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## **A different Capitalism? Guanxi-Capitalism and the Importance of Family in Modern China**

Susanne Rühle

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## **A different Capitalism? Guanxi-Capitalism and the Importance of Family in Modern China**

### **Abstract**

The emergence of Capitalism is said to always lead to extreme changes in the structure of a society. This view implies that Capitalism is a universal and unique concept that needs an explicit institutional framework and should not discriminate between a German or US Capitalism. In contrast, this work argues that the 'ideal type' of Capitalism in a Weberian sense does not exist. It will be demonstrated that Capitalism is not a concept that shapes a uniform institutional framework within every society, constructing a specific economic system. Rather, depending on the institutional environment - family structures in particular - different forms of Capitalism arise. To exemplify this, the networking (Guanxi) Capitalism of contemporary China will be presented, where social institutions known from the past were reinforced for successful development. It will be argued that especially the change, destruction and creation of family and kinship structures are key factors that determined the further development and success of the Chinese economy and the type of Capitalism arising there. In contrast to Weber, it will be argued that Capitalism not necessarily leads to a process of destruction of traditional structures and to large-scale enterprises under rational, bureaucratic management, without leaving space for socio-cultural structures like family businesses. The flexible global production increasingly favours small business production over larger corporations. Small Chinese family firms are able to respond to rapidly changing market conditions and motivate maximum efforts for modest pay. The structure of the Chinese family proved to be very persistent over time and to be able to accommodate diverse economic and political environments while maintaining its core identity. This implies that Chinese Capitalism may be an entirely new economic system, based on Guanxi and the family.

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## 1. Introduction

*“The history of a thing, in general, is the succession of forces which take possession of it and the co-existence of the forces which struggle for possession. The same object, the same phenomenon, changes sense depending on the force which appropriates it.”<sup>1</sup>*

Since China opened up to the global market in 1978, it formed an economic system that presents a specific type of Capitalism, embedded in the socio-cultural environment of post-1978 China. It successfully thrives within a different framework of institutions than - what in this paper will be called - Western-type Capitalism, especially relying on the family and personal connections to facilitate business, comprising a way of doing business ‘Chinese style’. It is often doubted that this version of Capitalism will be sustainable and many believe that over time it will transform into a system that converges to the usual contractual market institutions found in the West. Although China is considered as increasingly important for the shape of the global economy, it is argued that it still needs to follow the basic rules of a market economy.<sup>2</sup> Once the economy develops into a mature capitalistic society with its own functioning set of legal institutions and secured property rights, the necessity of maintaining Guanxi (network) connections for economic success will come to an end. This line of argument also perceives Guanxi as less efficient and more time and money consuming than the Western contractual institutions.

In Western view, Capitalism is inevitably leading to a system with large-scale enterprises under efficient rational management which increasingly will be independent of personal relations. Those arguments can already be found in the writing of Max Weber who associates Capitalism with the destruction of traditional structures, leading to large-scale enterprises and rising bureaucratisation and rationalisation. For him, it is the nature - or spirit - of modern Capitalism to impose a unique institutional structure on the existing traditional society to develop. The institutionalised instrumental rationality does not leave space for outdated socio-cultural structures like family businesses. Thus, Capitalism eliminates obsolescent cultural idiosyncrasies, which have been specifically developed for a feudal economy and were only able to function in the

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<sup>1</sup> Deleuze, Gilles and Guattari, Félix (1994 [1983]): *Anti-Oedipus*. Minneapolis: Univ. of Minnesota Press, p. 3, found in Yang, Mayfair Mei-hui (1994): *Gifts, Favors and Banquets*. Ithaca: Cornell Univ. Press, p. 173.

<sup>2</sup> For example Taube, Markus (2007): *China ante portas – Die neue Ordnung der Weltwirtschaft*. Universität Duisburg-Essen. Presentation in Frankfurt Main, November, 14 2007.

framework of this social environment, affecting family structures in particular. The traditional rural self-sufficient household that could be found in similar form in most Western European countries integrated personal and business sphere but in the capitalistic economy, the rationality of companies contrasts the “sentimentality of the family”. In the course of the evolution of Capitalism, the family as economic unit vanished and retreated to the privacy of their homes.<sup>3</sup> Human beings became “fictitious commodities”<sup>4</sup>, traded on (labour) markets, thus obliterating the old 'oikos'. Even more than that, Capitalism not only forms a uniform institutional framework, overriding traditional structures; it also separates private and business spheres not only in a spatial sense but also creates a separate form of behavior with its own set of rules and morality for doing business.

Therefore, the emergence of Capitalism during the 18<sup>th</sup> century in Europe, in the wake of the Industrial Revolution, lead to extreme changes in the structure of Western societies. It introduced a new institutional mechanism to a hitherto feudal society based on autarkic households, replacing these structures with capitalistic production based on factory work that is dependent on wage labour to be prosperous. Industrialization therefore fuelled its own motor of development and propelled the Western European societies from feudalism to Capitalism. With this, a market economy arose where instead of an economic life embedded into society, social institutions served as mere accessories to the economic system. The economy became autonomous, dominated by a rational spirit based on efficiency and profitability and at least similar institutions no matter where it arose. In this environment, the family lost its influence, not only over its members, but also on how one’s living was earned.

Following the conception of Weber, a unique type of a universal Capitalism would imply an explicit institutional framework that evens out the differences between countries and different forms of Capitalism. Hence, it should not discriminate between a German, Swedish or US Capitalism, even if a more sophisticated social security system can be found in one country or the importance of individualism is stressed in another.<sup>5</sup> In recent times, especially due to growing global involvement, it can be easily argued that the Chinese success is not a sustainable structure but merely temporary.

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<sup>3</sup> Brunner, Otto (1956), *ibid.*, p. 42.

<sup>4</sup> Polanyi, Karl (1944): *The Great Transformation*. New York: Farrar & Rinehart., p. 68ff.

<sup>5</sup> Fulcher, James (2004): *Capitalism*. New York: Oxford Univ. Press, p. 121f. and 178.



Like in 19<sup>th</sup> century Europe, social structures might be tenacious, but in the end will wither away.

However, globalization may also change this hitherto unquestioned “accepted wisdom”, as the increasingly flexible global production favours subcontracting and small-scale production over larger corporations. Consequently, this work argues that institutional forms can be varied and combined differently, thus an ‘ideal type’ of Capitalism in a Weberian sense does not exist.<sup>6</sup> It will be demonstrated that Capitalism is not a concept that shapes a uniform institutional framework within every society, constructing a specific economic system. In contrast, this paper argues that it is possible to achieve economic success with a variety of Capitalism based on a different set of institutions. Depending on the institutional environment - family structures in particular - different forms of Capitalism arise. There is not one ‘best practice’ for a country to follow the dynamics and regulations of a capitalistic economy, but depending on the specifics of the institutional background of a country, there are diverse ways to efficiently implement Capitalism.<sup>7</sup>

To exemplify this, the networking (Guanxi) Capitalism of contemporary China will be presented, where social institutions known from the past were reinforced for successful development. It will be argued that personal connections based on the family structures prevail and that the small-scale production of family firms has a comparative advantage in the globalized world of today. These key factors determine the further development and success of the Chinese economy and the type of Capitalism arising there. Small Chinese family firms connected over Guanxi networks are able to respond to rapidly changing demand and motivate maximum efforts for modest pay. The structure of the Chinese family proved to be very persistent over time and to be able to accommodate diverse economic and political environments while maintaining its core identity. It was able to react extremely flexible to the changed market conditions after 1978 and used the opportunity for private business initiative. This paper argues that in modern China a different type of Capitalism emerged, embedded in a different institutional framework. It forms a new economic system, based on different principles such as Guanxi and the family, with business and personal area not separated into different spheres. Moreover, it is a system that is more sustainable than is often assumed as those features are immanent to Chinese culture and will not become extinct.

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<sup>6</sup> Srepani, Ernesto (2001): *The fundamental institutions of capitalism*. London: Routledge, p. 266f.

<sup>7</sup> Amable, Bruno (2003): *The diversity of modern capitalism*. Oxford: Oxford Univ. Press, p. 9.

Therefore, this work is organized as follows: after a critical discussion of Weber's notion of Capitalism, I will turn to Chinese Capitalism, the so-called Guanxi-type Capitalism. Related to this, a discussion on the gestalt of Chinese Capitalism will be provided, with an emphasis on the significance of family structures for economic development. The last chapter concludes.

## 2. One Capitalism? A different Varieties of Capitalism Approach

*“No mistake about it, the travail was over and the market system had been born. The problem of survival was henceforth to be solved neither by custom nor by command, but by the free action of profit-seeking men bound together only by the market itself. The system was to be called Capitalism. And the idea of gain which underlay it was so firmly rooted that men would soon vigorously affirm that it was an eternal and omnipresent attitude”.*<sup>8</sup>

The term Capitalism is not easy to define and it never was since its creation in the 19<sup>th</sup> century, mostly used without set agreement on its precise meaning, which varies enormously in the interpretations of different authors.<sup>9</sup> Many definitions exist, based on different concepts and typologies, but it was never really free of value judgement and political connotation. As a result Capitalism is "less a means of insight than a means for accusal".<sup>10</sup> In its English usage it is considerably less encumbered and less political than in Germany, where the term Capitalism was a popular ideological instrument, especially at the beginning of the 20<sup>th</sup> century.<sup>11</sup>

Often, especially in more recent definitions, it is associated with an economic system where capital is central for all economic transactions and activities, together with a liberal economic order with free workers and freedom of property. Capitalistic economic orders are often seen as the “eternal shape of an economy”, a “realization of economic rationality” and “the means for the end of satisfaction of needs”; others see

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<sup>8</sup> Heilbroner, Robert L. (1953): *The wordly philosophers*. New York: Simon and Schuster, p. 24.

<sup>9</sup> The term 'Capitalism' is of French origin, and is used in Germany from the 1870s in critical descriptions of the negative development of society. In: Brunner, Otto; Conze, Werner and Koselleck, Reinhart (1982): "H - Me," in: *Geschichtliche Grundbegriffe: historisches Lexikon zur politisch-sozialen Sprache in Deutschland*, Otto Brunner; Werner Conze; Reinhart Koselleck (ed.), Stuttgart: Klett-Cotta, Art. on 'Capital, Capitalist and Capitalism'.

<sup>10</sup> Pohle, L. (1910): "Der Unternehmerstand," in: *Vorträge der Gehe-Stiftung zu Dresden*, Leipzig: Teubner, p. 6, my own translation.

<sup>11</sup> Jaeger, Friedrich (2007): *Jenseits - Konvikt*. Stuttgart: Metzler, Art. on Capitalism by Werner Plumpe, p. 363.

Capitalism merely as a special case of a rational economy.<sup>12</sup> On the other hand, the term Capitalism can include social relations as part of the economic system, it is thus non-technological.<sup>13</sup>

In this paper, I will not try to find an unambiguous, ultimate definition of Capitalism, but rather present the view of one specific author, Max Weber, whom I see to have the most valuable and useful definition for this purpose. His view creates an ideal type of Capitalism assuming a certain attitude towards the economy that includes increasing rationalization, bureaucratization and professionalization within a homogenous institutional framework, based on a certain spirit. In this setting, personal connections play a decreasing role in doing business, and are replaced by contractual relations. This point of view is still a common argument within standard economics literature.

In addition, Capitalism in Weber's analysis overrides traditional socio-cultural institutions to create a system of large-scale enterprises under rational, bureaucratic management, making the family as economic unit obsolete. This phenomenon is considered to be independent of individual institutional frameworks. Local economies are regarded to be always standardized after the doctrine of "individual maximization, rational-legal principles and private accumulation. [...] Older forms are seen to present no challenge to the all-encompassing and overriding logic of Capitalism, whose development is predetermined".<sup>14</sup>

## 2.1. Theoretical Foundation

Weber's ideal type conception of a Capitalism that forms homogenous institutions no matter where it arises (see below) is at least in similar arguments often brought to the front even today. In contrast, in recent years a vast amount of literature and much discussion has been spurred by a research area called the *Variety of Capitalism* approach. Its theories and models are based on new institutional economics, underscoring the effect of distinct institutional arrangements for economic

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<sup>12</sup> Heimann, Eduard (1931): *Kapitalismus und Sozialismus*. Potsdam: Protte, p. 33+42, my own translation.

<sup>13</sup> Appel, Michael (1992): *Werner Sombart*. Marburg, Metropolis Verl, p. 77.

<sup>14</sup> Yang, Mayfair Mei-Hui (2000): "Putting Global Capitalism in Its Place: Economic Hybridity, Bataille, and Ritual Expenditure," *Current Anthropology*, 41, 477-509, p. 481.

performance, thereby painting a static picture of Capitalism, relying "on rather ad hoc descriptions of actual institutions and institutional forms", looking for equilibrium outcomes.<sup>15</sup> As David Lane puts it: "The Varieties of Capitalism approach does not capture the dynamics of the economic systems in the countries undergoing transformation".<sup>16</sup> Not least, because those models take a democratic polity as given and "fail to account for the political dynamics of post-socialist economies".<sup>17</sup> Still, diverse structures are defined to be efficient types of Capitalism. Efficiency in this framework is understood "in terms of strategic complementarities among organizational elements",<sup>18</sup> but as one other insight of the institutional school underscores, "what survives organizationally may not be most efficient or effective, but it survives anyway because it has come to be instilled with value in that specific institutional context".<sup>19</sup> Hence, the view that institutions are designed and adopted for efficiency reasons is challenged, rather "institutions are the expression of a political compromise".<sup>20</sup>

Consequently, research in the Varieties of Capitalism line is primarily focused on Western Europe and North America and thus "post-industrial economies". Although it does not suggest that countries over time will converge to a single model of best practise and argues that due to path dependency different sets of institutions lead to different forms of Capitalism, in my opinion due to the way those conclusions are reached it cannot be adequately used to describe the Chinese emerging economic system.

For example, in his book on the diversity of modern Capitalism Amable defines five types of Capitalism, thereby largely ignoring socio-cultural institutions: "Plain regularities of behaviour are not institutions [...]. An institution must be a rule which applies to all the cases".<sup>21</sup> His approach is much broader than that of Hall and Soskice

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<sup>15</sup> Gregory Jackson; Richard Deeg (2006): *How many varieties of capitalism? Comparing the comparative institutional analyses of capitalist diversity*. Köln: MPIfG, p. 22ff.

<sup>16</sup> Lane, David Stuart (2005): "Emerging varieties of capitalism in former state socialist societies," *Competition & change*, 9, 227-247, p. 228.

<sup>17</sup> Wilson, Jeanne Lorraine (2007): "China's Economic Transformation towards Capitalism," *in: Varieties of capitalism in post-communist countries*, Lane, David (ed.), Basingstoke, Hampshire: Palgrave Macmillan, p. 253.

<sup>18</sup> Gregory Jackson; Richard Deeg (2006): *ibid.*, p. 5.

<sup>19</sup> Kiong, Tong Chee and Kee, Yong Pit (1998): "Guanxi Bases, Xinyong and Chinese Business Networks," *The British Journal of Sociology*, 49, 75-96, p. 87.

<sup>20</sup> Amable, Bruno (2003): *ibid.*, p. 9.

<sup>21</sup> Amable, Bruno (2003): *ibid.*, p. 37

whose dichotomous framework mainly concentrates on the firm as unit of inquiry.<sup>22</sup> The building blocks of their analysis focus on "micro-agents such as firms, employees or shareholders, and how they organize production...describing the affinities between different institutions and the product market strategies of business firms".<sup>23</sup> The five areas that for Amable differentiate Capitalisms are the product-market competition, the wage-labour nexus and labour market institutions, the financial-intermediation sector and corporate governance, social protection and the education sector.<sup>24</sup>

For Amable, the pressure of globalization and worldwide liberalization, particularly of financial services, has evened out differences between the EU and the rest of the world. Even though, Capitalism is a robust environment that principally can accommodate varied institutional environments.<sup>25</sup> Thus, the Asian model of Capitalism he introduces hinges on the collaboration of large corporations with the government. He claims that "workers' specific investments are protected by a de facto protection of employment and possibilities of retraining and career-making within the corporation. Lack of social protection and sophisticated financial markets make risk diversification difficult and render the stability provided by the large corporation crucial to the existence of the model".<sup>26</sup> Hence, it focuses on the state and collective sector, totally neglecting the private sector, mainly based on family businesses, which on the other hand this paper argues to be the driving force of development. In other words, Amable's model ignores the importance of socio-cultural institutions, family structures in particular, for the formation of a capitalistic system what this work regards as essential for the type of Capitalism developing in China. It is important to note that "Capitalism is a much larger and more complex entity than the market system we use as its equivalent...The market system is the principal means of binding and coordinating the whole, but markets are not the source of capitalism's energies nor of its distinctive bifurcation of authority".<sup>27</sup>

For those reasons, this work, instead of constructing "Capitalism as a monolithic, all-encompassing, penetrating, seamless, and integrated total system with a

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<sup>22</sup> Hall, Peter A. and Soskice, David (2004): *Varieties of capitalism*. Oxford: Oxford Univ. Press.

<sup>23</sup> Gregory Jackson; Richard Deeg (2006): *ibid.*, p. 21+34.

<sup>24</sup> Amable, Bruno (2003): *ibid.*, p. 93.

<sup>25</sup> Amable, Bruno (2003): *ibid.*, p. 3f.

<sup>26</sup> Amable, Bruno (2003): *ibid.*, p. 107.

<sup>27</sup> Heilbroner, Robert L. (1993): *21st century capitalism*. New York, NY: Norton, p. 96.

predetermined and knowable teleology”<sup>28</sup> in line with Weber’s thinking, a different type of Capitalism will be identified that consists of its own characteristic institutions. In contrast to the reasoning found in the majority of the *Varieties*-literature my arguments are based on (American) Institutionalism<sup>29</sup> – as opposed to New Institutional Economics – with its holistic approach that enables me to describe different types of Capitalism. Contrary to the methodological approach of standard economics which bases its analysis on the individual, Institutionalism follows behaviourism because it is rooted in institutional structures for the explanation of human behaviour. Hence, an individual is more than just the “missing middle term in stimulus-response psychology”.<sup>30</sup> It supports the view that different sets of institutions can lead to different forms of Capitalism, depending on the cultural and institutional environment. It is a tool to provide critical insight into the dynamics of social change and to explain human behaviour within its institutional and cultural context in a narrative way.

Institutionalism employs pattern models to explain human behaviour within its institutional and cultural context in a narrative way. Those models are based on case studies of special or historical environments each coming with their own set of institutions. For example, to create a theory of Chinese Capitalism, an institutionalist looks at the cultural setting surrounding the individual to construct a pattern of economic behaviour. Ideally, the model is then followed by an empirical test that compares the interpretations with data from case studies and other data sources to see if the structure of the model coincides with that of the concrete reality of the world. For institutionalists, modelling is a continuous process which never ends, because there are always new case studies or changes in institutions and so the theory has to be constantly updated and evaluated against the new data. This means the model is constantly revised and filled with new details and is therefore never completed. Hence, the aim of Institutionalism is not to be especially rigorous, or to be applicable on a general level, with forming a law-like statement, but to be able to understand and explain rather than predict a specific situation. Due to its characteristics, Institutionalism determines a “spectrum of acceptable alternatives from which

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<sup>28</sup> Yang, Mayfair Mei-Hui (2000): *ibid.*, p. 483.

<sup>29</sup> Economic sociology provides similar framework, but it is beyond the scope of this paper to explore the (dis-) similarities to new and old institutional economics. See for example Smelser, Neil J. and Swedberg, Richard (1994): *The handbook of economic sociology*. Princeton, NJ: Princeton Univ. Press.

<sup>30</sup> Dugger, William M. (1979): "Methodological Differences between Institutional and Neoclassical Economics," *Journal of Economic Issues*, XIII, 899 – 909, p. 904.

individuals can choose”.<sup>31</sup> As individuals are situated in a specific cultural environment, their preference functions are not perceived as given, but are subject to constant change and adaptation. Institutionalists claim that individuals are only part of a greater whole, and this whole is more than the sum of its parts. Institutions are defined as a going concern “which engages in a series of transactions within the guidelines of a set of working rules”.<sup>32</sup> Individuals are at the same time part and product of those going concerns.

Although providing no general model, the process of comparison can reveal a typology. A type is defined as an abstract description of situations or phenomena, which indicates the characteristics of particular importance to a system. A type summarizes the analysed cases and in this respect gains reality in the sense that it describes the concrete reality of the system. Therefore, not the type itself, but the cases are real. Typologies reduce too complex features and deliver some level of abstraction.

Thus, I am going to construct a (partial) typology of Capitalism, following the principle of Institutionalism. I do not try to provide a complete typology of Capitalism but will establish the existence of a distinct Chinese form of Capitalism by describing its institutional idiosyncrasies.

Of course, all types of Capitalism share some prominent features, such as the accumulation of money and wealth as a common objective of capitalistic actions. In McNally, Christopher (2006) the "three basic elements of capitalism" are named with "the drive to amass capital; the emergence of market society; and the bifurcation of secular authority".<sup>33</sup> The third element means that "an autonomous, self-directing economic realm appears that assures the continued existence and social influence of capital-holders".<sup>34</sup>

Thus, this work will talk of a Western Capitalism, meaning the Capitalism already described by Weber (see below) and on the other hand still being in place in basically all industrialized Western countries. As opposed to that I define a Chinese form of Capitalism that is embedded into a different institutional framework based on different principles such as Guanxi and the family and therefore requires a different set of institutions than the Western type.

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<sup>31</sup> Dugger, William M. (1979): *ibid.*, p. 905.

<sup>32</sup> Dugger, William M. (1979): *ibid.*, p. 901.

<sup>33</sup> McNally, Christopher (2006): *Insinuations on China's Emergent Capitalism*. East-West Center Working Papers, p. 2.

<sup>34</sup> McNally, Christopher (2006): *ibid.*, p. 5.

As a result, although it is not based on the Varieties of Capitalism approach, I am still arguing that Capitalism is not a concept that necessarily shapes a uniform institutional framework within every society, constructing a specific economic system. Although shared characteristics exist, there can be an alternate embodiment of Capitalism in different regions with diverse cultures and history, and thus a specific Chinese Capitalism depending on a particular institutional framework exists.

## **2.2. Max Weber and the Protestant Ethic of Capitalism<sup>35</sup>**

Capitalism for Max Weber is defined as a function of a certain spirit, described by a systematic combination of characteristics, creating the modern, rational Capitalism. This type of Capitalism not only needs a certain attitude, but is also considered as an age of separation, by which not merely separating the pre-modern traditional economy from the modern, capitalistic one is meant, but also the separations taking place in people's private lives. To do this, it needs to destroy and supplant the traditional socio-cultural structures of society to prosper.

In 19<sup>th</sup> century Germany, family structures were still built so as to fit in the feudal structures of medieval Europe. The traditional household was not able to counter Capitalism and the traditional institutions withered away. The unity of house and business was lost, which for Weber was a mandatory prerequisite for successful capitalistic production. Individuals had to be turned into 'fictitious commodities' who found themselves in an unescapable 'iron cage'. After migrating to the cities, the significance of the household in providing shelter and guidance vanished. In the traditional economy, the pater familias had sole responsibility for business, organizing the work within the household.<sup>36</sup> With the emergence of Capitalism, the head of the household lost his main function, to protect and to organize the work within the family household. He also lost his power over family members who were not bound to the strict hierarchy anymore.<sup>37</sup>

The traditional family division of labour was put under pressure because production and retail sale were disconnected in time and space by the intervention of an

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<sup>35</sup> See Weber, Max (1976 [1930]): *ibid.*

<sup>36</sup> Dülmen, Richard van (1995): *Kultur und Alltag in der Frühen Neuzeit*. München: Beck, p. 41 and Weber - Kellermann, Ingeborg (1988): *Landleben im 19. Jahrhundert*. München: Beck, p. 144.

<sup>37</sup> Egner, Erich (1985): *Der Verlust der alten Ökonomik*. Berlin: Duncker & Humblot, p. 140f.



entrepreneur who advanced money for production with the object of subsequent sale at a profit. Individuals were transformed into a class of propertyless workers that was forced to sell its labour power.<sup>38</sup> Workers were “crowded together in new places of desolation [...]; the family was on the road to perdition; and large parts of the country were rapidly disappearing under the slack and scrap heaps vomited forth from the ‘satanic mills’”.<sup>39</sup> This vigorous description of the living conditions of England’s workers is similarly vivid in Weber’s image of the “iron cage”<sup>40</sup>, describing the forces behind Capitalism and its effect on cultural and social institutions as “a veritable abyss of human degradation”.<sup>41</sup>

Thus, Max Weber defines Capitalism as “present wherever the industrial provision for the needs of a human group is carried out by the method of enterprise” and “a rational capitalistic establishment” as “one with capital accounting”. The spirit of Capitalism for him describes “the attitude which seeks profit rationally and systematically”<sup>42</sup> and which changes the lifestyle of people fundamentally. He describes it as a separation of formerly unified units and institutions. Capitalism had constituted a completely new epoch, breaking with the old economic order and challenging the existing institutions. It developed a dynamic which became impossible to stop once it started; competition was the fuel that kept this ‘machine’ going.

Although in former economies greed and “the universal reign of absolute unscrupulousness in the pursuit of selfish interests by the making of money” existed, they were driven by an “uncontrolled impulse” of “ruthless acquisition” which lacked the discipline and rationality of bourgeois Capitalism.<sup>43</sup> This separates the modern human from the traditional which – at least in the philosophical thinking of the time - did not strive to earn more and more money but were content in the Aristotelian sense to lead a ‘good life’. Capitalism gave people the means to overcome traditionalism.

In *The Protestant Ethic and the Spirit of Capitalism* Max Weber analyses the relationship between religion and the economy and its relevance for the emergence of

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<sup>38</sup> Wehler, Hans-Ulrich (1989): *Vom Feudalismus des Alten Reiches bis zur Defensiven Modernisierung der Reformära* and *Von der Reformära bis zur industriellen und politischen "Deutschen Doppelrevolution"*. Frankfurt am Main: Büchergilde Gutenberg, p. 141+592 and Polanyi, Karl (1944): *ibid.*, p. 3, 16f.+55.

<sup>39</sup> Polanyi, Karl (1944), *ibid.*, p. 39.

<sup>40</sup> Weber, Max (1976 [1930]): *The Protestant Ethic and the Spirit of Capitalism*. London: Allen & Unwin, p. 181.

<sup>41</sup> Polanyi, Karl (1944): *ibid.*, p. 39.

<sup>42</sup> Weber, Max (1976 [1930]): *ibid.*, p. 64.

<sup>43</sup> Weber, Max (1976 [1930]): *ibid.*, p. 54-67.

Capitalism. The modern rational capitalistic spirit relies on the religious assurance of salvation of Calvinism, dependent on “the rational capitalistic organization of (formally) free labour”.<sup>44</sup> Not only is free labour a major characteristic of rational bourgeois Capitalism, but a “rational industrial organization, attuned to a regular market, and neither to political or irrationally speculative opportunities for profit” is also necessary. Essential for this type of economic system is thus freedom of markets with a regulated exchange and rational forms of organisations like corporations that use book-keeping for their business calculations with the aim of profit maximization. Weber defines rationalization as a unique view of the world achieved by the Western civilization. He associates it with the “belief that sense, perception and reasoning (rather than faith) are the sole or ultimate source of knowledge”.<sup>45</sup>

Therefore, also institutional preconditions also play an important role for the Weberian type of Capitalism, especially the spatial separation of business from the household, therefore also the separation of corporate from personal property.<sup>46</sup> But not only physical institutions are separated, destructing formerly holistic units into fractions; Capitalism also separates people from their homes. The “iron cage”<sup>47</sup> of modern Capitalism makes people feel that through the forced artificial conditions of separation of private sphere and working life also their body and soul are separated.<sup>48</sup> Not pride or pleasure in the quality one is able to produce motivated to work hard but piece-work wages and the fear of dismissal. Capitalism has “through the subordination of the process of production to scientific point of view, relieved it from its dependence upon the natural organic limitations of the human individual”.<sup>49</sup>

For Weber a certain spirit is the prerequisite, not the result of Capitalism and is manifested in an economic ethos for both entrepreneur and employer. This results in a causal relation between the “Spirit of Capitalism” and the protestant ethic. Calvinism represents an asceticism that shows close affinity to the spirit of Capitalism. It rests on predetermination which commits the believer to an active, ascetic, this-worldly life with work being a sign of true faith that oneself is among God’s chosen. A state of

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<sup>44</sup> Weber, Max (1976 [1930]): *ibid.*, p. 21.

<sup>45</sup> Weber, Max and Stanislav Andreski (2006): *Max Weber on Capitalism, Bureaucracy and Religion*. London: Routledge, p. 7f.

<sup>46</sup> See Weber, Max (1968): *The Religion of China*. New York: The Free Press.

<sup>47</sup> Weber, Max (1976 [1930]): *ibid.*, p. 181.

<sup>48</sup> Köster, Roman and Werner Plumpe (2007): "Hexensabbat der Moderne," *Westend: Neue Zeitschrift für Sozialforschung*, 2, 3-22, p. 3f.

<sup>49</sup> Weber, Max (1976 [1930]): *ibid.*, p. 75.

mind has been developed that fits perfectly to the functional characteristics of the capitalistic economy.<sup>50</sup> “Labour must [...] be performed as if it were an absolute end in itself, a calling”.<sup>51</sup> This also cultivated an impersonal attitude toward the duties of an office and fostered the individualism necessary to rationally organize labour in a competitive world. Other humans only endanger the election by God, therefore individuals need to separate themselves to ensure their own election.<sup>52</sup> “The sole purpose of his life-work, to sink into the grave weighted down with a great material load of money and goods”<sup>53</sup> can only be understood from the viewpoint of the development of a capitalistic economy.

In Capitalism, money acquisition is treated as an end, rather than a means and is not seen as evil any more, although the Puritan entrepreneur is still careful of the “ethical limitations” given by religion. As Weber says “the Puritans wanted to work in a calling; we are forced to do so”, finding ourselves inside the “iron cage”.<sup>54</sup> Weber's system of modern Capitalism is constituted in a process of rationalization, which needed to overcome the traditional family-based institutions to create an economic order that could be based on propertyless wage labour and thus, be successful.

### **3. Chinese Capitalism and the Role of the Family**

#### **3.1. Guanxi and its Role for the Chinese Economic System<sup>55</sup>**

While 19<sup>th</sup> century-type Capitalism required that the old institutions be destroyed and exchanged for ones with adapted structures also for families, it is quite different for China. After 1978, the Guanxi-type Capitalism revived traditional institutions, which especially in rural areas was vital for its success. In contrast to many East European countries, the transformation since 1978 from command to market economy, and thus

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<sup>50</sup> Weber, Max (1976 [1930]): *ibid.*, p. 91ff.

<sup>51</sup> Weber, Max (1976 [1930]): *ibid.*, p. 62.

<sup>52</sup> Parsons, Talcott (1967 [1937]): *The Structure of Social Action*. New York: Free Press, p. 525f.

<sup>53</sup> Weber, Max (1976 [1930]): *ibid.*, p. 72.

<sup>54</sup> Weber, Max (1976 [1930]): *ibid.*, p. 181.

<sup>55</sup> Instead of defining Guanxi as social capital and referring to the corresponding literature, this paper takes a different road. In my view, Guanxi has a broader meaning than social capital, esp. the way the latter is operationalized in the majority of literature (For example, Castiglione, Dario; Deth, Jan W. van and Wolleb, Guglielmo (2008): *The handbook of social capital*. Oxford: Oxford Univ. Press) A more in-depth discussion of this would be beyond the scope of this paper.

to Capitalism, was achieved very smoothly and with a success which is largely unequalled in history. The economic rise of the Asian region, most recently of China, coincided with an increasingly flexible global production and thus the transformation to a capitalistic economy increased its pace since the 1990s.<sup>56</sup> This is partly due to the (re)construction of a private sector and entrepreneurship parallel to the state sector. The Chinese population was able to resort to socio-cultural institutions, such as personal networks, from their own history, which were not forgotten during the time of communism. The family was the most prominent device for establishing small businesses and networks.

The Chinese expression for personal networks is Guanxi (关系). Guanxi describes the dynamics of constructing personal relationships within networks and is a central feature of today's Chinese society. Personal connections between individuals consist in granting favours, receiving services or in gift-giving. The social status of people interacting in Guanxi needs not be equal, more important is the existence of *Gǎnqíng* (i.e. 'feeling') even in hierarchical relations. Guanxi is built on pre-existing links to people with whom a shared identity exist, like those from the same regional origin, classmates, teachers, superiors or co-workers, but most importantly with the family.<sup>57</sup> Therefore, Guanxi is a process of inventing and re-inventing relationships as ongoing "social engineering".<sup>58</sup> Guanxi is embedded in most functions of everyday life, including agricultural production, political alliances, and recreational or economic activities.<sup>59</sup>

Concepts related to Guanxi are *Gǎnqíng* (感情) and *Rénqíng* (人情). The former reflects the depth of emotion within a relationship, expressing its tone.<sup>60</sup> The latter refers to feelings found in friendship, family and kin relationships. *Rénqíng* includes many virtues, like loyalty, justice, honesty or mutuality. These feelings are the source of ritual (li 礼), which is also part of the Chinese expression liwu (礼物) meaning 'gift'. The gift-giving relations of Guanxi can be understood as "total social phenomena" with

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<sup>56</sup> Dirlik, Arif (1997): "Critical Reflections on "Chinese Capitalism" as Paradigm," *Identities*, 3, 303-330, p.304.

<sup>57</sup> Yang, Mayfair Mei-hu (1988): "The Modernity of Power in the Chinese Socialist Order," *Cultural Anthropology*, 408-427, p. 49+411.

<sup>58</sup> King, Ambrose Yeo-chi (1991): "Kuan-hsi and Network Building," *Daedalus*, 2, 63-84, p. 69.

<sup>59</sup> Mauss, Marcel (1966): *The Gift*. London: Cohen&West, p. 1-3, 36f. + 76-78. See also Yan, Yunxiang (1996): "The Culture of Guanxi in a North China Village," *The China Quarterly*, Jan., 1-25, p. 8f.

<sup>60</sup> Jacobs, Bruce J. (1979): "A preliminary model of particularistic ties in Chinese political alliances," *China Quarterly*, 237-273, p.243-253, p. 259.

their own etiquette and rules. Gift-giving depends on the (social) status of giver and receiver.<sup>61</sup> *Rénqíng* “emphasizes the value of maintaining personal harmony and social order among persons situated in hierarchically structured relationships”.<sup>62</sup> *Rénqíng* are long-term "debts" established by receiving a gift, enduring even generations. The notion of reciprocity, obligation and indebtedness is essential for personal relationships, but can also have a tactical dimension to it.<sup>63</sup>

Although Guanxi defined like this cannot be said to be utilitarian, it still exposes signs of instrumentalism, because generous gift-giving serves as a means to invoke reciprocity therefore also certain intentions. The Cultural Revolution is often seen as turning point for more manipulative relationships and declining moral standards. Not able to decide without influence of the network, people used Guanxi to put social pressure on individuals to take away their self-determination. The results of relationships are not mere material gains or granted favours, but “the discernment, acuity, and cunning needed to get by in life” affected the essence of connections.<sup>64</sup>

During the post-Mao era, particularism and instrumentalism also dominated behaviour, using ritualised relationships, especially for doing business. Guanxi is often seen as a “shortcut around, or a coping strategy for dealing with, bureaucratic power”<sup>65</sup>, especially in urban areas.<sup>66</sup>

Even today the range of Guanxi relationships in urban areas covers many aspects of everyday life, such as housing, facilitating transportation or better education. Beside the family also relations to neighbours and other non-kin connections of equivalent status are important. Especially the kin-like relations to neighbours have the purpose of substituting missing family which might still live in the countryside. Neighbours are close in a spatial sense and share the same experiences. Another important part of personal urban networks are people known from the military or university, creating fictive quasi-kin-relationships.<sup>67</sup>

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<sup>61</sup> Redding, S. G. (1993): *The Spirit of Chinese Capitalism*. Berlin u.a.: De Gruyter, p. 49.

<sup>62</sup> Hwang, Kwang-kuo (1987): "Face and Favor," *The American Journal of Sociology*, 4, 944-974, p. 946.

<sup>63</sup> Yang, Mayfair Mei-hui (1994): *ibid.*, p. 63, 67+122.

<sup>64</sup> Yang, Mayfair Mei-hui (1994): *Gifts, Favors and Banquets*. Ithaca: Cornell Univ. Press, p. 8+52f.

<sup>65</sup> Yang, Mayfair Mei-hui (1994): *ibid.*, p. 15.

<sup>66</sup> Yan, Yunxiang (1996): *ibid.*, p. 3 and Yang, Mayfair Mei-hui (2002): "The Resilience of Guanxi and its New Deployments," *The China Quarterly*, 460-476, p. 460.

<sup>67</sup> Whyte, Martin King (1996): "The Chinese Family and Economic Development," *Economic Development and Cultural Change*, 1, 1-30, p. 12.

Apart from the more social aspects of urban life, Guanxi is obviously of importance to business relations.<sup>68</sup> While mostly ordinary people practised Guanxi during the Cultural Revolution, it became an instrument of businessmen afterwards.<sup>69</sup> This means that the idea of loyalty and trust is carried over as principles of business relations. If people are seen as family-like and if they can be trusted because long-term relationships exist, it is possible to found enterprises or share resources with them. The networks with non-kin based on *Gǎnqíng* are the seed from which private entrepreneurship stems.<sup>70</sup> Thus, the core group, even of larger enterprises, are still often family members or good friends.<sup>71</sup>

The establishment of capitalistic enterprises within a socialist system raises a wide range of problems. Many overseas Chinese entrepreneurs utilize social ties to Chinese relatives in mainland China who might be able to facilitate and speed up the negotiations of investment because it is easier to do business if a Guanxi relation has been established. Increasingly, also Western companies under non-Chinese leadership engage in Guanxi to facilitate business. During the last year, dozens of studies in business journals<sup>72</sup> were published “to help business practitioners in China, especially those from the Western countries, to gain a deeper and more practical insight into the Chinese social network, and to help them make effective cross-cultural adaptation and business decisions in the unfamiliar cultural environment of China”.<sup>73</sup>

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<sup>68</sup> Yang, Mayfair Mei-hui (1994): *ibid.*, p. 112.

<sup>69</sup> Kammerer, Klaus, Bernd Schauenberg and Senger, Harro, von (2004): "Guanxi oder die Ambivalenz von Netzwerkbeziehungen," in: *Perspektiven einer kulturellen Ökonomik*, Münster: LIT Verl., 173-188, p. 178f.

<sup>70</sup> Krug, Barbara (2002): "Kultur und wirtschaftliche Entwicklung in China," in: *Religion, Werte und Wirtschaft*, ed. by Hans G. Nutzinger. Marburg: Metropolis, 129-146, p. 139f.

<sup>71</sup> Kao, Cheng-Shu (1982): "'Personal Trust' in the large Business in Taiwan," in: *Business networks and economic development in East and Southeast Asia*, Hamilton, Gary G. (ed.), Hong Kong, 66-76, p. 68.

<sup>72</sup> For example Wang Qian, Razzaque, Mohammed Abdur, Kau Ah Keng (2007): "Chinese cultural values and gift-giving behavior," *Journal of Consumer Marketing*, 4, 214-228 and Balfour, Frederik (11/19/2007): "You Say Guanxi, I Say Schmoozing," *Business Week online*, 4059, p. 84-85. Balfour states: "as any China veteran will tell you, it is the key to everything [...]. Fortunes have been made and lost based on whether the seeker has good or bad guanxi, and in most cases a positive outcome has meant knowing the right government official, a relationship nurtured over epic banquets and gallons of XO brandy [...] Cracking the guanxi code still takes hard work and perseverance. [...] What's more, Chinese businesspeople are more experienced and globally savvy than they were just a few years ago. They're looking for business connections who can help them expand outside China or get their company listed on a foreign exchange".

<sup>73</sup> Jin Ai (2006): "Guanxi Networks in China: Its Importance and Future Trends," *China & World Economy*, 5, 105–118, p. 105 and similarly in Siu, Wai-sum and Qiong Bao (2008): "Network Strategies of Small Chinese High-Technology Firms: A Qualitative Study," *Journal of Product Innovation Management*, 79–102, p. 80.

Also, customers prefer to do business on the basis of already existing relations.<sup>74</sup> This process does not rely on legal contracts but involves dinner banquets and gifts, for example cigarettes or alcohol. In contrast to the often difficult negotiations in joint venture investments of Chinese state enterprises and foreign companies, investments based on Guanxi are established much faster.<sup>75</sup> Gift exchange serves the logic of a Capitalism just emerging within a socialist society, which still has gaps in its legal system and lacks the institutions which enable it to establish enterprises in a rational, exact procedure. Guanxi can thus be regarded as a substitute for formal institutions.<sup>76</sup> Additionally, it reveals a resistance to and a mistrust of formal organizations in sidestepping official ways of, for example, obtaining employment. As also courts and the enforcement of laws are still viewed as easily to manipulate and therefore corrupt and the concept of universal rights and individual jurisdiction are perceived as alien and imported from the West, solving problems within ones networks based on mutual obligations is considered far more effective.<sup>77</sup>

Those market ‘imperfections’ favour business connections among smaller groups of people over more complex organizational structures. This reveals that family connections build on trust and Guanxi prove to be essential for doing business in China.<sup>78</sup> Hence, “social relationships built on gift exchange provide a substitute form of trust that can improve the profitability of investment and reduce the risk of arbitrary bureaucratic interference that is not in the interests of the investors”.<sup>79</sup> It mobilizes cultural values such as obligation and reciprocity to pursue “both diffuse social ends and calculated instrumental ends”, substituting for and complementing of the (not yet) existing market mechanisms.<sup>80</sup>

In the studies mentioned above, Guanxi is reduced to a purely instrumental business phenomenon: “Guanxi refers to a network of informal interpersonal relationships and

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<sup>74</sup> Yang, Kae-Cherng (1999): *Die Logik von Guanxi*. Bielefeld: Univ. Bielefeld, Fakultät für Soziologie, p. 104f.

<sup>75</sup> Granovetter, Mark S. (1985): "Economic Action and Social Structure," *The American Journal of Sociology*, 3, 481-510, p. 490.

<sup>76</sup> See Dunning, John H. and Kim, Changsu (2007): "The Cultural Roots of Guanxi: An Exploratory Study," *World Economy*, 2, Feb., 329-341.

<sup>77</sup> Peng, Yusheng (2004): "Kinship Networks and Entrepreneurs in China's Transitional Economy," *American Journal of Sociology*, 109, 1045-74, p. 1050: "A noble man would sacrifice self-interest to honor his obligations, whereas a commoner would forsake his obligation to serve his self-interest."

<sup>78</sup> Hamilton, Gary G., William Zeile and Wan-Jin Kim (1990), "The Network Structures in East Asian Economies," in: *Capitalism in Contrasting Cultures*, S.R. Clegg and S.G. Redding (ed.). New York: de Gruyter, 105-129, p. 108.

<sup>79</sup> Smart, Alan (1993): "Gifts, Bribes, and Guanxi," *Cultural Anthropology*, 3, 388-408, p. 398.

<sup>80</sup> Yang, Mayfair Mei-hui (1994): *ibid.*, p. 35.

exchanges of favours established for the purpose of conducting business activities throughout China and East Asia".<sup>81</sup> On the contrary, the art of Guanxi in the form of gift exchange is necessarily tied to a pre-existing relationship between giver and recipient and differs from bribery. Although Guanxi often touches the edges of corruption, it is more subtle than bribery would be. The difference between gift and bribe is mostly depending on the manner of giving.<sup>82</sup> If in giving gifts the motive of getting something in return is getting too obvious, the gift may get interpreted as bribe. For corruption, a connection is only established for the purpose of bribing, whereas for Guanxi an already existing relationship is mandatory before gifts are exchanged.<sup>83</sup>

The instrumental side of Guanxi has also moral aspects and serves as a social function. It therefore not only has a manipulative side of mutual exchange, but entails also the notion of emotional feeling for the acquaintance. Thus, if a businessman wants it to be clear that he is engaging in Guanxi, the relationship has to be of more importance than the instrumental goal connected with the gift. The pre-determined etiquette has to be followed, otherwise the exchange will be regarded as bribery. Even if an instrumental purpose is the reason for engaging in Guanxi, it has to be apparent that people engaging in the negotiations share strong *Gānqíng*, which raises the exchange to a higher plane.<sup>84</sup> Thus, gifts are given in the aforementioned form of banquets or other complaisances proving the *Gānqíng* element of the connection. Bribery would not offer this advantage because no shared identity exists. Guanxi prevents to be dependent on corrupt officials and thus minimizes the expenses without loss of face. As a result, a private sector based on small enterprises often in the ownership of families is created which established its own rules - the art of Guanxi.<sup>85</sup>

In general, Guanxi-Capitalism shares the major principles of global Capitalism, but those instruments are used to obtain not only material but equally important also symbolic capital.<sup>86</sup> Contrary to Western capitalistic thinking, there is a gain of giving away. The more generous businessmen prove to be, the more symbolic capital - social status and face - he gains. This type of Capitalism is thus not as instrumental-rational as

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<sup>81</sup> Yi Zhang and Zigang Zhang (2006): "Guanxi and organizational dynamics in China: a link between individual and organizational levels," *Journal of Business Ethics*, 375-392, p. 375.

<sup>82</sup> Mauss, Marcel (1966): *ibid.*, p. 36.

<sup>83</sup> Smart, Alan (1993): *ibid.*, p. 397 and Yang, Mayfair Mei-hui (1994): *ibid.*, p. 52 + 63.

<sup>84</sup> Yang, Kae-Cherng (1999): *ibid.*, p. 107f., Smart, Alan (1993): *ibid.*, p. 399. and Gold, Thomas B. (1985): "After Comradeship: Personal Relationships in China since the Cultural Revolution," *The China Quarterly*, Dec, 657-675, p. 659f.

<sup>85</sup> Hamilton, Gary G., William Zeile and Wan-Jin Kim (1990): *ibid.*, p. 122ff.

<sup>86</sup> Yang, Mayfair Mei-hui (2002), *ibid.*, p. 475.



global Capitalism is. Guanxi represents a different framework for a capitalist system and thus is in need of specific institutions to function successfully. In contrast to the 19<sup>th</sup> century-type Capitalism which superimposed the existing traditional institutions, family structures in particular, to create an environment better suiting for its purpose, Guanxi shows that instead of supplanting traditional structures, it needs to revive them.

### 3.2. Views on the Traditional Chinese Family

The Chinese kinship system always played an important role in the Chinese social system but has been evaluated very differently over time. In imperial China, the individual defined itself through the family, typically living in self-sustaining households.<sup>87</sup> The Chinese family system traditionally exhibits a high degree of social solidarity before the background of parental authority connected with obedience and respect of the children. Those values and rules can be derived from Confucian ethic which constitutes the most important guideline for Chinese behavioural patterns. No well-ordered property rights existed, it was thus rational to rely only on one's family as family ties served as a buffer against social insecurity. The clan filled the institutional gap in Chinese social and political structure because it fulfilled duties like acting as juridical authority and lending money.<sup>88</sup>

Max Weber described the negative role of those "sib fetters of the economy".<sup>89</sup> In his studies on Confucianism and Taoism, he states that the pre-revolutionary family structure posed obstacles to rational entrepreneurial development.<sup>90</sup> He scrutinizes China to see which aspects inhibited the development of rational Capitalism, but most likely just wanted to substantiate his thesis of the causal relation of Protestantism and Capitalism. Among other aspects, he analyses the strong family loyalties based on Confucian values. The Confucian culture of authoritarianism, hierarchy and ethnocentrism fosters economic activity in the form of family businesses rather than

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<sup>87</sup> Levy, Marion J. (1949): *The family revolution in modern China*. Cambridge, Mass.: Univ. Press, p. 208f.

<sup>88</sup> Goode, William Josiah (1970): *World revolution and family patterns*. New York: Free Press, p. 297f.

<sup>89</sup> Weber, Max (1968): *ibid.*, p. 95.

<sup>90</sup> Weber, Max (1968): *ibid.*, p. 86-97.

large corporations.<sup>91</sup> Confucianism has a this-worldly orientation and is based on traditionalism instead of change and innovation and for Weber is thus impedimental to rational bourgeois Capitalism.<sup>92</sup> Further obstacles are the requirement of Chinese families for strict obedience to parental authority. This and the distribution of resources according to the status within the family generated a lack of work discipline due to nepotism. Open positions had to be filled with family members and thus labour could not be acquired from a free labour market. Through the lack of personal mobility the spread of ideas and technology is also nearly non-existing. Additionally, due to the fact that sons inherit equal shares of their father's company by tradition, it never grows over a certain size.<sup>93</sup>

Interestingly, Weber argues that Confucian cultures are able to absorb Capitalism more easily than other non-western societies. The reason for this he attributes to the specific role of family networks and the importance of learning for Confucianism.<sup>94</sup> He perceives this as essential for an easy incorporation of Capitalism, even though the very same culture did not form Capitalism by itself. Institutional factors, such as family and networks, are of great significance for the development of a completely different system of economy and society.<sup>95</sup> Weber justifies that with a "lack of a particular mentality" and with a "personalistic principle" being in place in China with traits like stolidity or absence of curiosity.<sup>96</sup> Additionally, Weber claims that "the Chinese soul has never been revolutionized by a prophet"<sup>97</sup> which further prevented to set up rational, bureaucratic companies and compete with the West.<sup>98</sup> Confucianism aimed at making rational adjustment to eternally given social structures, which means that it took the world as set and thus, given.<sup>99</sup> Confucianism also lacked the emotional pressure and dynamic of Puritanism that drove the faithful to rebuild the world

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<sup>91</sup> Zurndorfer, Harriet T. (2004): *Confusing Confucianism with Capitalism: Culture as Impediment And/Or Stimulus to Chinese Economic Development*, Paper presented at the GEHN Workshop, Konstanz, p. 17.

<sup>92</sup> Balazs, Etienne (1977 [1964]): *Chinese civilization and bureaucracy*. New Haven: Yale Univ. Press, p. 18f.

<sup>93</sup> Parsons, Talcott (1967 [1937]), *ibid.*, p. 542 and Whyte, Martin King (1995): "The Social Roots of China's Economic Development," *China Quarterly*, Special Issue, 999-1019, p. 1001.

<sup>94</sup> Weber, Max (1968): *ibid.*, p. 248.

<sup>95</sup> Hamilton, Gary G. (1984): "Patriarchalism in Imperial China and Western Europe: A Revision of Weber's Sociology of Domination," *Theory and Society*, 3, 393-425, p. 397.

<sup>96</sup> Weber, Max (1968): *ibid.*, p. 104, 231f.+236.

<sup>97</sup> Weber, Max (1968): *ibid.*, p. 142.

<sup>98</sup> Whyte, Martin King (1995): *ibid.*, p. 1001.

<sup>99</sup> Elvin, Mark (1984): "Why China Failed to Create an Endogenous Industrial Capitalism," *Theory and Society, Special Issue on China*, 3, 379-391, p. 38.

according to God's wishes. In contrast, Confucianism emphasised orderliness and self-discipline, thus being “a prudent policy of sound conservatism”.<sup>100</sup> “The Confucian way of life was rational but was determined, unlike Puritanism, from without rather than from within. The contrast can teach us that mere sobriety and thriftiness combined with acquisitiveness and regard for wealth were far from representing and far from releasing 'the capitalist spirit’”.<sup>101</sup> Weber comes to the conclusion that “Confucian rationalism meant rational adjustment to the world; Puritan rationalism meant rational mastery of the world”.<sup>102</sup>

Of course, the institutional preconditions such as separation of household and business and rational bureaucracy are also said to be missing in China.<sup>103</sup> Weber accounts the patrimonial order of the state and the importance of kinship organization and thus "the unbroken and continued existence of the cohesive sib and the pre-eminent position of its head"<sup>104</sup> for the inhibition of a bourgeois Capitalism. The risk-taking and innovation essential for such a system to work is not given in a conservative environment that values harmony and a static state structure.<sup>105</sup> In contrast, Protestantism was able to shatter the fetters of the sib.<sup>106</sup>

Weber also considers the Chinese way of doing business only with people they are somehow connected to as weakness. The skill to establish Guanxi networks, and more importantly, the time and effort required to set up such systems, distract from business and promote corruption. For those reasons, family businesses have been replaced by professionally run bureaucratic corporations in the West which help Capitalism and the Industrial Revolution thrive. Weber predicts the same for China, if Chinese people free themselves from family obligations.

When the communists assumed control over the country in 1949, they were determined to get rid of the familism of the Chinese Society. They also believed that the traditional patrilineal Chinese family constituted a thread to modernization and an obstacle to Chinese development. They identified the family as an antagonistic

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<sup>100</sup> Parsons, Talcott (1967 [1937]): *ibid.*, p. 548

<sup>101</sup> Weber, Max (1968): *ibid.*, p. 247.

<sup>102</sup> Schluchter, Wolfgang (1983): *Max Webers Studie über Konfuzianismus und Taoismus*. Frankfurt am Main: Suhrkamp, p. 41 and Weber, Max (1968): *ibid.*, p. 248.

<sup>103</sup> Hollstein, Bettina (2002): "Kann man mit Max Weber den Transformationsprozess besser verstehen?" in: *Religion, Wert und Wirtschaft: China und der Transformationsprozess in Asien*, Hans G. Nutzinger (ed.), 44-50, p. 44.

<sup>104</sup> Weber, Max (1968): *ibid.*, p. 66.

<sup>105</sup> Parsons, Talcott (1967 [1937]): *ibid.*, p. 547.

<sup>106</sup> Weber, Max (1968): *ibid.*, p. 237.

corporate body to the influence of ideology and nationalism. For those reasons, the Communists tried to weaken and even destroy traditional family structures with political actions in order to win back control. As a consequence of the collectivism of agriculture and the introduction of communes instead of clans, the peasant household was deprived of its economic base. Former family firms were converted to state-owned enterprises. The peasants became hired farm workers with only little opportunity for economic diversification within the family.<sup>107</sup> However, the communists never succeeded in fully suppressing the family values because their tenaciousness was not taken into account. Against expectations, they prevailed even after the Cultural Revolution.

During that time, the (Western) modernization theory, similar to Max Weber before them, regards the personalistic culture as the cause of China's failure to develop Capitalistic structures. It separates societies into 'traditional' or 'modern', assuming they are converging in the long-run to a state of industrialization and thus developing into a modern, capitalistic economy. The viewpoint of that time is sceptical towards China's chances for industrializing and developing a rational Capitalism.<sup>108</sup> The reason is the 'accepted wisdom' that Chinese family firms represent an 'outmoded organization form', not able to transform in a way needed for a rational capitalistic economy with mass production. The "family loyalty and obligations t[ake] precedence over other loyalties and obligations. Thus, the extended family tends to dilute individual incentives to work, save, and invest".<sup>109</sup> This leads to the conclusion that economic progress (of the West) would have been impossible without the loss of significance of traditional family structures. Considered how import family ties are for China, the reason for its underdevelopment seems obvious.<sup>110</sup>

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<sup>107</sup> Huang, Shu-min (1992): "Re-examining the Extended Family in Chinese Peasant Society: Findings from a Fujian Village," *The Australian Journal of Chinese Affairs*, Jan., 25-38, p. 35.

<sup>108</sup> For example Kerr, Clark [et.al.] (1960), *Industrialism and Industrial Man*. Cambridge, Mass.: Harvard Univ. Press.

<sup>109</sup> Quoted in Wong, Siu-lun (1988): "The Applicability of Asian Family Values to Other Sociocultural Settings," in: *In Search of an East Asian Development Model*, ed. by Peter L. Berger and Hsin-Huang Michael Hsiao. New Brunswick: Transaction Books, p. 134.

<sup>110</sup> Zurndorfer, Harriet T. (2004): *ibid.*, p. 5.

### 3.3. The Chinese Family and Economic Development after 1978

“...the concept of a contract...is an alien one amongst the small highly specialised firms, as contracts incur extra costs, and after all, what influence could a contract have between brothers and neighbours?”<sup>111</sup>

#### 3.3.1. The Transition to Capitalism and the Reviving of Institutions

After 1978, the transformation of the Chinese economic system from a planned to a market economy based on competition and the division of labour went surprisingly smoothly. It was made possible by the revitalization and creation of institutions to expand, regulate, and channel economic transactions, especially in the private sector. They were designed to complement the existing institutions. The (re-)newed institutions were a response to the organizational problems arising in agriculture, industry, and commerce in the course of reforms.<sup>112</sup> Hence, the Chinese transformation was only possible with the emergence of entrepreneurs and privately-owned enterprises. The particular problems found in the Chinese economy after their entrance in the global market were most efficiently faced with the re-utilization of Chinese family enterprises and personal networks as a means to do business the Chinese way. Thus, past institutions were adapted and revived, bridging the gap of social order, left by the breakdown of Socialism after the Cultural Revolution. Institutions based on traditional values assisted in finding a unique way of business practises, creating a specific Chinese Capitalism based on Guanxi.<sup>113</sup>

To sidestep the problem of ownership in a time when private property was still not officially sanctioned<sup>114</sup>, villages were authorized to decide on the ownership of former state domains. The local bureaucracy of imperial China was revived to deal with the

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<sup>111</sup> Cody, Deirdre (2006): *The Adaptation and Advancement of the international industrial district model in Wenzhou: A case study of the footwear industry*. Lunds University, Centre for East and South-East Asian Studies, p. 22.

<sup>112</sup> See Cheng, Lucie and Arthur Rosett (1992): "Contract with a Chinese Face," *Journal of Asian Law*, online ed.

<sup>113</sup> Krug, Barbara (2002): *ibid.*, p. 133 and Gold, Thomas B. (1985): *ibid.*, p. 674.

<sup>114</sup> From 1984 an official law secured the use of the land for a fifteen year tenure. On the National People's Congress annual meeting in Beijing on March, 14<sup>th</sup> 1999 it was decided to amend the Constitution to protect private property rights. The *Property Law of the People's Republic of China* (wuquan fa 物权法) has been approved on the 5th meeting of 10th NPC on March 16, 2007, coming into effect on October 1, 2007. Whyte, Martin King (1995): "The Social Roots of China's Economic Development," *China Quarterly*, 144, 999-1019, p. 1013f. and State Administration for Industry & Commerce of the PRC, <http://202.108.90.68/laws/070323170205-1.htm>, accessed Jan 30, 2009.

question of property rights. The village councils gave land use rights to peasant families or private entrepreneurs to enable the establishment of small businesses. For this, contracts were used, enforced by local arbitral courts, which were already known during the Ming Dynasty as 'harvest splitting contracts'.<sup>115</sup> The entrepreneur got a fixed wage plus a certain percentage of the profits as incentive. Thus, a collective memory enabled the emergence of a private sector in reviving traditional long-known institutions.

It was assumed that Guanxi would vanish after the Cultural Revolution, when it mainly served as a means for survival. Together with modernity also the institutions related to a modern rational (Western) capitalistic society would emerge, such as contractual certainties, defined property rights, freedom of trade, prices determined on a free market or tradable factors of production, thus making Guanxi obsolete. Quite the opposite has been the case: instead of merely being a temporary phenomenon, Guanxi adapted to the new institutions of the emerging capitalist state, rather than being exchanged for rational-legal institutions imposed.<sup>116</sup> Guanxi facilitated the reviving of the private sector during the economic reforms of 1978 and after. They led to the establishment of small, privately-owned enterprises especially in rural areas or provinces with few State Owned Enterprises (SOEs). These small firms were mainly run by families, which worked according to the principles of the market economy, giving time and space to the entrepreneurs to find their own way of doing business in those instable and risky circumstances.<sup>117</sup> Thus, from the 1990s Guanxi faded away in some areas due to the appearance of legal institutions which replaced it, but simultaneously found "new territory to colonize".<sup>118</sup> The gift-economy still coexisted with the new form of commodity economy, having significance for commercial transactions, because still money cannot buy everything. Large networks help small enterprises to get access to more resources, even in an unstable political and economic surrounding, therefore supporting their flexibility and the ability to adapt.<sup>119</sup> This is for example used to obtain bank loans or supplies from unofficial sources, to make sure that in the competitive economy of China a firm can keep up with the market and raise their profits. It helps to save money and to facilitate economic transactions, especially

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<sup>115</sup> The Ming Dynasty was the ruling dynasty of China from 1368 to 1644.

<sup>116</sup> Yang, Mayfair Mei-hui (2002): *ibid.*, p. 460f.

<sup>117</sup> Krug, Barbara (2002): *ibid.*, p. 131f.

<sup>118</sup> Yang, Mayfair Mei-hui (1994): *ibid.*, p. 167.

<sup>119</sup> Fukuyama, Francis (1995): *Konfuzius und Marktwirtschaft*. München: Kindler., p. 106.

for supplies, in bypassing state institutions for e.g. getting a passport, finding job opportunities or linking up with relatives overseas.<sup>120</sup>

In some regions of China the connection between Guanxi and economic development is especially obvious. In Wenzhou, for example, located in Zhejiang province, almost at the centre of China's eastern coast, privatization started very early and relied heavily on small family firms working in clusters to produce products manufactured in small-scale production using simple labour-intensive technology. Wenzhou's private sector generates 90 percent of GDP of its province.<sup>121</sup> Thus, "the family became the entrepreneurial core for the development of a plethora of enterprises...coalescing into vast business networks".<sup>122</sup> Wenzhou is therefore often called the "quintessential capital of China's network Capitalism".<sup>123</sup> It also is said to have China's largest underground informal banking network.

*"Wenzhou's webs of private lending are held together by a gentleman's code. Borrowers are introduced and implicitly guaranteed by friends and relatives. Huang Weijin [...] explains why local business people would rather lose their lives than default on a private loan. "I can fly to Europe or Africa with only 300 yuan because other Wenzhou businessmen will look after me. They drive to Germany from Italy to pick me up, and I would do the same. It doesn't matter if you lose money. But if you lose trust, you lose everything." Those bonds of business kinship, extending across China and the global Wenzhou diaspora, are far stronger than the contracts that bind borrowers to faceless state-owned banks. "It's more secure than a state-controlled bank because if someone doesn't repay they have no place to play in Wenzhou any more," says Zhou Dewen, who heads the Wenzhou Small and Medium Enterprise Development Association."*<sup>124</sup>

Enterprises in Wenzhou work in a nexus of dense social networks, centered on family firms and historically rooted trust and culture. Even today it is shaped by the traditional

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<sup>120</sup> Yang, Mayfair Mei-hui (2002): *ibid.*, p. 463.

<sup>121</sup> Wilson, Jeanne Lorraine (2007): *ibid.*, p. 243, quotes from China Daily, 24 December 2004.

<sup>122</sup> McNally, Christopher (2006): *ibid.*, p. 42.

<sup>123</sup> McNally, Christopher (2006): *ibid.*, p. 42.

<sup>124</sup> Garnaut, John (2008): "Informal lending threatens China's financial stability," *Sydney Morning Herald (Australia)*, November 17, 2008.

labor-intensive industries with their low level of processing and low added value as it has been from its beginnings in the 1970s.<sup>125</sup> This obviously contradicts Weber's prediction that industrialization and thus rationalization will supplant traditional feudal institutions to be successful.

Hence, the success of Wenzhou – standing here for many similar cases within China – strongly hinges on its structure of family-owned businesses connected through personal networks. Its economy is reconstituted of “local kinship relations and structures, in contrast to most understandings of Capitalism as the destruction of kinship by the mobility and fragmentation of wage labor”.<sup>126</sup>

### *3.3.2. Chinese Family Businesses after the Cultural Revolution*

When China slowly opened up after the economic reforms of 1978, the family proved to be the foundation from which the success of the Chinese economy can be explained.<sup>127</sup> The collective times seemed to have built-up urge for more autonomy which then erupted in massive entrepreneurial endeavours, especially in rural areas. Entrepreneurial instincts were preserved and could flourish with the institutions provided by economic reforms.<sup>128</sup>

The Chinese family was changed but remained the most important social institution, even after several decades of Communism. The rural family reconstituted, still serving as shelter against social insecurities, now in times of globalization and Capitalism. On the contrary, all the political and social commotion only fortified the trust in the family as the only institution that is able to provide stability. The Chinese family proved to be a remarkably adaptive social organism, able to respond to a complex set of circumstances.

Max Weber's assessment was reversed, mainly due to a changed institutional environment which prior to 1949 supported the more impedimental features. The pre-revolutionary institutions changed to support the features that foster economic success in a competitive capitalistic environment. Global capitalism with its features of flexible,

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<sup>125</sup> Jinchuan, Shi (2004): "Analysis of the Historical System of the Wenzhou Model: A View from the Perspective of Personalized Transaction and Nonpersonalized Transaction," 37, 47-55, p. 48.

<sup>126</sup> Yang, Mayfair Mei-Hui (2000): *ibid.*, p. 484.

<sup>127</sup> Fukuyama, Francis (1995): *ibid.*, p. 109f.

<sup>128</sup> Whyte, Martin King (1995): *ibid.*, p. 1015.



transnational production favoured small business production over larger corporations and thus, subcontracting.<sup>129</sup> Now “Chinese familism will fuel the motor of development”.<sup>130</sup> Within family businesses, the problem of unqualified successors is often solved in sending sons to good universities, preferably in the US or Europe or to marry off one's daughter to a suitable son-in-law. Thus, nepotism still exists and families play a big role, but in the circumstances of today's economy it became not an obstacle but an advantage, not to be institutionalised and hence not be able to grow as company over a certain size.<sup>131</sup>

Family ties are evaluated as creating strong loyalties which lead to economic success and motivation of the single family member. Mutual trust and obligation are essential elements of familiarity and thus also prerequisites for Guanxi.<sup>132</sup> Young Chinese study hard for the sake of the family. Not only do they seek to get a good education, but once they start working they also work hard for less money than non-family members. Even if more money is offered elsewhere, they tend to stay in the family business, thus providing continuity. Using family members for manager positions within the firm also provides the advantage of creating a ‘natural authority’. On the other hand, family firms are not required to give positions to all family members. Relatives and even sons who do not show sufficient talent are driven out of the family business.

When a firm is passed to the next generation, the sons are entrusted with a subsidiary unit, for which they have the sole responsibility, including the reinvestment of profits. This is seen as possibility to diversify the decision-making when a firm prospers and grows. At the same time, there is no loss of profit to outsiders because there is no need to employ external managers.<sup>133</sup> This “package of individual incentives and group insurance against failure [...] encourages the emergence of highly motivated, risk-taking entrepreneurs.”<sup>134</sup> The firm is divided in equal parts between sons - thus preventing a company to grow over a certain size, which is now seen as advantage. Small firms require only small start-up costs and adjust more flexible to changed

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<sup>129</sup> Dirlik, Arif (1997): *ibid.*, p. 310.

<sup>130</sup> Wong, Siu-lun (1988): *ibid.*, p. 146.

<sup>131</sup> Fukuyama, Francis (1995): *ibid.*, p. 100f.

<sup>132</sup> Yang, Mayfair Mei-hui (1994): *ibid.*, p. 111.

<sup>133</sup> Wong, Siu-lun (1988): *ibid.*, p. 139.

<sup>134</sup> Greenhalgh, Susan (1990): "Land reform and family entrepreneurialism in East Asia," in: *Rural Development and Population: Institutions and Policies*, McNicholl, G. and Mead Chain (ed.). New York: Oxford Univ. Press, p. 90.

market situations. This situation also produces a highly competitive market environment – if one firm collapses, new ones fill the gap quickly. This mode of production is particularly efficient in labour-intensive, quickly-changing and segmented markets such as those for textiles or the toys industries. Chinese family firms are successful because smaller firms have the advantage to react flexible to the requirements of the market and are able to decide quickly.<sup>135</sup> They operate less successfully in capital-intensive sectors where, due to complex production processes, profits can only be made when a certain volume of production is reached.<sup>136</sup>

Chinese firms use Guanxi for doing business, which increasingly takes place in less formal places like restaurants, at home or in nightclubs.<sup>137</sup> As gifts or banquets are no longer sufficient, “a long night sharing the pleasures of masculine heterosexuality and giving women's bodies and sexual services as gifts will cement Guanxi better”.<sup>138</sup> Thus, strengthening Guanxi through masculine bonding emphasises its practice as a more male instrument. Guanxi today “traps women and the poor while benefiting fraternal business associations”.<sup>139</sup>

One part of Guanxi is thus the recreation of traditional rigid forms of division of labour by gender and generation to achieve economic success. Also, “despite the hectic pace of economic development, [...], obligations to parents and the larger family seem robustly intact”.<sup>140</sup> Guanxi-Capitalism is often viewed as more “humane and thus more efficient than the alienating contractual and individualistic Capitalism of the West”.<sup>141</sup> This overlooks the widespread violence with its consequence of inequality, especially for women. Although a notion of mutual support exists, Guanxi also has the aim to give more flexibility to few to arrange business structures at the cost of many, particularly in small-scale family enterprises, where the factor of cheap labour of kinship is often exploited. They rely on unpaid or low paid family labour, with “females filling in when and where needed”<sup>142</sup>, slipping ‘effortlessly’ into their traditional roles. Their work is regarded as part of their household and family duties, not as careers. Guanxi-Capitalism

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<sup>135</sup> Krug, Barbara (2002): *ibid.*, p. 140f.

<sup>136</sup> Fukuyama, Francis (1995): *ibid.*, p. 104ff.

<sup>137</sup> Yang, Mayfair Mei-hui (2002): *ibid.*, p. 461f.

<sup>138</sup> Yang, Mayfair Mei-hui (2002): *ibid.*, p. 466.

<sup>139</sup> Ong, Aihwa (1999): *Flexible citizenship*. Durham: Duke University Press, p. 116f.

<sup>140</sup> Whyte, Martin King (1996): *ibid.*, p. 17.

<sup>141</sup> Yang, Mayfair Mei-hui (2002): *ibid.*, p. 468.

<sup>142</sup> Greenhalgh, Susan (1994): “De-Orientalizing the Chinese Family Firm,” *American Ethnologist*, 4, p. 749.

thus changes the principles and logic of the individualistic form of Capitalism but also facilitates the adaptation of exploitative Capitalism as Chinese family firms are based on paternal authority, not individual rights.<sup>143</sup> The recourse to Confucian values and Guanxi is used to reinvent old forms of family life which is dominated by men.<sup>144</sup>

Guanxi thus exchanges institutionalised dominance with personalized power of people. The need to constantly cultivate and maintain connections therefore seems to fit to an environment where power-relations are not (yet) stable. Often, personal networks survive, even if family firms change their business or cease to exist. In those circumstances it is still rational to use Guanxi, although it may be time-consuming and costly. Yet, this does not necessarily imply that once rational-legal institutions are established, Guanxi as more irrational mode of economic activity will fade away. Rather, it may coexist in a newly defined institutional and cultural style of modernity.

Economic development was fostered by Guanxi because it favours small flexible firms. These enterprises gain access to markets and supplies with the help of personal relationships. They only have subcontracts with larger companies and thus are able to change products and the mode of production very quickly. The actualities of global Capitalism force these businessmen to use the comparative advantages at hand – the smallness of their enterprises and their family. In combination with the existence of large personal networks, once established to meet the necessities of daily life in Socialist China, and small start-up costs gave them the necessary flexibility to get an entry ticket to the world market of commodities. This contrasts to the huge multinational enterprises with strict hierarchies and a lot fixed investment capital, giving the small family firms of China a competitive advantage in the world market.<sup>145</sup>

To conclude, the advantage of small family firms in business is their ability to produce at very low costs and to react very flexible to changes in the economy. Especially their possibility to produce with a minimum of labour costs gives them a comparative advantage. This is not only a reaction to a relaxation of the Chinese economic environment, but is also due to changes in the world economy that supported flexible units of productions. Thus, depending on the external institutional setting, the Chinese family is indeed able to fulfil the requirements of modern economic activity

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<sup>143</sup> Yang, Mayfair Mei-hui (2002): *ibid.*, p. 467f. and 474.

<sup>144</sup> Whyte, Martin King (1996): *ibid.*, p. 13 and Greenhalgh, Susan (1994): *ibid.*, p. 748.

<sup>145</sup> Yang, Mayfair Mei-hui (2002): *ibid.*, p. 469ff.

with its own type of Capitalism. Under the given circumstances it not only can fuel growth, but is also an important prerequisite for it.<sup>146</sup>

#### **4. Conclusion: Evidence for a Chinese Capitalism**

*“The difference between Chinese and westerners is not that one is relational and the other rational. Both are rational and relational. The difference is that western rationality is more based on universalistic principles and individual rights (jurisdiction) the Chinese rationality is based on particularistic principles and obligations and patron-clientelism (the opposite of clearly defined individual rights).<sup>147</sup>”*

In this paper I provided evidence that in contrast to Weber’s view, various forms of Capitalism can exist and that family structures play an important role in forming a certain type of capitalistic system. This was proved with the description of a specific Chinese Capitalism and an analysis of the important role of family structures for it.

Modern Capitalism is, following Weber, defined as a function of a certain spirit based on rationality, in need of a specific institutional framework to be successful. It is presented as an attitude consisting of a systematic combination of characteristics. In addition, Capitalism is regarded as an age of separation, by which not merely separating the pre-modern traditional economy from the modern, capitalistic one is meant, but also the separations in people's cultural environment, the family in particular.

In contrast to the view that Capitalism takes on the same form globally, wherever and whenever it arises, destroying the traditional structures of societies and unifying the cultural diversity required for its success, specific cultural idiosyncrasies seem to exist which are able to produce a harmonious symbiosis with capitalistic structures, mutually assisting and enhancing the given opportunities. Hence, Guanxi-Capitalism revives traditional institutions, making China a competitive force in the global market. Instead of regarding family businesses as outdated mode of production, the Chinese economic success relies on the flexibility and personal networks of privately-owned family firms. Guanxi is not only a multifaceted and crucial concept for firms to survive on the world

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<sup>146</sup> Whyte, Martin King (1996): *ibid.*, p. 19ff. and Whyte, Martin King (1995), *ibid.*, p. 1017f.

<sup>147</sup> Peng, Yusheng (2003): *Kinship Networks, Village Industry, and Max Weber*. The Chinese University of Hong Kong, Department of Sociology, p. 3.

market, but is also embedded in most functions of everyday life, being based on mutual trust of long-term relations. As one's closest network it is logical - and rational! - to place one's own family also in the centre of business relations. Thus, the rationality of Guanxi-Capitalism is based on the unique framework of China's culture and history.

In imperial China, the family and traditional structures of society did not support the emergence of a Western-type Capitalism guided by a certain spirit. More than a century later, after this Capitalism had taken over most of the world's countries and shaped a certain global economy dependent on flexible production, exactly those structures proved to be fertile soil for economic development. With globalization, markets and the production system changed, beside gigantic multi-national corporations also small family-based firms are found, acting extremely successfully in this environment of subcontracting, rapid changes in demands and product niches. The Chinese private sector, based on small family businesses, fits perfectly in this changed institutional framework. The economic environment of the late 20<sup>th</sup> and early 21<sup>st</sup> century gave space to another form of capitalistic system which with the family and networks revived social techniques and institutions known from the past that now play a major role for Chinese economic development. Additionally, the emergence of niche markets and the need of flexible specialisation favoured the mostly small-sized Chinese family enterprises. Having no formalized bureaucratic system and capable of connecting over Guanxi networks, these firms are both highly flexible and extremely successful low-cost producers. Guanxi provides access to far more resources than small family businesses would have without networks and also the necessary reliability for doing business. Multinational corporations increasingly subcontracted to those small and medium enterprises, therefore Chinese firms gained market shares for low-end, labour-intensive products, trading across borders with the help of networks.<sup>148</sup>

Thus, China did not just copy the Western form of Capitalism but has found its own way of coping with the demands of the world market. Institutions from the past were remodelled to adapt to the conditions of the modern global economy as efficiently as possible, instrumentalizing cultural and social institutions.<sup>149</sup> It has to be emphasized

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<sup>148</sup> Lever-Tracy, Constance (2002): "The impact of the Asian Crisis on diaspora Chinese tycoons," *Geoforum*, 33, 509-533, p. 512.

<sup>149</sup> Krug, Barbara (2002): *ibid.*, 141f. In this sense, it can also be viewed as a path dependent development, as family based institutions had – with an exception of 30 years of Communism – always played an essential role for the economy, then in a non-capitalist environment. In this way, as traditional institutions were revived, one could also argue that China returns on a path it had only left for a few decades but which, despite this interruption, is still the path the economy follows in the long run.

that this family-based system strongly depends on the exploitation of cheap labour, especially of women. Although very successful economically, Guanxi-type Capitalism is above all a male dominated, patriarchal structure.

It is often argued that once a complete legal institutional framework is established, Guanxi will lose its importance and the economic system will turn into a uniform, global Capitalism. The establishment of a civil society, in combination with people trusting the newly created institutions, will supersede Guanxi. Additionally, because Chinese family firms operate most efficiently in labour-intensive low- and medium-technology industries that produce mainly for export, their success might merely be temporary. If unable to provide the necessary capital and sufficiently highly skilled workers needed to develop capital-intensive high-technology industries might cause the family to become an obstacle again.<sup>150</sup> Indeed, family enterprises will certainly not play an important role in every sector of the economy. Even within the private sector family firms will concentrate on branches where they can outplay their comparative advantage of fast reactions to changes in demand and thus complement the more Western style institutions of other sectors.

However, the interaction between family structures and economic change has no unilateral causality, rather they mutually influence each other. Economic development changes the nature of the family, but so too does the structure of the family influence the modalities of industrialization.<sup>151</sup> It is important to note that “indigenous economies are not always plowed under with the introduction of Capitalism but may even experience renewal and pose a challenge to capitalist principles, stimulating us to rethink existing critiques of capitalism”.<sup>152</sup> Capitalism thus can be modified, which means that market forces do not necessarily overrun the existing traditional features. A capitalistic economy can function under a different organizational and institutional structure, particularly depending on the existing family structure.<sup>153</sup> Capitalism is therefore not a unifying concept, but rather a divisive one due to institutional characteristics.<sup>154</sup>

Family structures have proved to wield a strong influence on Capitalism. They do not merely react to the changes within society, with traditional forms forced to

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<sup>150</sup> Whyte, Martin King (1996): *ibid.*, p. 21.

<sup>151</sup> Fukuyama, Francis (1995): *ibid.*, p. 90.

<sup>152</sup> Yang, Mayfair Mei-Hui (2000): *ibid.*, p. 477.

<sup>153</sup> Fulcher, James (2004): *ibid.*, p. 121f.

<sup>154</sup> Fulcher, James (2004): *ibid.*, p. 148 + 178.

subordinate to market forces, but complement Capitalism to meet economic demands. Guanxi proved to be a powerful tool in its ability to adapt. Despite all assumptions of mainstream economics, the Chinese economy is extremely successful and its economic system works quite efficiently, even though Western-style institutions do not (yet) exist or are not put to use. In contrast, personal relations expose comparative efficiency as they are chosen as the most capable instrument for the private sector in China, with the result that “the growth of export production has taken place outside of the state sector of industry, within foreign funded, rural and township, and privately owned enterprises”.<sup>155</sup>

My view is that we are witnessing the establishment of a new form of economic system, based on different principles such as Guanxi and the family. To Chinese “human life is a complex web of relations with the world, relations with the mind and relations to others”.<sup>156</sup> Those features are immanent to Chinese culture and will not become extinct. The common view that Capitalism necessarily has to impoverish large fractions of the population and destroy traditional institutions to prosper may yet be proven wrong. The structure of the Chinese family proved to be very persistent over time and to be able to accommodate diverse economic and political environments while maintaining its core identity. This implies that Chinese Capitalism may in fact be more sustainable than is often assumed. The 'iron cage' - a striking symbol of the destructive forces of Capitalism in Weber's writings - might today still exist but without the implications that it had for Western societies. Instead of being destroyed, the Chinese family-based economy adapted to a capitalistic environment.

Whether or not family structures are indeed permanently strong enough to withstand economic pressure and escape the 'iron cage' will in the case of China be shown when corporations grow and the demand for capital increases. The failure or success of family structures to adapt again to changing circumstances would then demonstrate the superior (overwhelming) power of Capitalism over socio-cultural structures - or the reverse. However, this paper provided sufficient arguments that a Chinese form of rational Capitalism exists, which can prosper without necessarily destroying long-existing culturally and historically embedded institutions.

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<sup>155</sup> Wilson, Jeanne Lorraine (2007): *ibid.*, p. 249.

<sup>156</sup> Zhu, Zhichang (2007): "Reform without a Theory: Why does it Work in China?" *Organization Studies*, 28, 1503-1522, p. 1505.





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