. See Figure 7 this chapter.

Both ‘face’ (mian-zi) and ‘face’ (lian) work together as the control mechanism that assures the agents that each will carry out their obligations of reciprocity in the extra contractual agreements that make up the guanxi-exchange. Ho (1976) points out that, “Reciprocity is inherent in face behaviour, wherein a mutually restrictive, even coercive, power is exerted upon each member of the social network” (p. 867). Reciprocity is also a major component of guanxi-exchange.

In the next section the theory of reciprocity is applied to guanxi-exchange to show the principles entailed at the empirical and abstract levels. Next I explain why guanxi-exchange provides reliability among people in a competitive market place.

**The rule of reciprocity in guanxi-exchange**

In popular discourse, obligations to reciprocate are often translated into emotional commitments. “Perhaps [the] most important characteristic of guanxi is reciprocal obligations... feelings of attachment (ganqing)...This means that reciprocity between strongly tied persons is intensified by added moral and expressive dimensions” (Bian, 1997, p. 369). Reciprocity itself acts as a kind of hostage, which sustains a network of relationships. Without reciprocity, established guanxi-exchange would fade away. As noted by M. Chen (1994), “When the cost of reciprocity exceeds the benefits of giving... people may choose to avoid guanxi” (p. 40). K. Hwang (1987), of the Department of Psychology at the National Taiwan University, devised a theoretical model of face and favour in Chinese society that works well to show the complexities of reciprocity in
guanxi-exchange (Figure 7). In this model the cost of the obligation to reciprocate is measured against the cost of the initial favour. Taken into account in this model is emotional attachment renqing, and three different types of ‘ties’ (guanxi): instrumental ties, mixed ties, and expressive ties.

The rules governing guanxi-mediated social exchange are:

- The Need rule – applied to “expressive ties” – the need of the recipient is understood empathically by the giver. Its basis is affection.

- The Renqing rule – applied to “mixed ties” – informed by feelings of mutual obligation and based on social norms.

- The Equity rule – applied to “instrumental ties” – based on symmetric reciprocity (Hwang, 1987, p. 945).

Without considering who started the cycle of reciprocity, asking for a favour is included as appropriate within the context of an established guanxi-exchange. “Over thousands of years, ethical norms in China have allowed both sides of a guanxi-exchange with the right to put forward requests and ask for help or favors with the understanding that there exists an obligation to help one another,” argues Yang (1994, p. 1). The request could be seen as a request for a return gift, i.e. calling in a favour. Figure 7 addresses the decision-making of the giver of the favour as he calculates the cost of giving and the anticipated benefit (anticipated reciprocal gift, service or favour).

The understanding of obligations of reciprocity regarding gifts can be found in contemporary Chinese society. A minor official, when asked about his gift giving habits and what would happen if he neglected to give a return gift, explained, “That would make you a shameless person, a person who is ignorant of human feelings and morality (budong renqing). Nobody wants to do such a stupid thing to hurt one’s own reputation.” (Yan, 1996, p. 149). Renqing is feelings that are a component of the guanxi-exchange
relationship. In the model (Figure 7) the practice of reciprocity in guanxi-exchange is shown to be affected by the closeness of the feelings or renqing.

**Figure 7 - Theoretical model of face and favour**

A theoretical model of face and favour in Chinese society

In this model (Figure 7) an agent goes to his guanxi-exchange to seek a favour. The contact would be expected to grant the favour and also to expect a favour in return sometime in the future. Renqing is called “a dilemma” because it works as a control factor that does not take into consideration cost/benefit analysis of the strictly monetary capital, but includes the social capital of ‘face’ and the emotional connection between the parties. Yan (1996) explains:

In practice, renqing represents socially accepted, correct interpersonal behaviour, and the violation of renqing is regarded as serious misconduct....Renqing ethics can be applied only to those within one’s guanxi network...renqing ethics has three structural dimensions: rational calculation, moral obligation, and emotional attachment. The complexity and flexibility of renqing in action results from the changing composition of its three structural elements. (p. 146)
One would consider the relationship one has with the person asking for the favour, especially how close or how strong the feelings of renqing are. One would also consider what type of guanxi-exchange it is: instrumental, mixed or expressive. It would be necessary to consider the costs of giving the favour against any anticipated reciprocal return favour. One would also consider the cost of rejecting the plea in any anticipated reciprocity of a negative nature. This model of exchange is similar to Bourdieu’s model of exchange and choices shown in Chapter 2, Figure 2.

**Gifts and guanxi-exchange**

Gifts have power over the parties engaged in the exchange: the power to draw out an emotion; the power to move a subject to respond (ignoring a gift is a response too); and usually, but not always, the power to get a subject to reciprocate. What are some of the questions that might go through one’s mind on receiving a gift? I suggest, the first would focus on the giver: What is the relationship between the giver and the recipient? The second would be: What is the motive behind this gift? The third would be: What is the best response? The gift has left the possession of the giver but it continues to be a part of him. It represents him in the mind of the recipient. In giving a gift, the giver has proven that his attention has been drawn to the recipient. But now his opportunity to communicate with the recipient is over. The giver must wait to “hear back.” Meanwhile the initial gift has a role to play - to open a channel of communication between the giver and the recipient, and to communicate the intentions of the giver toward the recipient. What happens next will determine whether or not the initial gift performed well enough to put reciprocity in motion.
The gift performs the role of communication. Ancient Chinese philosophers used aphorisms, allusions and illustrations, “The sayings are so inarticulate that their suggestiveness is almost boundless,” wrote Yulan Fung (1997, p. 12). A gift is similar to the “suggestiveness” of the philosophers and therefore it is also open to interpretation. As established in Chapter 2 the function of gift exchange is to establish a relationship between the partners. A gift that sends the right messages will help create a good first impression, which is important in the early stage of any relationship.

Platteau and Sekeris (2010) argue that, “The gift serves both as a signal to communicate a willingness to cooperate to a potential partner, and as a commitment devise since, once the gift has been made, the donator’s interest is to abide by a contract provided that the partner also does it” (p. 268). In his paper on altruism in the workplace, Rotemberg (1994) extrapolates on the problem of one agent needing to believe that the other will act favourably. Using the Nash equilibrium where no player will change his game strategy once the game has started and each player agrees not to go after maximum profit at the expense of the other, the result can be mutually beneficial. Because the action is sequential, and not simultaneous; agent A acts first. He takes an altruistic approach toward agent B. A will only do this if “B can demonstrate his unselfish regard credibly, so that A is sure B’s actions will be affected [agent B] can signal his altruism through favours and presents” (p. 692). An appropriate gift, then, signals a willingness to cooperate. Camerer, (1988) suggests that one of the reasons why gifts work in this situation:

Verbal pleas are notoriously unreliable (because they are not hard to fake), so partners need an indicator that is too costly to fake – a signal…gifts will work very well because the gift givers are known to the recipients (186) Signalling
willingness to invest in a relationship, while also conveying
meaning about the giver’s tastes or identity or beliefs about
the receiver. (p. 199)

A gift can communicate a positive message only if it is appropriate. As Offer (1997)
points out, “A money gift is impersonal...A gift on the other hand is personalized. Even
when obtained from the market, it provides evidence of an effort to gratify a particular
individual. It conveys a signal that is unique to giver, receiver, or both” (p. 454). The
initial giver leaves a good first impression with an appropriate gift and sends a signal that
a cooperative relationship is desired. Marketing and advertising professors Ruth, Otnes
and Brunel (1999) conducted in-depth interviews and surveys to identify the effect that
the context of gift exchange has on the dynamics of relationships (Table 9). The effect
of gift exchange on relationships can be classified from the recipient’s point of view as:
strengthening, affirmation, and negligible effect, negative confirmation, weakening, and
severing.
Table 9 - Gift receipt experiences and relational effects

<table>
<thead>
<tr>
<th>Relational effect</th>
<th>Description</th>
<th>Experiential themes</th>
<th>Ritual conditions</th>
<th>Perceived focus of the gift</th>
<th>Recipients’ Emotions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening</td>
<td>Gift receipt improves the quality of the relationship...feelings of connection, bonding, commitment, and/or shared meaning are intensified.</td>
<td>Epiphany</td>
<td>Highly ritualized and personalized</td>
<td>Relational and recipient centered</td>
<td>Mixed emotions in same incident</td>
</tr>
<tr>
<td>Affirmation</td>
<td>Gift receipt validates the positive quality of the relationship...Existing feelings of connection, bonding, commitment and/or shared meaning are validated.</td>
<td>Empathy Adherence Affirming farewell Recognition</td>
<td>Highly ritualized but not personalized</td>
<td>Recipient centered or relational</td>
<td>Positive emotions Except for farewell gifts where emotions are mixed</td>
</tr>
<tr>
<td>Negligible effect</td>
<td>The gift-receipt experience has a minimal effect on perceptions of relationship quality</td>
<td>Superfluity &quot;error&quot; Charity Overkill</td>
<td>Level of ritualization varies from high to none</td>
<td>Neither giver nor recipient centered dominates</td>
<td>Mixed emotions across gift experiences</td>
</tr>
<tr>
<td>Negative confirmation</td>
<td>Gift receipt validates an existing negative quality of the relationship...A lack of feelings of connection, bonding, and/or shared meaning is validated.</td>
<td>Absentee Control</td>
<td>Highly ritualized; Ritual audience exacerbates negative emotions</td>
<td>Giver centered</td>
<td>Negative emotions</td>
</tr>
<tr>
<td>Weakening</td>
<td>Gift receipt harms the quality of the relationship...There is a newly evident or intensified perception that the relationship lacks connection, bonding, and/or shared meaning, but the relationship remains.</td>
<td>Burden Insult</td>
<td>Level of ritualization varies; Ritual audience exacerbates negative emotions</td>
<td>Giver centered</td>
<td>Negative emotions</td>
</tr>
<tr>
<td>Severing</td>
<td>Gift receipt so harms the quality of the relationship that the relationship is dissolved.</td>
<td>Threat Non-affirming farewell</td>
<td>Highly ritualized; personalized but subversive</td>
<td>Sinister, relational centered</td>
<td>Negative emotions</td>
</tr>
</tbody>
</table>

Source: Ruth et al. (1999, p. 389)
The following is an analysis of Table 9 applied to *guanxi*-exchange in business.

**Strengthening – row 2 Table 9**

“These gifts are ultimate signals to the recipient that the giver shares his or her desire to elevate the relationship to a higher plane” (Ruth et al., p. 388). In the case of a *guanxi*-exchange the result would be moving from the position of an outsider to an insider where further obligations of reciprocal trust and assistance are expected to occur.

**Affirmation – row 3 Table 9**

“Affirming gift receipt experiences...reproduce friendship bonds....Most people desire long-term stable, satisfying relationships and spend more time maintaining rather than entering, elevating, or exiting them” (p. 390). In the case of *guanxi*-exchange the maintenance is achieved through gifts at the ritual occasions of seasonal and traditional observations. The appropriate gift given at the appropriate occasion shows an understanding of culture; and, whether or not it is a shared culture, it is a shared experience. In the case of *guanxi*-exchange the occasion could be a wedding or funeral where the two partners are sharing happy or sad thoughts and reminiscing. A gift can signal affirmation of some quality of the parties involved, and in the case of *guanxi*-exchange that recognition would include ‘face’ and *renqing*. Farewell gifts, for instance, token souvenirs, are welcome gifts to Chinese businesspersons because they function as shared experiences and signals of an on-going *guanxi*-exchange. At some point in the future the recipient will play host and reciprocate the affirmation of the relationship.
Negligible effect – row 4 Table 9

In a guanxi-exchange, like any other relationship, if the thought behind the gift is appropriate, but the gift not, then it is possible that no harm is done. Gift exchange mistakes at the beginning of a guanxi-exchange relationship could fall into this category. If the potential relationship was desirable, indeed the recipient would want to find a way to continue the process of guanxi-exchange building and therefore would overlook the mistake.

Negative confirmation – row 5 Table 9

“Gift exchange can occur within a poor-quality relationship. In this context, sometimes gift-receipt experiences provide additional evidence of the ongoing, negative aspect(s) of the relationship” (p. 393). In a well-developed guanxi-exchange the agents, should know each other quite well, and there is little excuse to give an inappropriate gift. The effort that is put into the choosing of a gift or the presentation of the gift is a clear signal of the giver’s interest in the recipient and their guanxi-exchange.

Weakening – row 6 Table 9

“Instead of directly expressing dissatisfaction with the gift experience, recipients noticeably reduce the ritual and symbolic aspect of their friendships.... by removing oneself from the relationship, the offended party avoids being reminded of the incident and also avoids new betrayals of relationship expectations” (p. 396). In a guanxi-exchange this could manifest as deferring a decision to grant a favour or not attending a wedding or not sending New Years greetings. Gifts that are perceived as bribes also “weaken relationships...As recipients reflect on the possible meanings of the gifts and judge them as beyond normative expectations, relational conflict and decline are likely”
(p. 395). Perhaps the gift really is a bribe, but it is up to the recipient to acknowledge it as such, and act according to what type of relationship is desired, (long-term gift or short-term bribe). If the gift is treated as a gift then the giver knows that a bribe is not welcome but a guanxi-exchange relationship is welcome. This is a very real problem in business gift giving in any culture.

**Severing – row 7 Table 9**

“When dramatic breeches of expectations occur in a relationship, a partner may elect to withdraw entirely” (p. 396). In the case of guanxi-exchange a fear of corruption charges would be a good reason to withdraw from a potentially damaging association.

According to Ruth et al., (1999) “The actual recipient...ultimately determines the success or failure of the experience” (p. 386). The return gift is the real beginning of the relationship. It is the response that demonstrates the reciprocal desire for a relationship. “Although gift transactions are obligatory, this is not the kind of obligation that can be discharged by fulfilling it. Instead, fulfilling the obligation recreates it by reaffirming the relationship” (Carrier, 1995, p. 23). No response is still a response and sends the signal that the relationship is not welcome or that it is no longer desirable to have the relationship continue as it was.

**Gift giving and cooperation**

Gift giving establishes cooperative relationships, and is important as a way to connect with strangers in the start up of new relationships and to maintain existing ones.

As Carmichael and MacLeod observed: “social convention requiring the use of gifts at the beginning of a relationship can support long-term cooperation” (Carmichael & MacLeod, 1997, p. 497). These relationships involve the following features:
(1) Gifts that are exchanged between the two parties trying to develop a business relationship should be token gifts. If gifts of monetary value are exchanged in the beginning of a relationship then either party is vulnerable to “parasites” or con artist and cheaters.

(2) In long-term economic relationships the cost must be equal to the benefit of the one-time-cheating. To stop cheating in a gift giving society, a gift is exchanged at the beginning of each new relationship. Therefore it is not a good or sound long-term strategy to cheat since doing so severs the relationship. The cost of repeatedly re-establishing new relationships over and over is more costly than the benefit of cheating. Gift giving will surround only the important long-term relationships in people’s lives.

(3) Gift giving is a fully decentralized institution – only the other party need verify the fact that a gift was given. In this way it may be a low-cost substitute to reputation building, which is more time consuming and requires more public information on the behaviour of individuals in their relationships.

(4) Gifts are a universal language. Members of a gift-giving society can indulge in all the costless message sending they wish, so long as they also give gifts. The conclusion is that when meeting strangers who seem very different, up-front gifts can be the passage to cooperation and understanding. (Carmichael & MacLeod, 1997, p. 497)

In this research on guanxi-exchange I suggest that establishing business contracts with new and unknown business partners is analogous to any uncertain situation and therefore an exchange of gifts to overcome that uncertainty is rational and can facilitate cooperation. China has a culture where “communication style is more implicit, non-verbal, and is more reliant on hidden cues...successful communication and negotiation depend more on friendship and trust, than explicit words in contracts” (Arunthanes, Tansuhaj & Lemak, 1994, p. 47). Gift exchange is one such non-verbal communication. Business relationships are established in an atmosphere of cooperation, and although
business is competitive, it is not usually a zero-sum situation. Business is a game of “imperfect information” and it is also one of rational self-interest (Resnick 1987, p. 121). When the benefit to be derived from cooperating exceeds that of exploiting, it can be rational to cooperate. The goal of cooperation is attained through *guanxi*-exchange via initial gift exchange and leads to trust which is the most important aspect of a *guanxi*-exchange relationship to impact business success.

Sang (2006) quoted a successful businessman from Hebei province speaking about his strategy for business success:

> In my efforts to establish a viable network and build a market for my product I’ve been travelling all over China from the very outset....I’ve focussed on cultivating as wide a circle of friends as possible....Whenever I start working with a new partner I concede the initial advantage to them. I don’t even care if I get an equal share;...because next time around they’ll let me take the major share of the profit. Whether you’re dealing with the state or with an individual, it’s the same thing, after all, state companies are not some abstractions; they’re run by individuals. Furthermore, their immediate colleagues and business acquaintances will hear about how I do things, and they’ll know that I am a very loyal person. (pp. 160-162)

The above quotation illustrates the ‘initial gift’ as securing the advantage or major share of the profit. The new partner is expected to reciprocate and the *guanxi*-exchange is established. The businessman from Hebei takes the initial risk by trusting the new partner, which is also a type of gift.

**Guanxi-exchange and trust**

In the strongly competitive world of business, you have to know whom you can count on. It is reasonable to rely on family and close friends for support. In China a support system of family and friends would extend to ‘friends’ in a business *guanxi*-exchange.
In China, \textit{guanxi}, the set of connections or relationships, forms the context of business. Within that context exist a series of expectations and a level of trust. When Chinese managers negotiate a contract, they rely not on the content of the contract but the context in which it was negotiated. (Pitta et al., 1999, p. 254)

As established in Chapter 3, business \textit{guanxi}-exchange relationships often commence with the reciprocal exchange of token gifts but the reciprocity that really matters is the exchange of gifts in the form of information, business opportunities, and business favours. “Attracting, developing, and maintaining successful relational exchanges produce outcomes that promote efficiency, productivity, and effectiveness” (Morgan R.M. & Hunt, 1994, p. 21). There is no legal obligation or written contract to ensure that they help each other. Each time gifts in the nature of help are reciprocated, trust is strengthened. The recipient is reminded of whom his friends are. The obligations to offer help or do favours are embedded in the \textit{guanxi}-exchange and are brought to mind with each gift transaction. As established in Chapter 2 a balanced reciprocity implies a sense of fairness and honour in repaying a debt. The idea is: I help you and I \textit{trust} that you will help me when I need it. Sahlins (1972) extrapolates:

On the one hand, a series of honourably balanced dealings between comparatively distant parties builds trust and confidence, in effect reduces social distance, and so increases the chances for more generalized future dealings...On the other hand, a renege acts to sever relations – as failure to make returns breaks a trade-partnership. (p. 223)

Figuring out whom to trust is easier, as Offer (1997) points out: “\textit{Experienced} partners can form a judgement on preferences, trustworthiness, and credibility. Trust itself resembles a gift: a unilateral transfer with the expectation, but no certainty, of reciprocity” (p. 454). In business, trust, a part of a \textit{guanxi}-exchange, is a kind of social
capital that can be built up over time. If I have acted in good faith and without legal
guarantees to your benefit then I have accumulated some trust. You will have trust in me
in the future to continue to act in the same fashion. As Kolm (2008) put it, “You tend to
trust people who trust you (trustful people tend to be trustworthy – because trustworthy
people tend to think that others are like them), and you often want to deserve this trust
and hence tend to be trustworthy” (p. 12). The business world does not operate in a
system of perfect information. No one knows exactly what the situation is in different
companies nor do they know what external events may impact the outcome of any
business process. “Commitment and trust produce outcomes that promote efficiency,
productivity, and effectiveness” (R.M. Morgan & Hunt, 1994, p. 21). When in doubt one
goes on trust - but not blind trust. One goes to one’s trusted guanxi-exchange.

‘Face’ in the form of both mian-zi and lian is the assurance of reciprocal trust. “Regard
provides a powerful incentive for trust, and trust is efficient: it economizes on the
‘transaction costs’ of monitoring, compliance, and enforcement. Regard may be seen as a
‘transaction benefit’” (Offer 1997, p. 454). Trust in the individuals within a guanxi-
exchange and trust in the system of guanxi-exchange gives the businessperson the
confidence to act.

**Guanxi-exchange and ambiguous space in business in China**

As stated in Chapter 1, ambiguous space, occurs when there is a lack of perfect
information or even a minor lack of knowledge, or where factors are not in one’s control.
During these times and in this context it is wise to turn to those "who you know" and can
trust. The Chinese businessperson uses guanxi-exchange as a way of coping with these
challenges.
Sull (2005) points out some the challenges facing Chinese businesspersons:

In addition to the competitive, technological, and customer uncertainty facing every business, the following factors further increase unpredictability in China:

*Unpredictable regulations and industrial policy.*
*Uncertainty from integration and global markets*
*Uncertain access to and cost of capital.*
*Macroeconomic jolts*
*Unclear and shifting property rights* (original italics)

(pp. 3-6).

Keister (2002) collected data on, and interviewed managers of, 535 business firms from China’s 40 largest business groups, in order to analyze business-to-business reliance on guanxi-exchange:

The notion that managers were concerned with more than immediate economic gains, particularly under uncertain conditions, is evident in the cost results. Not only did firms opt to trade with...stable partners, but they were willing to forgo less expensive alternatives for these relations....Interpreted together with uncertainty coefficients, this result provides evidence that uncertainty is a significant predictor of the presence of a tie despite cost (p.89). The results suggest that while cost is an important determinant of exchange, environmental uncertainty matters even more. Specifically, to minimize long-term cost rather than minimizing current price, firms opted to trade with others that would be stable trading partners, those with whom they had guanxi. (p. 91)

Under uncertain conditions, it is necessary to put aside immediate self-interest and build a stable working relationship with business partners. Goffman (1971) argues that long-term relationships, “Establish a framework of mutual knowing...thus bonded their relationship can change drastically but never revert to non-relationship” (p. 189).

As Cheal (1988) extrapolates:

Personal relationships have the considerable advantage that the behavioural repertoire of the other becomes part of a
shared stock of knowledge that is built up through repetitive interaction over long periods of time. In modern societies a great deal of importance is attached to these relationships because they provide a stable core of interactions in unstable social environments. Their stability, and hence the trust members have in them, is achieved through the frameworks of mutual knowing that result from extensive interactions (p. 18).

In the context of guanxi-exchange trust can be viewed as personal trust and system trust. Personal trust is trust in the actual persons involved in the relationship. System trust, on the other hand, is trust in the custom of guanxi-exchange including the role of the public in judging ‘face’ and therefore acting as third party guarantors of transactions both formal and informal (Herrmann-Pillath 2006). “The Chinese societies are described as high in particularistic trust, such as family members...the higher the level of trust between two individuals the better the guanxi quality will be” (X.P. Chen, & C.C. Chen 2004, p. 313). Trust in the system and trust in the individual is solidified in a long-term relationship.

Offer (1997) also argues that: “Regard promotes sociability, and sociability facilitates cooperation. It breaks the deadlock of the prisoner’s dilemma with the norm of first move cooperation” (p. 455). This is the very basic level of trust in a relationship.

Guanxi-exchange functions under these same conditions: a desire for social connections and recognition of ‘face’.

This chapter has analysed the workings of guanxi-exchange showing:

- The concept of ‘face’ and its role in social judgment is the reason why the participants in a guanxi-exchange have confidence in the system.
• The role of gifts in a guanxi-exchange acts as a signal communicating a desire for cooperation, as well as a tool of communication demonstrating the quality of the relationships of a guanxi-exchange.

• The ability to have trust in the participants as well as in the system of guanxi-exchange is useful when facing ambiguous space in the business world.
Chapter 6: Conclusions

Guanxi and gift exchanges

Guanxi is a long established practice in China. When we observe these relationships in China today there often can be a tendency to see it as a carry over from the past, but I found that it has a role to play in contemporary life.

The goal of this thesis has been to answer the question of why guanxi-exchange exists alongside commodity exchange in a modern business community. Guanxi-exchange includes the exchange of material gifts as well as reciprocal preferential treatment in the business community, and as such questions arise as to whether or not such a system is practical, and whether or not it is ethical. The ethical issue could not be answered within the scope of this research but the question as to the whether guanxi-exchange is practical is explored in detail.

The method has been to apply the theoretical elements of gift exchange and reciprocity to analyze the data on guanxi-exchange. I show that the theoretical concepts are found in guanxi-exchange and are therefore valid concepts to represent it. Guanxi-exchange is a Chinese version of a wider phenomenon of gift exchange within business communities. As explained in Chapter 1, Guanxi-exchange is an ego-centred resource that includes the activity of gift exchange and that leads to an interdependent, long-term relationship governed by sentiment and obligation between the self and each member of the guanxi-exchange.

Chapter 2 set out the theoretical concepts that are necessary to understand guanxi-exchange. Gift exchange theory shows how relationships are developed and how gift-giving cycles create and maintain relationships. The theory of reciprocity highlights the
interdependent, principles inherent in guanxi-exchange. Each of the participants acts on a motive to establish, maintain, or re-establish a balance within a cycle of debt and credit between the giver and the receiver of a gift. The trust that is developed through this reciprocal obligation in the exchanges is enforced by the realization that the actions are voluntary and not regulated by law. The custom of guanxi-exchange approximates Gregory’s (1982, 1997) definition of gift exchange, including his stipulation that “gift exchange establishes personal qualitative relationships between the subjects transacting” (p. 41).

Chapter 3 used empirical data to show guanxi-exchange in action in contemporary China. The custom of gift exchange comes from a long tradition and is shown to have a philosophical root in Confucian culture, including rituals involved in the presentation of gifts. The importance and calculated nature of gift exchange and reciprocity in guanxi-exchange is emphasised in the keeping of gift lists. The importance of guanxi-exchange in business is established in the data on access to land, labour and capital. Facilitating access to business opportunity and the resolution of conflict in business is another feature of guanxi-exchange where ‘face’ acts as a restraining factor and as encouragement. To save ‘face,’ confrontation is avoided, and harmony is sought. A good business reputation is one way to gain ‘face’.

Chapter 4 looked back at China’s history to find instances where guanxi-exchange was used. As a background condition, it was the existence of uncertainty or ambiguous space that made way for guanxi-exchange to be used to advantage. Guanxi-exchange is most practical under the types of conditions and in those situations where laws, regulations, and legal contract function imperfectly. The modern business world presents great
uncertainty because of fast-changing and inconsistent conditions. Laws and contracts are not applied consistently and cannot cover every situation that might come up. In this often ambiguous environment business must go forward under less than perfect control or information. Business is expanding and costs are inflating therefore *guanxi*-exchange is also expanding, and the costs of gifts are inflating. Because *guanxi*-exchange is a personal relationship in a business setting it is both expressive and instrumental, and therefore it can operate on a personal level with personal guarantees alongside the regulations of a business agreement, written or not. The topic of the role of *guanxi*-exchange in contemporary China has as its main theme, the question of whether or not *guanxi*-exchange will continue to be a part of business transactions. This is an on-going discussion. The data for the period 1980 to 2011 show that *guanxi*-exchange is transforming into a function of business networking with an added component of close personal attachment.

Chapter 5 analyzed the features of *guanxi*-exchange. ‘Face’ (*mian-zi* and *lian*) gives the assurance and control mechanism giving the agents confidence in the system of *guanxi*-exchange. Reciprocity is the heart of *guanxi*-exchange, and as such is controlled by sentiments of *ganqing* and *renqing*. Gifts are implicit expressions of intention or desire. In the case of *guanxi*-exchange a gift acts as a communication tool signalling the state of a relationship. Trust is the reason why *guanxi*-exchange is useful. The creation of trust from the operation of a *guanxi*-exchange is the reason why a personalized business relationship is cost and time efficient and therefore a practical, logical, and economical way of conducting business.
**Guanxi-exchange concepts from gift exchange**

This analysis draws on various disciplines such as anthropology, sociology, psychology, morality, to highlight the holistic nature of the intricacies of *guanxi*-exchange in the contemporary Chinese economy.

Anthropology research is used to show the principles inherent in gift exchanges generally and evidenced in *guanxi*-exchange. Exchanges in all societies cover a wide range of social interaction. Sociological research explains how the exchange of gifts leads to interdependent relationships. Psychological survey questions show the effects gifts have on the perceived quality of relationships between actors as well as on the development of trust between them.

**Guanxi-exchange and ambiguous space**

This research has alluded to the existence of uncertainty throughout China’s history and the continuation of those types of challenges today. China is a partial market economy with many ambiguities today facing Chinese businesspersons; who therefore need to use informal methods to facilitate business success. For instance, there is some private property, but access to land is problematic, and the problems impact on business development. In those situations the businessperson needs to have local influence to gain an advantage and therefore goes to his *guanxi*-exchange for help. The central government’s attitude toward small businesses financial needs leads to a vague designation of the legality of informal financial institutions. A *guanxi*-exchange can act as collateral or assurance that the entrepreneur is reliable.

As established in Chapters 3 and 4, the conditions of ambiguous space are found throughout history in many different places and under many different circumstances. The
following table shows a summary of those gaps occurring in China including the underlying conditions and the functions of *guanxi*-exchange.

Table 10 Ambiguous space

<table>
<thead>
<tr>
<th>Era</th>
<th>Conditions</th>
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<tbody>
<tr>
<td>Imperial era</td>
<td>Tribute system, Kinship ties, Ancestor place ties, Confucian moral value</td>
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<tr>
<td>Nationalist/warlord era</td>
<td>National fragmentation, Japanese invasion, War between factions, Civil war, Fear</td>
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<tr>
<td>Mao era</td>
<td>Struggle sessions, Comradeship, Fear</td>
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<tr>
<td>Reform (Deng) era</td>
<td>Opportunity, Ambiguity</td>
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<tr>
<td>Contemporary era</td>
<td>Information gap,劳工 gap,资本 gap,政治稳定性 gap,政治保险 gap</td>
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</table>

‘Face’ is the assurance that the ‘rule of reciprocity’ is followed and therefore a *guanxi*-exchange relationship is stable and trust is developed. A *guanxi*-exchange, with gift
exchange activity, can overcome ambiguous space because one can go forward into the unknown with the backing of trust, rather than being held back because of uncertainty.

There is risk involved in going forward into the unknown, and research shows that the best entrepreneurs are risk takers (Yueh, 2009). Successful business is a sign of competence, and as such it enhances ‘face’. A reputation as an honest businessperson or one who can be trusted enhances face even more. The progression from ‘face’ to business success is shown in Figure 8.

**Figure 8- Gift exchange to market success**

![Diagram](image)
This research has determined that reciprocity is the very purpose of guanxi. Therefore guanxi could be called guanxi-gift exchange, or, guanxi-exchange using a broader sense of gift exchange to include all the services and favours, business opportunities and information, even money in the form of credit, that is part of extra-contractual agreements that are outside the realm of the formal business contract. In the form of guanxi-exchange, gift exchange is expanded to include sentiment and interdependence, and it is essential to navigate through ambiguous space in order to succeed in business. The business environment of China is a social environment in that guanxi-exchange relationships are all inclusive. In short, business is personal. Gift exchange in the form of guanxi-exchange continues in conjunction with market exchange. In fact given the ambiguous spaces characteristic of all business communities, the two methods of exchange are entwined with each other and consequently work together toward successful economic development.

The significance of this thesis is in showing how informal exchanges that occur through these guanxi-exchanges have a meaningful role to play in contemporary business relationships. This research has shown that when we see guanxi-exchange today, it is not just an irrational continuation of the past practices but bridges contemporary spaces.

Further research is needed to examine the significant role of reciprocity and gift exchange in other parts of the global business community. Guanxi-exchange is adapting as China’s economy transforms in the global business environment. How the new forms of guanxi in the future will develop in response to future conditions and how those changes might affect future business practices will warrant study.
Bibliography


Appendix A

Guanxi definitions

(Y. Bian 2002, p. 118) “Strong ties may result from a combination of frequent interaction and reciprocal exchanges for expressive and instrumental purposes, high intimacy and mutual trust, strong “we-group” feeling toward each other...can be recognized...as guanxi among Chinese people.”

(E.A. Buttery & Y.H. Wong 1999, p. 149) “Guanxi, which may be described as symbolic capital and mutual obligation and trust, and are alternatives to contracts and legal rights.”

(Y. Fan 2002, p. 372) “This is exactly what guanxi means: as a multi-path process, guanxi refers to a network of social connections.”

(J.B. Jacobs 1982, p. 209) “I have used the Chinese term guanxi...the most accurate translation, “Chinese particularistic ties,” is quite awkward... simpler English translations as “relationship” and “ connection” confuse more than they enlighten owing to a lack of equivalency between languages.”

(A.Y. King 1991, p. 79) “Chinese kuan-hsi building can be characterized as an ego-centered social engineering of relational building...based on shared “attributes” such as kinship, locality, surname, and so on, which are the building blocks the individual employs to establish “pluralistic” identifications with multiple individuals and groups”

(A. Kipnis 2002, p. 22) “By practices of guanxi production, I meant all those social actions, such as banqueting, gift-giving, visiting, helping out, by which people created, manipulated, and at times eradicated human relationships.”

(P. P. Li, 2007, p. 66) “We define total guanxi as an informal norm of social ties that regulates and facilitates privileged access to personalized exchange at both dyadic and network levels.”

(Y.M. Lin 2002, p. 59) “The term guanxi ... In ordinary usage, it refers to a person’s nexus of private and particularistic social relationships that have the potential to serve, but do not necessarily exist solely for, instrumental purposes.”

(M.W. Peng 1997, p. 449) “Guanxi...as being a relationship between two people or organizations containing implicit mutual obligation, assurances and understanding governing Chinese attitudes toward long term social and business relationships.”

(M. M. Yang, 1994, p. 1) “The word guanxi means literally “a relationship” between objects, forces, or persons...it can also have the sense of “social connections,” dyadic relationships that are based implicitly (rather than explicitly) on mutual interest and benefit.”
## Appendix B

Statistical table of sources showing perspectives on *guanxi*

<table>
<thead>
<tr>
<th>Authors</th>
<th>Expressive Guanxi continue</th>
<th>Instrumental Guanxi continue</th>
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